CORPORATE GOVERNANCE IN AN EMERGING ECONOMY: THE ANTECEDENTS OF BOARD PERFORMANCE AND PRACTICES IN THE ETHIOPIAN BANKS

by

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I declare that the above dissertation/thesis is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

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Abstract

Corporate governance has received considerable attention over the past few decades especially after several corporate scandals and global financial crises surfaced. It is a tool that ensures the wealth maximization interest of shareholders (Grove & Clouse, 2015; Gupta, 2015). Several studies on corporate governance have been made around the world, mostly in the context of developed nations. These have made significant contributions to the corporate governance literature and practice. However, there is scant research that addresses corporate governance issues in the context of emerging economies. In terms of applicability, it is important to view corporate governance not as a whole but in the context of specific fashion due to the economic, political, social and cultural differences among countries.

In spite of the numerous studies in the subject and their contributions, a significant gap exists in our understanding of the relationship between corporate governance structure, process and board performances. Most of the prior studies focused on board structure giving much less emphasis to the board process- the missing link. By way of addressing the gap and providing a broader understanding of the relationship among the corporate governance variables, this study, among others, explored how board structure and board process influence the board performance in an emerging market economy context. Board performance has hardly been explored in this setting and this study tries to contribute to the existing literature by examining the antecedents of the boards' performance. The antecedents are positioned in the second order constructs that include the board structure and the board process. The antecedents with the board structure go beyond the usual variables of size, CEO duality and the outside/inside directors' ratio.

A mixed method approach was used in the collection and analysis of the data. Both quantitative and qualitative data were collected from private and public banks' governing bodies and various groups of stakeholders. The quantitative data were mainly analyzed statistically using the Partial Least Square method of the Structural Equation Modeling. The qualitative data obtained from the survey and the interviews were thematically analyzed to identify important concerns.

The findings from the quantitative data analysis showed that board structure has positive and significant influence on board process, board service and control task performance. The findings also indicated a positive and significant relationship between board process and both board service and control task performance. Furthermore, the study revealed that board process mediates the relationships between board structure and both board service and control roles; it was also found that ownership type affects board performance but has no influence on company performance.

The stakeholders’ perceptions of various aspects of corporate governance practices, as beginners, were found out to be not bad. However, Ethiopia, like many emerging market economies, does not yet have a fully developed legal and regulatory system. Additionally, the enforcement capacities of the regulatory organ are at a nascent stage, and a private sector that is able to support effective corporate governance has yet to emerge. The nature of the Ethiopian banking corporate governance system can be characterized by a one tier system with a non-executive board of directors and ownership concentration. The boards of directors are also mainly control oriented rather than strategic or service oriented leaders.

Key Terms:

Corporate governance; Emerging economy; Board structure; Board process; Board performance; Firm performance; Second order; Ownership structure; Board of directors; Governing bodies; Stakeholders’ perception.

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List of Acronyms

AACCSA	Addis Ababa Chamber of Commerce & Sectoral Association
AGM	Annual General Meeting
ASX	Australian Securities Exchange
AVE	Average Variance Extracted
BOD	Board of Directors
CEO	Chief Executive Officer
CFA	Confirmatory Factor Analysis
CG	Corporate Governance
CSA	Central Statistics Agency
ECA	Economic Commission for Africa
EFA	Exploratory Factor Analysis
EU	European Union
HCM	Hierarchical Component Model
IMF	International Monetary Fund
LV	Latent Variable
MP	Member of Parliament
NBE	National Bank of Ethiopia
OECD	Organization for Economic Co-operation and Development
PCA	Principal Component Analysis
PFEA	Public Financial Enterprises Agency
POE	Panel of Experts
PLS	Partial Least Square
PLS-PM	Partial Least Square-Path Modeling
PSD	Private Sector Development
ROA	Return on Asset
SEM	Structural Equation Modeling
SPSS	Statistical Package for Social Sciences
SOEs	State-Owned Enterprises
TMT	Top Management Team
UK	United Kingdom
UNISA	University of South Africa
USA	United States of America

Chapter 1 Introduction

Corporate governance has been one of the topical and most widely discussed issues in both the academic literature and the business press over the last two decades especially after the corporate scandals and financial crises of the recent times (Mallin, 2010). The scandals have eroded shareholders', stakeholders' and public's confidence in corporate governance mechanisms (Emmanouilides, 2007). Most of the scholarly research on the subject has focused on examining or linking corporate governance mechanisms or variables to accounting measures of performance, such as CEO duality, board size, CEO compensation with return on asset (ROA) as measures of performance (Zeitun & Tian, 2007; Zeitun, 2009; Fauzi & Locke, 2012). Most of the empirical findings have been mixed, inconclusive and inconsistent (Dalton, Daily, Ellstrand & Johnson, 1998; Minichillin, Zattono & Zona, 2009). In their meta-analytic reviews of board structure and financial performance, Dalton et al. (1998) found little empirical evidence to support a definite relationship between governance structural variables and firm performance. They concluded that examination of these variables in relation to firm performance will provide only little information to academics or practitioners.

From the perspective of this study, the inconsistent results of the previous studies should not come as a surprise as the studies did not include the missing link, which is corporate governance decision process, which has led to an incomplete picture emerging. Furthermore, firm performance is too remote to be used as an endogenous variable in any measure of the performance of boards of directors. This study, therefore, takes an alternative approach which addresses the missing link, analysis of board processes, neglected in previous studies. It also treats board performance as an endogenous variable rather than firm performance. This study adopts a broad and integrated approach by examining board structure, processes and performances to examine corporate governance from the standpoint of an emerging economy. The corporate governance constructs that are examined include board structure (board composition, board independence and board committee), board process (commitment, process conflict, cognitive conflict and boardroom activity) and board service and control performances (advisory role, networking role, strategic participation role, behavioral control role, output control role and strategic control role). These variables, to the best of the researcher's knowledge, have not been examined empirically in an integrated way in previous studies. Furthermore, the study used primary data from the governing bodies (boards of directors) that are generally believed to be inaccessible to researchers or difficult to access. Besides the boards of directors, the research has also captured and described the perceptions of other groups of stakeholders on different dimensions of corporate governance. Above all, this study was conducted in the context of an emerging economy where research of the kind is scant.

1.1 Corporate Governance: An Overview

The concept of corporate governance can be traced back to the 18th century. Smith (1776) as quoted in Tricker (2009:8), for example, wrote that: "The directors of companies, being managers of other people's money than their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which partners in a private copartnery frequently watch over their own". Corporate governance emerged to be very important when many interested individuals and groups raised and merged their capital in order to finance huge enterprises. With the establishment of such enterprises comes the question of their management and control since the multiple owners cannot manage and control the business they own. This gap has to be filled by an appropriate organ that functions in the best interests of the owners, justifying the need for corporate governance (Said, Jaafar & Atan, 2015; Tricker, 2009; Bainbridge, 2008; Garg, 2007; Wearing, 2005; Okeahalam & Akinboade, 2003; Blair, 1995).

Corporate governance has become popular attracting the attention of investors, academics, and policy makers in the last two decades mainly after the Asian financial crises of the1990's, the collapse of Enron (2001) and WorldCom in 2002 and the subsequent financial scandals of some companies in different countries (Mallin, 2010). The corporate scandals have eroded public confidence (Emmanouilides, 2007) in corporate governance structure and process as well as the ability of boards to direct and oversee management. The financial crises and related problems have led to a fresh demand for a sharp focus on corporate governance that relates to the role of boards, their appropriate structure and a board process capable of avoiding corporate failures occurring in the future (Gupta, 2015). It is not altogether surprising to see renewed government and public interest in corporate governance practices that guarantee that similar crises do not occur so that the public's and more particularly investors' confidence is not lost (Gupta, 2015; Said et al., 2015; Mallin, 2010; Grant, 2003). The Organization for Economic Co-operation and Development (OECD) (2004) emphasizes that in the context of a globalized and fast changing environment, corporate governance is a key element not only in enhancing investor confidence, but also in improving both economic efficiency and growth. The OECD (2004:11) further states that "[…] The presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy''.

In spite of such growing interest in the subject of corporate governance (Tricker, 2009), there is no universally agreed definition of the term though the various extant definitions reflect the same basic idea. The following definitions help to establish some common understanding of corporate governance.

The United Kingdom (UK) Governance Code (2014:1) defines corporate governance broadly as "… the system by which companies are directed and controlled". The system refers to the establishment of an appropriate governance structure and process through which shareholders appoint boards responsible for the governance of their companies. This body is meant to engage in setting strategic aims, supervising the management, and reporting to shareholders about its stewardship role with the overall objective of maximizing shareholders' value.

Australian Securities Exchange (ASX) Corporate governance Council (2014:2) defines corporate governance as, "The framework of rules, relationships, systems and processes within and by which authority is exercised and controlled within corporations. It encompasses the mechanisms by which companies, and those in control, are held to account". This advocates for the appropriate governance arrangements in terms of structure, decision process, internal and external relationships and working mechanisms accompanied by accountability so as to introduce good corporate governance practices and promote investors' confidence.

The OECD (2004:11) understands corporate governance as an important instrument of holding together interests and relationships of various stakeholders, and defines it as:

> "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the

company are set, and the means of attaining those objectives and monitoring performance are determined".

In a more elaborate fashion, Okeahalam and Akinboade (2003:3) state that:

"Corporate governance refers to the private and public institutions, including laws, regulations and accepted business practices, which in a market economy, govern the relationship between corporate managers and entrepreneurs ("corporate insiders") on one hand, and those who invest resources in corporations, on the other''.

They further outline the elements of the totality of the subject:

"[…] the processes, systems, practices and procedures as well as the formal and informal rules that govern institutions, the manner in which these rules and regulations are applied and followed, the relationships that these rules and regulations determine or create, and the nature of those relationships".

In a similar manner Donaldson (2012) defines corporate governance as the set of rules, policies, and institutions pertinent to the way a firm is controlled. On the bases of the above definitions, it could be argued that corporate governance, as a system, implies appropriate corporate structure and process capable of maximizing shareholders value (Gupta, 2015). The definition also implies that corporate governance is concerned with both internal and external aspects of corporate form of business (Mallin, Mulleneux & Wihlborg, 2005). As an internal aspect it refers to the boards' service task and control role; and external aspect to its relationship with the shareholders and stakeholders. In the definitions, corporate governance is seen as a means of setting and attaining organizational goals and also monitoring corporate performances. The need to maintain an appropriate relationship and, of course, balance between the shareholders and stakeholders (managers, employees, customers, creditors, suppliers, and investors) interests so as to ensure sustained success to all is well emphasized. Equally important in the definitions is the need for the legal and regulatory framework that governs the relationship among the various parties including individuals, corporations and society at large. In a nutshell, corporate governance provides the framework under which corporate entities are governed so as to promote the interests of shareholders and stakeholders (Tricker, 2009).

In addition to the above definitions, several other arguments have been made justifying the significance of corporate governance in modern society and economy. Mallin (2010:8) outlines the significance of corporate governance in greater detail.

> "[…] it helps to ensure an adequate and appropriate system of controls operates within company and hence assets may be safeguarded; it prevents any single individual having too powerful an influence; it is concerned with the relationship between a company's management, the board of directors, shareholders and other stakeholders; it aims to ensure that the company is managed in the best interest of the shareholders and other stakeholders; it tries to encourage both transparency and accountability, which investors are increasingly looking for in both corporate management and performance".

Good corporate governance, in addition to boosting investors' confidence, has an economic advantage for emerging economies in attracting potential foreign/local investors (Negash, 2008). The introduction of a code of best corporate governance practices by many countries demonstrates that corporate governance continues to receive due attention from governments and other interested groups. A synthesis of the existing literature (Institute of directors in South Africa, 2009; OECD, 2004; Cadbury report, 1992) shows that the code of best practices stresses the need for transparency, disclosure, accountability, internal control, board structure and composition, role of boards, performance based executive pay, shareholders and stakeholders right and the like.

Among the several corporate governance mechanisms such as internal controls (policies, guidelines, and procedures), balancing power, compensation, and market forces, it is the board of directors system that is theoretically expected to alleviate the agency problem between the owners (principals/shareholders) and managers (agents). It is crystal clear that the burden of leadership in corporate organizations largely rests up on the upper echelon leaders especially the board of directors. Having a board, however, does not guarantee a company's success. A board may be a liability or an asset to an organization depending up on its structure, process, behavior, relationship with top management level, and the level of board members' commitment to represent and protect shareholders' interest. Irving Olds, former Chair of Bethlehem Steel Company, for example, stated that "Directors are like parsley on fish decorative but useless". His ideas reflect the cursed side of boards.

This is mainly due to the low level of commitment that some boards have since they operate on part-time basis (Leblanc & Gillies, 2003). However, there are also boards that effectively lead, control and become major cause of organizational success. An effective board is essential to good corporate governance and investors' relations as it serves as a link between managers and investors (Mallin, 2010).

In the discourse of corporate governance, emphasis is paid to the way corporate governance is structured and how it functions, because such issues have great impact on the performance and ultimately on the fate of any enterprise. That is, the way boards of directors are appointed, their diversity/similarity (demographic characteristics), how they work (board process) and their relationship with top management team are some of the key issues that have serious influence up on organizational performance.

As discussed earlier, because of its apparent significance for the economic development and health of business organizations and society at large, corporate governance has received great attention from researchers, policy makers, the public and business entities (Roberston, 2009; Luo, 2007; Mallin, 2006 Basel Committee, 1999). Corporate scandals and collapses (such as Enron, WorldCom and Parmalat) and the problems of business today are attributed mainly to a failure of corporate governance, which is another reason why governance gains importance. This condition has also led to the development of more regulation and codes (Gupta, 2015; Said et al., 2015; Ahmed, 2015; ASX, 2014; Anderson, Melanson & Maly, 2007; Garg, 2007). That is why corporate governance as a mechanism to influence organizational performance has gained increasing importance from management scholars.

In spite of the demonstrated importance and emphasis, there are scant and equivocal empirical evidence about the relationship between the nature of corporate governance (board structure, process and its interactions with board roles) and its impact on organizational performance in general and in the context of emerging economies in particular. Researches in the past heavily focused on the agency theory that mainly deals with control functions of boards and the study of the relationship between the board composition and financial performance. Generally, there is little research on the board process and its impact on performance (Minichillin et al., 2009; Wan & Ong, 2005; Ong & Wan, 2001). Furthermore, the research on the relationship between board structure and processes with the roles that boards are entrusted with, whether ownership matters in board roles and firm performance, especially in the context of emerging economy, is limited.

1.1.1 Corporate Governance in Africa

There is little research on corporate governance in Africa (Negash, 2008; Economic Commission for Africa (ECA), 2005; Okeahalam & Akinboade, 2003). The limited studies are dominated by commission reports[1], and hence, well grounded studies are scarce and this is especially true in regard to the Sub Saharan Africa context. In Africa, the numbers of listed companies are few and the majority of them are family or small private enterprises and state owned corporations that are characterized by weak regulatory and supervisory framework (Okeahalam & Akinboade, 2003; Armstrong, 2003; ECA, 2005).

In spite of this deficiency, there is a developmental need in Africa that demands the participation of citizens geared towards wealth maximization in an environment where good corporate governance prevails. This initiative requires having a system in place to monitor and evaluate compliances with best practices of corporate governance. In order to ensure good corporate governance practices, there is also a need to establish and strengthen institutions responsible for enforcing it (Armstrong, 2003; Rossouw, 2005).

Of course, the introduction of principles and standards of corporate governance contextualized in an African way is important (Economic Commission for Africa, 2005). Some African countries have recently started to introduce reform measures with corporate governance that has led to the establishment of corporate governance codes in Ghana, Uganda, Kenya, Tanzania, Zambia, Malawi, Zimbabwe, Mauritius and others. What is lacking according to Armstrong (2003), however, is the regulatory and institutional framework that will enforce these standards in the countries concerned.

According to Africa’s corporate governance survey conducted in 22 countries by Philip Armstrong in 2005, the implementation of corporate governance is at different stages of progress. South Africa is most advanced in this regard followed by Mauritius, Kenya, and Nigeria. Uganda and Zambia have shown good progress while Zimbabwe is regressing (ECA, 2005).

[1] Corporate governance in Africa: Economic research paper #66, 2001; Economic commission for Africa: Economic and Corporate Governance and Accountability, 2005

The majority of the private sector companies in Africa are non-listed small-to-medium enterprises; however, the need for good corporate governance is high for listed, non-listed, and state owned enterprises (Rossouw, 2005). There are a number of factors that justify the need for corporate governance, which among others include: (i) high level of awareness on the contributions of corporate governance to economic success and sustainability of enterprises; (ii) the power to enhance corporate responsibility and goodwill which ultimately is believed to attract local and foreign investors and; (iii) the ability to serve as deterrent to Africa's corrupt and unethical business practices. In spite of such convictions, in the majority of African countries, there are obstacles to its development and implementation. With the exception of Francophone countries, Mauritius and South Africa, lack of effective regulatory and institutional framework for instituting standards of best practices is a major bottleneck (Ibid.).

Rossouw (2005) states that privately owned companies are not inspired to get listed on the stock exchange due to lack of transparency, market discipline, sound regulatory environment and fear of disclosure demands as well as scrutiny of corporate activities, which are prerequisites for being listed, and which may be exploited by the state and competitors. Thus, this deters the practice and enforcement of standards of good corporate governance because privately owned companies are reluctant to join the domain of listed companies.

1.1.2 Corporate Governance in Ethiopia

Since the regime change from a Military Government to a Transitional Government in 1991, Ethiopia has launched a series of economic adjustment and reform programmes geared towards building a competitive private sector. This set of reforms has increased the size and role of the private sector. Even though the economy is dominated by smallholder agricultural activities, over the last two decades, the number of corporate forms of business firms has increased due to the liberalization of the economy. This development has increased the awareness and importance of corporate governance and drawn much attention to guarantee the protection of investors' interests and thereby encourage and boost investment (Roberston, 2009; Negash, 2008).

Before attempting to assess and understand the status of corporate governance, it is important to first briefly scan the history and development of the private sector as an important factor. According to Negash (2008), the history of the establishment of share companies in Ethiopia dates back to 1960 during the Imperial regime and became routine between 1960 and 1973. For the first time it was in 1960 that the legal framework for corporate governance was laid when the two legal institutions, Commercial Code and Civil Code, were proclaimed. The Imperial regime, which for the first time recognized the role of the private sector in the economy, hardly created the necessary enabling environment. This even did not last long due to a regime change in 1974. The Imperial regime, which had feudo-capitalist orientation, was replaced by a Military rule (socialist orientation) which brought an end to corporate practices. The Military rule nationalized and transferred all private enterprises and put them under state ownership. It set a capital ceiling that impeded the growth and expansion of private business. The nationalized enterprises fell under the central command economy and were run by government appointees. This brought to a halt the practice of corporate governance until a regime change in 1991 that led to later revival. This had a far-reaching effect for the current weak status of private business in the country (Transparency Ethiopia, 2011). The 1991 regime change brought a radical change in the economic orientation from a central command economy to a liberalized free market economy that led to privatization of some nationalized companies and appearance of new share companies.

According to Negash (2008), the financial performances of the nationalized corporations which were clustered under different ministries were dismal justifying the privatization policy of the post Military regime. Also relevantly one of the intents of the structural adjustment program of the International Monetary Fund (IMF) (1993-1996) was to privatize the state owned enterprises that would pave the way for private sector development (African Development Bank, 2000: ii). But Armstrong (2003:19) argues that privatizing state owned enterprises in an environment where there was poor governance could mean extending the same problem to the private sector domain.

As stated above, it was after a major policy change to liberalize the economy was in place that the formation of share companies governed and controlled by the board of directors came to the fore (Roberston, 2009; Economic Commission for Africa, 2004). The range of economic reforms introduced that includes: complete liberalization of domestic prices, devaluation of the local currency, privatization of state owned enterprises, more liberal investment climate, market based foreign exchange and authorization of private banks represents a radical break with the past. This era marked the start of the practices of corporate governance helping to ensure sustained success for the newly formed companies.

Ethiopia has no stock exchange markets but the recently established domestic private banks have been selling shares in the market, without having an institutional framework that safeguards the interest of the shareholders, which calls for the need for appropriate corporate governance. Private banks are expected to operate under the framework of corporate governance. There is however, lack of strong systems to ensure compliance with principles of corporate governance.

Regarding state owned banks, a study conducted on the practices of corporate governance by the Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA) (2009:108) states that,

> "The state owned enterprises incorporated as share companies are expected to operate under formal corporate governance approaches. Currently such enterprises have boards of directors and separate managers. Even though the need for a corporate governance structure is not strong, introducing boards of directors, separating the owner (the state) from managers, is commendable".

However, the study poses a question whether these boards of directors have the proper training, experience, and expertise. It also questions the degree of independence of the boards from the interference of the government and the observation in this regard is not generally positive and this is not an exception to state owned banks (AACCSA, 2009).

In line with this, Negash (2008) surmises the standards of corporate governance in Ethiopia as disappointing and specifically attributes it, among other things, to, (i) the inadequacy of 1960 commercial code of Ethiopia to handle the legislative matters of the current complex issues of corporate governance, though a new corporate law is being drafted; (ii) lack of ratification or incorporation of international conventions and codes; (iii) ownership concentration and pyramids creating agency problem; (iv) inadequacy of laws protecting investors and creditors and also ineffectiveness of court systems in resolving investment disputes and; (v) lack of an organized share market and quality issues in professional education.

The general observation is that corporate governance is at its early stage of development in Ethiopia and is characterized by a very weak legal framework and poor practices of corporate responsibility (Negash, 2008). However, since recently, there has been consensus among the business and sectoral associations in respect of the need for a strong corporate governance framework and national code of business practices (AACCSA: 2009). As a result, there are several initiatives towards improving the current weak status of corporate governance. The following are some of the most important measures towards improved corporate governance standards (PSD Hub/AACCSA, 2009) that include:

- The revision of the 1960 Commercial Code, which is considered as pivotal part in upgrading corporate governance standards,
- A joint move to standardize the accounting and auditing practices of corporate firms,
- Modernizing and computerizing the Company Register, strengthening the organizations of the business community at the national and city levels to make important contributions to the institutional environment for supporting corporate governance, and
- Increased awareness of the importance of corporate governance and commitment towards any effort to improve it by the business community and the state.

Though corporate governance is at its early stage of development, the corporate governance model is based on a unitary (one tier) board of directors representing the shareholders in a more direct way with a view to optimally meeting shareholders' interest. The structure of the shareholding is also highly dispersed.

1.2 Rationale of the Study

The researcher was personally interested in undertaking research on this specific topic for several reasons. First of all, the role and responsibility of upper echelon leaders is not well understood, and consequently the researcher realized that it deserves a critical assessment. Secondly, preliminary discussions with some board members of public enterprises and even private banks, regarding the roles and responsibilities that are assigned to them, revealed much below the researcher's expectations to the extent that some boards do not justify their existence. The third reason which was somehow similar to the above has to do with the complaints that the researcher used to hear from CEOs of public enterprises and private banks. The complaints include:

- the way board members are appointed,
- the low level commitment of board members,
- low attention to strategic issues but high involvement of board members in routines,
- the high level of interference in petty issues emanating from self view or role perception as mere watchdogs rather than policy formulators and implementers, and
- poor board process and relationship with top management team.

Paradoxically, the majority of the enterprises with such problems still demonstrate good performances in terms of profitability. This has had a considerable effect on the researcher's decision to investigate whether "boards are like parsley on fish decorative but useless'' as put by Irving Olds, former chair, Bethlehem Steel Company, in Gillies and Leblanc (2003) or whether they are the key drivers of organizational change and performance. Fourth, corporate governance is a topical issue beset with economic disturbances and corporate scandals. The corporate collapses (Enron, WorldCom and Parmalat) and the recent global financial crises have made corporate governance both an international and national issue attracting the attention of various stakeholders (Emmanouilides, 2007).

Lastly, and more importantly as a propelling force for this research, much work has not been done on corporate governance in Ethiopia (Kiyota, Peitsch & Stern, 2008) since the issue is a recent phenomenon whilst the economy has been witnessing transformation over the last two decades. A study of corporate governance is important to Ethiopia mainly because: it is a key to developing a market economy and attracting foreign investment as desiderata for sustainable development; it ensures greater transparency and disclosure and thereby enhances investor confidence; it also ensures shareholder protection, to mention a few of the many more benefits that accrue. To date, the studies made on different aspects of corporate governance largely have focused more on developed economies than emerging economies (Pamburai, Chamisa, Abdulla & Smith, 2015; Ebrahim & Fattah, 2015; Zeitun & Tian, 2007). The study of the state of corporate governance is very important in emerging economies like Ethiopia because of the differences in the social set up, cultural values and economic conditions compared to developed economies. In this connection Adegbite (2012), indicated that corporate governance model and corporate behavior are influenced by countries' institutional arrangements implying that corporate governance regulations should be considered from the context of any particular nation. In a similar manner, Bhasa, (2004) suggested that countries should develop corporate governance models unique to their needs by understanding their contextual situations. Thus, the empirical findings of studies made in developed economies might have limited application and meaning in emerging economies due to the differences in contextual settings that include organizational and environmental characteristics (Kumar & Zattoni, 2013). This study aims to fill the relevant gap in regard to Ethiopia by addressing the contextual situation.

A review of the pertinent literature reveals that the focus of prior studies was largely on board structure and firm performance disregarding the board process as an important link. There is thus a gap in integrating the board process as a missing link in explaining performance. If board structure with different dimensions leads to company performance, it is equally important to understand and explain how the board process, which is a reflection of the board structure directly or indirectly influences performance. This study, therefore, is important in filling this research gap. Additionally, the focus of prior studies was on examining relationships with firm performance in financial terms as a proxy measure. This study, however, examines the relationships between structural, process and particularly board performance variables in a fully integrated model. Studies employing this approach are scant and fragmented, and this study aims to fill the gap by addressing explicitly the antecedents of the board performance but not firm performance. It also fills the gap in the literature by examining whether ownership structure influences board performances.

In a nutshell, based on the identified limitations and gaps of the extant relevant literature, the researcher was motivated to investigate how boards are structured, function (board process), and execute their roles and responsibilities, and their impact on boards' and companies' performance in the Ethiopian emerging economy context.

1.3 Problem Statement

Corporate governance is critical to the financial sector in general and the banking industry in particular. Poor corporate governance results in bankruptcy that has tremendous negative consequences on macroeconomic activities and public confidence in general and shareholders in particular. A sound corporate governance framework is also very imperative for emerging economies since it is one of the most important elements of an enabling environment for investors' confidence, which in turn fosters sustainable economic growth and development. Corporate governance has a short history in Ethiopia due to a central command economy that lasted about 17 years (1974-1991). The post 1991 period in Ethiopia created fertile grounds for the revitalization of the practices of corporate governance due to a major policy change from a central command economy to a liberalized free market economy. This new era opened an opportunity for some nationalized companies to be privatized and new enterprises to flourish.

In spite of the opportunities for the revitalization of corporate governance, there is a noticeable difference in the practices of corporate governance in the privately owned share companies and state owned enterprises in terms of election and composition of boards of directors. Privately owned share companies are structured and monitored by the board of directors that are elected by the shareholders; whereas state owned enterprises are governed by the board of directors composed of senior officials that are appointed by the government (Okeahalam & Akinboade, 2003). The practice of election versus appointment (ownership structure) is expected to lead to a difference in the board demographics and thereby in the board process which calls up on the need to study the structural and process variables to see their implications up on the performances in the private and public enterprises. The ownership structure, which is in place, is mirrored in the corporate governance structure adopted in the two domains. The ownership structure is concentrated in the public enterprises which is in the hands of the government and relatively diffused in the private enterprises where there is a large number of shareholders.

The banking industry, which has emerged as the most attractive venture for domestic investors, is among the few sectors that have benefited much from the new economic policy. Since 1994, 16 domestically owned private commercial banks have been established[2]. Good corporate governance is fundamental in the financial sector, especially the banking industry, where banks serve as custodians of public money. The nature of banking services and activities demands high levels of integrity, transparency and accountability. Banks, as financial intermediaries, play a special role in the economy and are vulnerable and sensitive to bad corporate governance. Therefore, to enhance investor confidence, attract investment, and promote accountability, transparency, integrity and thereby national development; effective corporate governance in the banking industry is so essential. Having a stable financial system coupled with accepted corporate governance practices stands to boost trust and attract investment. In the Ethiopian context, some efforts are under way to improve the framework for corporate governance that include revising the commercial code, developing standards for accounting and auditing practices, developing standards for capital markets, and competition policy projects (AACCSA: 2009).

None of these efforts, however, have fundamentally focused on board structure, process, roles and codes as an important element of corporate governance in general and in the banking sector in particular. To ensure that boards engage in the right process, elements of board structure such as composition and professional background of members need to be accounted. Such accounting can produce better transparency, accountability, responsibility and pave the path for the introduction of good corporate governance practices. However, important issues such as whether boards are elected or appointed on merit basis with proper training, professional experience, and independence have not been a major reform concern so far.

The need for the emergence and development of effective corporate governance in the banking sector is not rhetorically based. There are emerging concerns among the shareholders, stakeholders, and the regulatory bodies on the banks' corporate governance behaviors. A case in point was conflicts of interest, malpractices, divisions, hostilities among boards', interference of regulatory body, and also losses of trust of shareholders that were observed, in recent times[3].

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[2] www.nbe.gov.et

[3] Angry Shareholders oust Abyssinia's Board Chairman, 2008; National Bank of Ethiopia Call Lion's Shareholder's meeting, 2010; Directors' Severe Pay Package Can Cost Banking Talent, 2011; Awash Bank Back in Controversy, 2011; NBE Orders Zemen Bank to Re-elect Board Directors.

Currently, the need for effective corporate governance practice and an institution responsible for it has become an important issue of discussion in Ethiopia. Globalization, the need to attract foreign and local investments so as to sustain development, the need to control corporate misbehaving and scandals are also some of the driving elements for an effective corporate governance to take place. Public concerns on the whole have started to focus on the effective protection of investors'/public interests, the promotion of transparency of operations, accountability, and the need for banks to move towards standardized corporate governance practices.

To this end, this research examines the practices and impacts of corporate governance systems in the Ethiopian banking sector in general and, board structure and process, in particular, up on corporate performances. Also, it specifically studies stakeholder perceptions of the corporate governance practices and outlines the unique features in the practices. On the bases of the problems stated above, the research answers the questions below.

1.4 Research Questions

The main question that guides the research is: How do corporate governance structure and process, in an emerging economy setting, affect performances of boards in the Ethiopian banks? The sub questions formulated to operationalize the main research question include:

1. What is the nature of the interplay between board governance structures, processes, and boards' service and control performances in banks?
2. How does the board process mediate the relationship between boards' structure and boards' service and control performances?
3. What is the impact of ownership structure on boards' service and control performances?
4. Does the difference in ownership structure affect bank performances in accounting terms?
5. What is the attitude of stakeholders toward corporate governance practices in the private and public banks?
6. What are the unique features of the Ethiopian banking industry corporate governance environment?

1.5 Research Aim and Objectives of the Study

The major aim of this study is investigating and analyzing the impact of corporate governance on performances of private and public banks. In doing so, the study explores, describes, critically examines, and analyses the board structures, board processes and their effects on board performances.

Specifically, the study intended to achieve the following objectives:

1. To explore the roles (service and control) that boards play and determine their association with governance structure and process.
2. To determine if board process mediates the relationship between boards' structure and boards' service and control performances.
3. To Investigate and understand the relationship between board structure, board process, and performance given differences in ownership structure.
4. To assess the attitude of owners and stakeholders in the current corporate governance practices in light of the best practices of corporate governance and learn from their experiences.
5. To identify any unique features of banking industry corporate governance in Ethiopia
6. To analyze and synthesis the findings and contribute to the existing corporate governance literature.

1.6 Significance of the Study

The current research fills the gap by empirically resolving the controversial issue about whether " boards are like parsley on fish decorative but useless" as put by Irving Olds, former chair, Bethlehem Steel Company, in Gillies and Leblanc (2003) or central to corporate performances. The study also examines the existing corporate governance practices in light of the standards of best practices and makes recommendations that improve the current practice. This would be of interest to scholars, policymakers, and practitioners, as well as private and public enterprises.

Since 1994 with the liberalization of the economy, the private sector has been flourishing with many corporate sectors, particularly private banks emerging. Given the continuing growth in the corporate sector, currently, appropriate corporate governance is a necessity for the Ethiopian economy as it is an incentive to attract investment, build investors’ confidence, ensure transparency and disclosure, protect shareholders and stakeholders rights, and fight scandals, among others.

Studies addressing Ethiopian corporate governance practices are sparse since the introduction of corporate governance is a recent phenomenon. Most of the international corporate governance studies generally focused on developed economies neglecting the relevant state of affairs in emerging economies like Ethiopia (Pamburai et al., 2015; Ebrahim & Fattah, 2015; Zeitun & Tian, 2007). As mentioned in the rationale of the study, the contextual setting of Ethiopia is different from that of developed economies and, therefore, a western may have limited appropriateness and utility to the corporate milieu of Ethiopia. As a result conducting a study embedded in the Ethiopian context would help to evaluate corporate governance practices and make recommendations that suit the local framework.

To the best of the researcher’s knowledge, this study is a pioneering project that focuses on the Ethiopian market from a corporate governance viewpoint. This research can also establish the necessary groundwork and serve as benchmark for similar researches in the future in the country of the study and in other similar economic contexts.

The subject of the study is hugely important calling for research into the interplay of several crucial factors in corporate governance, which is new to Ethiopia. Ethiopia as an emerging free market economy should put in place policies targeting best practices of corporate governance so as to attract and protect investors. In this regard, the study will fill the lacuna surrounding how corporate governance functions in the context of transitional economies. The findings will also help to shade light on the existing theories of corporate governance. Thus, the study will serve to deepen our understanding of the experiences of corporate governance in the Ethiopian context helping policy makers, boards, top management teams, and other stakeholders to have greater understanding of the factors that can positively affect performance. This study, therefore, will help in identifying the gaps in the current practices and forward recommendations for improving corporate governance practices as well as policy development on corporate structure, corporate processes and formulation of a code of best practices.

1.7 Scope of the Study

Corporate governance is a broad concept that covers a wide array of sectors and institutions. This study, however, is limited to the banking industry that includes both publicly and privately owned banks whose primary objectives are profit making or wealth maximization. Compared to other sectors in the country, the banking industry is very much grown and experiencing much better consolidated corporate governance. Hence, it is found to be suitable for this study.

The unit of analysis for this study is the Ethiopian banks with different respondent groups that include boards of directors and stakeholders. Two empirical investigations are undertaken to achieve the objectives of the study. First, a survey of the upper echelon leaders is undertaken to see the relationships between governance structure and process with the board performances (roles), in general, and whether ownership matters in particular. Second, a survey of stakeholders' perceptions is carried out in order to scan the present status of corporate governance practices in the banking industry. In both empirical investigations, survey questionnaire was used. For the purpose of triangulating the results, interview was employed. In examining the relationship between corporate governance variables, the second generation regression model called the Smartpls accompanied by descriptive statistics of percentage and frequency analysis was used. The stakeholders' perception survey questionnaire which was used to assess the practices of corporate governance was evaluated using percentages and frequency distributions.

An important mechanism to verify the effectiveness of corporate governance is the degree to which an organization achieves its objectives which can be expressed in terms of customer satisfaction, profitability, and maximizing shareholder's value. Though there might be a number of indicators to measure the impact of corporate governance on organizational performance, for the purpose of this study, Return on Asset (ROA) is used as measure of performance. Unfortunately, Tobin's Q (market value/ book value) ratio cannot be used due to the absence of a stock market where shares are traded freely. In measuring the performances, in accounting terms, secondary data obtained from the banks' annual reports are considered.

1.8 Limitations of the Study

The study employed survey questionnaire, interviews, and desk review. Thus the limitations that are associated with these methods do also apply to this study. As stated in section 1.7 of this chapter, the study covers only the banking sector in Ethiopia because it is considered to have more consolidated corporate governance practices as it is closely supervised by the National Bank of Ethiopia which is the regulatory organ in the country. Thus, the results obtained may not be used to make generalizations about other sectors. The OECD (2004) principle of corporate governance developed based on the experiences of developed economies has been used as a benchmark in scanning corporate governance practices in Ethiopia because Ethiopia has no standard codes of corporate governance against which corporate governance practices of companies can be assessed. Therefore, benchmarking corporate governance practices of the Ethiopian banks with the OECD may not exactly represent their status of governance practices.

1.9 Organization of the study

The remaining part of the thesis is organized into eight chapters as follows. Chapter Two deals with major corporate governance theories, codes of best practices and empirical studies. The chapter gives emphasis to the agency, stewardship, stakeholders, resource dependence and social capital views. It also reviews the empirical studies on corporate governance structure, process and board roles.

Chapter Three presents a conceptual model on the basis of which the hypotheses are formulated. The corporate governance theories and the existing literature are used in developing and explaining the conceptual model, which also shows the link between the exogenous and endogenous latent variables.

Chapter Four discusses the research methodology and tools used to operationalize the conceptual model and test empirically the hypotheses. Specifically, it discusses the philosophical foundations of the research, research design and strategy, sampling issues, approaches and steps followed in developing and testing survey instruments, the process of survey administration, the statistical approaches chosen to analyze and test the hypotheses.

Chapter Five deals with data examination and preparation to the next stage of instrument validation and measurement model evaluation. It evaluates the impact of missing data, identifies outliers, tests for non-respondent bias and takes appropriate actions as deemed necessary.

Chapter Six addresses the reliability and validity of the measurement model as a prerequisite to the evaluation of the structural model, (testing hypotheses). The chapter discusses the two stages followed in purifying the measurement model, that is, the factorial dimensionality of the indicator variables using principal component analysis (PCA) and construct reliability and validity tests using partial least squares (PLS) measurement model evaluation. The chapter also presents the descriptive statistics of those manifest and latent variables that have passed the validation tests. It also carries out the bivariate correlation analysis as a preliminary test of the appropriateness of the structural model relationships that have been hypothesized.

Chapter Seven examines the perceptions of both the governing bodies (Sample-1) and group of stakeholders (Sample-2), separately and in aggregate, towards the current corporate governance systems and practices in Ethiopia. The chapter further analyses the perceptions in terms of the OECD framework, remunerations, characteristics of boards, approach to promote corporate governance, strategic issues, board independence, board duty and other governance issues. Moreover, comments, issues raised and recommendations made by stakeholders to improve corporate governance practices are examined and analyzed so as to identify serious concerns. The chapter also analyses the qualitative in-depth interview for patterns in relation to specific corporate governance themes.

Chapter Eight, which is initiated by the findings of the survey, provides a detailed discussion on structural model evaluation and the major findings of the study in association with the hypotheses established. The hypotheses are tested through PLS structural model evaluation techniques that examine relationships between the latent constructs. It, then, presents a summary of research questions, hypotheses, findings and discussion of the findings. In this chapter, the interview results are triangulated and integrated into the discussion of the findings.

Finally, Chapter Nine presents a conclusion, lists its contribution to theory and practice and outlines its implications for future research.

Chapter 2 Unpacking Corporate Governance: A Review of Theoretical Foundations and Literatures

Corporate governance (GC) issues emanate from the whole idea of responsibility, fairness, accountability, transparency and independence and these are of greater importance in a corporate form of organization where the ownership and management of businesses are separated (Jakarda & Inusa, 2014). In view of the above, the chapter reviews major corporate governance theories, codes of best practices, and empirical studies on corporate structure, process, and roles.

2.1 The Role of Corporate Governance

Corporate governance (CG) occupies a central role in the modern economy, in both developed and emerging nations, as a large proportion of economic activity is undertaken by firms organized as corporations. The corporations are formed by interested citizens who demand protection. This is made possible through different mechanisms of corporate governance. The trust in corporate governance in this regard is due to the fact that it:

- Helps to define and ensure an adequate and appropriate system of controls within company so that assets are safeguarded (OECD, 2004; Mallin, 2010);
- Defines the roles and relationship between a company's management, the board of directors, shareholders and other stakeholders. It aims to ensure that the company is managed in the best interest of the shareholders and other stakeholders (OECD, 2004; Mallin, 2010);
- Tries to encourage both transparency and accountability, which investors are increasingly looking for in both corporate management and performance (Mallin, 2010);
- Has an economic advantage for emerging economies in attracting potential foreign/local investors (Negash, 2008).

2.2 Corporate Governance Mechanisms

Corporate governance mechanisms are a set of instruments that are instituted to control and reduce inefficiencies and malpractices in corporate forms of organizations (Afolabi & Dare, 2015). Common corporate governance mechanisms include: board of directors, internal controls (policies, guidelines, and procedures), balancing power, market forces, and compensation (Dalwai, 2015). Boards of directors are, voted in by shareholders, used in order to ensure wealth maximization and other interests of the owners (Grove & Clouse, 2015). Board of directors as internal governance mechanisms have the responsibility to shape the governance of an organization given their direct access to management and shareholders (Said et al., 2015). Moreover, the burden of leadership rests up on boards of directors and they are central to corporate forms of business where ownership and management are separated. The shareholders use them to bridge the gap between themselves and the management. This group is considered to be a major driving force of governance in a corporation (Tricker, 2009).

The second corporate governance mechanism is internal controls in the form of instituting policies, procedures, and guidelines that are used to manage activities and behaviors of the corporation. The third corporate governance mechanism is balancing power. This is a common practice of corporate governance mechanisms as it deals with demarcating and defining duties between the board and the management and between different levels management. It ensures the balance of power in the organization so that no one individual person has the capacity to overuse resources beyond the limit set. A market force for corporate control is the fourth type of control mechanism that influences the executive body to pursue shareholders' interests instead of theirs'. This could mean that if managers ignore shareholders' interest and pursue only their personal interests, stock prices may fall which makes the company a target for takeover and consequently losses of jobs for managers. In order to avoid the possibility of a takeover, the management would work in the best interest of the shareholders. It is therefore the market forces that force the executives to think in that line (Tricker, 2009; Dalwai, 2015).

According to Dalwai (2015), the fifth mechanism refers to compensation which is a performance-based type of management structure. Compensation as a corporate governance mechanism ties managerial compensation to firm performance so as to align the interests of management and shareholders. This aims at improving performance by motivating managers and individuals to work hard and reap the benefit from it.

2.3 Requirements for Effective Corporate Governance

There is no one model of corporate governance and every country has its own distinctive type of corporate governance that reflects the political, economic, and regulatory set ups, enforcement capacity, the legal system, and different ownership structure and business situations. According to Gregory and Simms(1999), effective corporate governance tends to assume the prevalence of at least the following situations: well-developed and well-regulated securities markets; laws that recognize shareholders rights and the equitable treatment of minority and foreign shareholders; transparency and disclosure requirements; enforcement mechanisms on the basis of which shareholders and stakeholders rights are safeguarded; anti-corruption laws to prevent bribery and protections against fraud targeting investors; strong and independent courts and regulators; well developed private sector institutions such as, strong accounting and auditing sector, professional associations, rating agencies, strong financial press and capable securities analysts.

2.4 Need for and Roles of Board of Directors

Boards of directors come into play to fill the gap between ownership and control and for the purpose of controlling and maintaining an effective organization where ownership and management are separated (Garg, 2007). This is one of the roles that boards are expected to play in addition to other roles stated by Goodstein, Gautam and Boeker (1994) as cited in Ghosh (2006:435), i.e.,

> “Corporate boards fulfill three roles […]. First, boards play an institutional role: providing a link between the organization and its environment. Second, boards discharge a governance role: monitoring and disciplining of inefficient management. The third role of the board is strategic: chartering the future growth path of the firm in a competitive setup”.

The roles that are expected of boards are mainly linked with the major theses outlined by different theories viz. the agency, stewardship, stakeholders, resource dependence and social capital theories. These theories, which are briefly discussed in the subsequent sections, have greatly influenced the nature and development of corporate governance (Mallin, 2010; Tricker, 2009).

2.4.1 Agency Theory

The agency theory deals with the challenge on how to ensure that the agent (managers) acts in the interest of the principal (shareholders) (Mallin, 2010; Tricker, 2009; Jensen & Meckling, 1976). The agency problem occurs in situations where owners are not in a position to manage/control the organization they own, that is, when there is separation of ownership and control (Bhasa, 2004). It also deals with the agency problem, which is the likelihood of conflicting goals, abuse of power, and information asymmetry and provides the framework for handling such situations between the principal and agents (Fama, 1980). The problem lies in the self interest that the agent demonstrates which may not favor the interests of the principals (Berle and Means, 1932; Fama & Jense, 1983; Ramos & Olalla, 2014). According to Tricker (2009:219), “[T]he agency theory looks at corporate governance practices and behavior through the lenses of the agency dilemma’’, which arises whenever a principal enters into a contract with an agent to manage a property. Tricker (2009:217) explains the situation by quoting Smith (1776) that, “The directors of companies, being managers of other people’s money, cannot be expected to watch over it with the same vigilance with which they watch over their own”. Thus, to align the interests of the agent with the shareholders, agency costs that include monitoring costs are incurred (Jensen & Meckling, 1976; Marnet, 2004).

Agency theory is based on a narrow theoretical scope (Tricker, 2009) and the assumption that humans are utility maximizers, self-seeking and opportunistic. Therefore, the main issue is the extent to which mangers, as agents, act in the interest of shareholders. Corporate governance is thought to be one of the mechanisms to constrain the opportunistic behavior of the agent that requires the establishment of a board of directors that oversees the activities of the agent (Mallin, 2010). The theory views the board of directors as a means of control through monitoring (Mallin, 2010; Dulewicz & Herbert, 2004; Mueller &Barker III, 1997; Hermalin & Weisbach, 1991; Fama & Jensen, 1983; Fama, 1980). One can deduce from the previous discussion that boards as governance mechanisms monitor the management and through their control on the selection of directors, proposed by its nomination committee composed of non-executive directors, can improve the overall performance of management. As a governance mechanism, the key role of boards would be to reduce the agency costs and maximize shareholders wealth. It is for these reasons that boards have become one of the essential governance institutions in corporate organizations.

In a nutshell, the theory views a board of directors as an important governance mechanism which provides important services and executes control functions. Mallin (2010:15) further elaborates that, “In the context of corporations and issues of corporate control, agency theory views corporate governance mechanism, especially the board of directors, as being an essential monitoring device to try to ensure that any problems that may be brought about by the principal-agent relationship, are minimized."

The agency theory, though the mainstay of research for the past three decades, is criticized for studying the complex nature of corporate governance using a relatively narrow theoretical lens of contract relationships that involves principals and agents. As a simplistic model it is also easily challenged by posing the question 'who is the agent for whom' in a situation where there is a chain of investments. As Tricker (2009:222) puts it: "… the ultimate beneficial owner invested through a pension fund, which invests in a hedge fund, which invests in a private equity company, which places funds in the hands of financial institutions, which invests in the shares of listed company but lends them as collateral for another transaction, who is agent for whom …". The agency theory is also criticized for its moral assumption about human behavior that people maximize their personal utility or that people are self-interested not altruistic.

2.4.2 Stewardship Theory

The stewardship theory argues against the assumption imbedded in the agency theory of opportunistic and self-interest human behavior. The stewardship theory states that there is no conflict of interest between owners (shareholders) and agents (managers) if there is an appropriate structure that allows coordination to be achieved most effectively (Dulwicz & Herbert, 2004). Thus, managers are trustworthy and good stewards of organizational resources rather than self serving individuals exploiting for private ends due to their position and information asymmetry (Ramos and Olalla, 2014).

The stewardship theory is constructed based on the belief of unification of command at the head of an organization. That is, unifying (combining) the CEO and chairman's role can be beneficiary to shareholders since this results in greater unity of direction and strong command and control. On the other hand, the agency theory does not believe in the CEO duality (combining the two roles in one person) because doing so results in concentration of power in one person with consequences of agency cost and lower return to shareholders (Mallin, 2010; Anderson & Baker, 2010).

Furthermore, Muth and Donaldson (1998) as cited in Dulwicz and Herbert (2004:263) indicated that "Stewardship Theory, in contrast to Agency Theory, recognizes a range of non-financial motives of managers found in the occupational psychology literature, for example need for advancement and recognition, intrinsic job satisfaction, respect for authority and the work ethic". So, the theory claims that managers are motivated by non financial motivators that include the factors listed above.

The stewardship theory is based on a positive view of human attitude that argues that people are not inclined to opportunism, and managers do like to pursue shareholders' interests; and board members with different experiences, competences and viewpoints, as a valuable resource to corporate boards, provide counsel and service to management to enhance their decision making process and impact corporate performance (Clark, 2004; Tricker, 2009; Anderson & Baker, 2010).

In describing the stewardship nature of boards and demonstrating the relationship between boards and stakeholders, Tricker (2009:224) stated that,

> "… each company is incorporated as a separate legal entity. The share holding members of the company nominate and appoint the directors, who then act as stewards for their interest. …. Ownership is the basis of power over the corporation. Directors have a fiduciary duty to act as stewards of the shareholders' interest. Inherent in the concept of the company is the belief that directors can be trusted."

Tricker (2009: 224) plainly puts that the theory is based on a classical idea of corporate governance that "Directors' legal duty is to their shareholder not to themselves, or to other interest groups. Contrary to agency theory, stewardship theory believes that directors do not always act in a way that maximizes their own personal interests: they can and do act responsibly with independence and integrity".

Opponents of the stewardship theory recognize that the current corporate situation differs from the 19th century realities. They argue that the concept of appointing directors by shareholders owning a single company is naïve in modern circumstances where shareholders are remote and do not nominate the directors. In complex organizations, there is lack of transparency, accountability, and commitment seriously challenging the stewardship role of boards. Moreover, though the theory serves as a legal foundation for company legislation, the late 20th and 21st century corporate collapses have eroded trustworthiness of boards owed under the stewardship model (Tricker, 2009).

2.4.3 Stakeholder Theory

The stakeholder theory considers a wider group of constituents instead of focusing only on shareholders' interests. According to Freeman (1984:46), "A stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organization's objectives". Stakeholder groups include: employees, creditors, customers, suppliers, government, and local community (Tricker, 2009; Mallin, 2010; Anderson & Baker, 2010). This theory propounds, "… the growing recognition by boards of the need to take account of the wider interests of society" (Gay, 2002 as cited in Dulwicz & Herbert, 2004:263). This implies that, corporations have many relationships with stakeholders (constituent groups) and the action of one has implications for the other. Therefore, the stakeholder theory is concerned with such relationships based on which the corporation takes into account the interest of the stakeholders in its processes and outcomes. Stakeholders play various roles in corporate governance and some of them including customers, creditors and employees are considered to be important components for its survival as they provide essential resources to the corporation. As a result, a stakeholder theory argues that the interests and concerns of stakeholders should get full attention in the process of directing and controlling a corporation (Spitzeck & Hansen, 2010).

2.4.4 Resource Dependence and Social Capital Theories

The resource dependence theory asserts that the effectiveness of a firm can be influenced by the ability of key organizational members to act as boundary spanners so that carefully selected outside board members can extract important resources from the environment that might not be available in the firm (Tricker, 2009; Daily & Dalton, 1993). One way to influence the external organizations on which firms depend on resources is to have outsiders on the board of directors that serve as a link between the two. The resources could include links to markets, access to capital and other sources of finance, provision of know-how and technology, relationship with business, political, and other societal networks and elites (Tricker, 2009). Therefore, to have access to these resources, the corporate structure of the board should match environmental demands. This is consistent with the organizational theory of systems approach that the organization is an open system that interacts with its environment and depends on it for its resources. This is also propounded by the social capital theorists who argue that the networking board of directors with the external organizations has the potential to bring more resources to the firm due to the linkages established.

Despite differences in their areas of emphasis with regard to the roles of the board of directors, theories of agency, stewardship, resource dependence, and social capital suggest that board structure (composition) may affect corporate performance. Therefore the theories evince that board structure has significant impact up on organizational performance. The social capital and the resource dependence perspectives see outside board members as a link to external resources that can be used as a means to improve performance. Specifically, they facilitate access to capital, skills, and other type of resources (Mueller & Barker III, 1997), whereas the view of the agency theory is that, outsiders would control and limit self-serving and opportunistic behavior demonstrated by management. Empirical evidence associated with bankrupt organizations demonstrate that firms that have higher levels of inside control tend to experience bankruptcy, showing the value of outside board members. And the value of a board as a monitoring and control organ is affected by its composition (Mueller & Barker III, 1997).

Previous discussions revealed that the need for corporate governance and the dynamics of board of directors can easily be captured by none of the theories. The theories complement rather than contradict each other and none of them question the importance of board governance in corporate organizations.

Corporate board structure and processes, as mechanisms of corporate governance, have received considerable attention from researchers, academicians and policy makers (Ghosh, 2006). These two important components of corporate governance are discussed in the following subsections.

2.5 Board Structure

Board structure refers to the design and style of governance that matches the intended functions of a corporation. It is usually determined by the needs of the organization (Mallin, 2010; Tricker, 2009). Focusing on board structure and processes, this study considers the aspects of structure that include unitary and dual structure, composition, size, CEO duality, and board committees.

2.5.1 Unitary and Dual Boards

Unitary board and dual board structures are the two types of board model that are discussed as two different approaches in corporate governance between countries (OECD, 2004; Gillette, Noe & Rebello, 2008). A unitary board of directors, prevalent in the majority of EU member states and the USA, is composed of both executive and non-executive directors. This form of structure is characterized by a single board where the shareholders elect members in their annual general meetings. The board has the overall responsibility for the corporate affairs and works towards achieving the same goal (Mallin, 2010). According to Tricker (2009), the unitary board model has four possible structures: (1) a board composed of only executive directors, (2) a board consisting of a majority of executive directors, (3) a board with a majority of non-executive directors, and (4) a board with only non-executive directors. The common feature of these structures, in contrast with the dual board structure, is that there is a single governing body known as a unitary board.

The dual board system is a two-tier board (model of governance) structure: the upper supervisory board and the lower management board. The supervisory and the management boards are composed entirely of non-executive (outside) and executive directors, respectively (Gillette et al., 2008). In this governance model, there is a clear distinction between the two in their roles and responsibilities. The supervisory board, elected by shareholders, oversees the direction of the business and assesses the managerial performance with the power to appoint and remove members of the executive board of management. The executive board of management on the other hand has the responsibility to formulate and present strategies, management plans, and budgets to the supervisory body for discussion and approval (Mallin, 2010; Tricker, 2009).

The common feature between the one-tier and the two-tier models of corporate systems is that the boards in both cases appoint the members of the management body (executives) and have the responsibility to ensure that the financial reporting and control systems are functional and in conformity with the law (Mallin, 2010).

Advocates of the unitary board structure argue that such a system enhances close working relationship, better communication, and information flow between the executive and non-executive directors as they belong to the same board. This in turn allows fast decision making process and efficient information flow. In contrast, the two tier-board system is characterized by poorer information flow, slower decision making and higher cost of board. This is due to the distinct separation of the non-executive and executive directors. In spite of this, the two-tier system has the advantage of being objective and independent in the process of assessment of executives and compensation policy (Mallin, 2010).

2.5.2 Board Composition

As a mechanism to alleviate the agency problem and thereby enhance company performance, many authors consider the composition of board members as a crucial issue (Andres & Vallelado, 2008; Fauzi & Locke, 2012). The way a board is structured has implication for task performance- be it positive or negative. In line with this, there has been an on-going debate in the literature on board composition and performance; and the board's effectiveness in fulfilling its governance role. The outcomes of the debate are yet ambiguous. Previous empirical studies evince mixed results. For example, Sheridan and Milgate (2005) and Kang, Cheng and Gray (2007) found a positive correlation between board composition and firm financial performance. Nyamongo and Temesgen (2013) found that the existence of an independent board of directors tends to enhance the performance of the commercial banks in Kenya. Pamburai et al. (2015), Ghosh's (2006) and Coles, McWilliams and Sen's (2001) empirical evidence uncovered a positive association between the number of non-executive directors and firm performance judged in terms of accounting measures (Return on Asset) and this is consistent with the growing volume of research literature. This is also in line with the suggestions made by Weisbach (1988) and Wyatt and Rosenstein (1990) who stated that outside directors play an important role in monitoring management. They explicitly stated that performance measures are highly correlated with CEO turnover when a firm is dominated by outside members of boards of directors rather than insiders. Outsider dominated boards tend to add value to a firm's performance by initiating change in the CEO when preceded by poor performance. Herbert and Dulewicz (2004) have empirically shown the association between the greater number of executives and the experiences of non-executive directors and better firm performance. By the same token, the Cadbury Committee (1992) in the UK and the Combined Code (2000) note the need for a balance in the representation between executive and non-executive directors (independent boards) on the boards of firms. The role that independent boards play in alleviating the agency problem and improving board effectiveness is paramount. Anderson, Melanson and Maly (2007) believe that changes in board structure that increases the board independence from management improves board effectiveness. In agreement with the above, a study made by Semenova and Savchenko (2015) who used the 2010 bank-level data from 112 countries showed that a high proportion of executive directors on the board would reduce a bank's profitability.

It is interesting to note that Hermaline and Weisbach (1991) and Andres, Azofra and Lopez (2005) found no relationship between board composition and performance as the former admitted that the results could be due to insufficiency of tests employed. In contrast to the above, Garg (2007) found that board composition is inversely related to the value of the firm. Empirically, research did not come up with consistent support though balance is inclined towards having more outside board members in order to ensure board independence. Board reform critics suggest more representation of outside directors for better protection of shareholder interests (Daily and Dalton, 1993) as the effectiveness of inside directors is compromised by their ties to the CEO putting them at a difficult position to aggressively monitor and evaluate CEO actions, resulting perhaps in a poor firm performance (Baysinger and Hoskisson, 1990).

2.5.3 Board Size, does it really matter?

Board size, which refers to the total number of directors serving on the board, is another important factor in the discussion of corporate performance. Different authors have different views in this regard. Some advocate that boards should be small, while others favor the idea of a large size. Fauzi and Locke (2012) discussed how large a board should be from the perspective of the corporate governance theories. They stated that from the perspective of the agency and resource dependence theories, it is preferable to have larger boards in order to minimize the agency problem by monitoring management through a greater number of members and also bring opportunities for more networking and access to resources. The ideal number of directors representing shareholders is still a subject of discussion. But there seems to be a semblance of a consensus that a size between 12 and 15 would work well for most organizations. Many have the feeling that fewer numbers (<12) may allow the group to control and manipulate the board while more directors (>15) may be difficult to manage (Colley, Doyle, Logan, Stettinius, & Virgina, 2003).

Many studies have been undertaken to find out whether board size really matters in terms of influencing a firm's performance and whether there is as such an optimum number of board members on a board that may result in higher performance. The literature is still inconclusive about the relationship between board size and performance. The existing empirical evidence show mixed results. For example, the studies conducted by Ramos and Olalla (2014), Bokpin (2013), Fauzi and Locke (2012), Saibaba and Ansari (2012), and Provan (1980) show association between larger board size and higher performance whereas the findings of Yermack (1996) and Guest (2009) indicate that a smaller number of board of directors is more effective and increases firm value. Whereas the findings of Nyamongo and Temesgen (2013) show that a large board size tends to impact performance negatively. Similarly Garg (2007) found that smaller boards are more efficient than larger ones.

Many similar empirical evidence are consistent with the above showing an inverse association between board size and firm performance (Pamburai et al., 2015; Reddy, Locke, Scrimgeour & Gunasekarage, 2008; Ghosh, 2006; Andres et al*.,* 2005; Eisenberg, Sundgren & Wells, 1998). Andres and Vallelado (2008) found an inverted U-shaped relationship between bank performance and board size where performance diminishes reaching an optimum size of 19 board of directors. A recent study by Arif and Syed (2015) revealed that board size has significant impact on Return on Assets. The studies of Arouri (2011) and Zahra and Stanton (1988), however, showed no association.

Pfeffer and Salancik (1978) argued that determination of the appropriate board size should be viewed from the stand point of resource dependence suggesting that the greater the reliance on the external environment, the larger the board of directors. Therefore, preferences for particular board sizes might be based on two things: resource dependence as one factor, and size and complexity of the organization as another.

2.5.4 CEO Duality

Another structural variable worth considering is CEO duality and its influence on board structure and company performance. In the CEO duality, the CEO serves as a chair of the board of directors (Ebrahim & Fattah, 2015) where there will be a unified chain of command for board members and the top management team. In such a system, corporate leadership is consolidated under one person as compared to an independent leadership structure where a separate board chair oversees top management's decisions. What does this mean to the CEO, the board members and top management team (TMT)?

The duality structure is common in the Fortune 500 firms of the U.S.A. despite the alleged superiority of the non-duality structure and persistent criticism of the dual role of CEO as board chairperson. This structure represents concentration of power and authority in the hands of the CEO which might signal a potential danger for abuse of power. Rechner and Dalton (1989) argued that the dual structure represents a prima facie case of conflict of interests- agency problem. According to them, one of the tasks of boards is to monitor the performance of management and question that how, a person who plays two roles, can reflect independence of judgment for self-evaluation. Similarly, Fama and Jensen (1983) and Jensen (1993) criticized the combined structure as inappropriate design that allowed the CEO to have concentrated power and use it to their own self-interest. They argued that the combined structure increases the agency cost as it may hamper the board's role of monitoring management. These authors believed that separating the roles of the CEO and the board's chair will lead to improve firm performance. Thus, according to the agency theory separating the roles of CEO and chairman of the board can minimize the agency costs (Grove, Patelli, Victoravich, & Xu, 2011). Consolidating the two into one position is also considered as a potential threat to the independence of boards (Adegbite, 2015). For example, the Cadbury Code of Best Practice (Cadbury Report, 1992) and the OECD (2004) recommend for the separation between the positions of chair of boards and the CEO in order to have more independent boards.

Despite the above arguments, others have counterpoints to the above such as Stoeberl and Sherony (1985) and Anderson and Anthony (1986) who said that CEO must not be subordinate to anyone. This assumes that the final responsibility for the performance of a corporation rest with the CEO and this has to be accompanied by full authority (not divided authority). They further argued that combined leadership results in a crystal clear leadership in strategy formulation and implementation which will lead to better firm performance. They also believed that separating the roles may entail information sharing costs, inefficiency and conflicts between CEO and non-CEO chairperson, less efficient decision making process and implementation and blurred accountability for bad firm performance. However, the agency theory is not in favor of the CEO duality (Fama & Jensen,1983) as it is detrimental to companies because CEO duality could mean just like the same person marking his/her “own examination papers” (Ong & Wan, 2001). The agency theory argues that in order to avoid the agency problem and exercise effective monitoring, then there has to be the separation of duties between the CEO and board chairperson.

Empirical studies that examine the relationship between duality and firm performance are few and their findings are mixed. Rechner and Dalton (1989), conducted a study on the Fortune 500 groups with the objective of providing multiple-year comparisons of shareholder returns (from 1978 to 1983) for those companies with CEO duality versus those with independent positions. The results demonstrate that there are no significant differences reflected over the entire six-year period and even no such differences evident in any given year. Therefore, for the Fortune 500, according to them, a role (being dual or not) does not impact shareholders returns. In the same vein, Baliga, Moyer and Rao (1996) reported that no evidence that changes from duality to non-duality or vice versa has any measurable impact on performance of the affected firms in the period up to 2 years after the change has occurred.

Yi and Chen (2008) empirical study also shows no significant relationship between CEO duality and firm performance nor improvement in firm performance after changes in leadership structure from dual to non-dual. Furthermore, Daily and Dalton (1997) study of the dual CEO and non-dual CEO firms show no significant differences in performance between the firms. The studies made by Abdullah (2004) and Arouri et al. (2011) on the Malaysian listed companies and Arab Gulf countries, respectively, also show that CEO duality is not related to firm performance. A study made by Nyamongo and Temesgen (2013) found no evidence that CEO duality or otherwise has impact on the performance of the Kenyan commercial banks. Dahya (2005) documented that separating the leadership roles of the CEO and board chairperson among the U.K companies is not related with performance improvement.

Rechner and Dalton (1991), however, have come with different findings for the Fortune 500 companies showing that firms opting for independent leadership consistently outperformed, in terms of higher accounting returns, than those relying upon CEO duality. Grove et al. (2011) and Pi and Timme (1993) found that in the banking industry, CEO duality and accounting performance measures are negatively related. Another interesting study by Brickley, Coles and Jarrell (1997) reveals lack of evidence of the association between unitary leadership structure and inferior accounting and market returns. They argued that CEO duality is efficient and consistent with shareholders' interests for the U.S. large companies and the legislative efforts to separate the titles are misguided. Sridharan and Marsinko (1997) investigated the impact of CEO duality on market value of the firms by examining Paper and Forest Products industry and their results demonstrate the superior performance of firms with a dual CEO. The studies by Ramos and Olalla (2014), Coles et al. (2001) and Dahya and Travlos (2000) reveal a positive association between CEO duality and firm performance in accounting terms. Guillet, Seo, Kucukusta and Lee (2013) who also studied the CEO duality and firm performance in the U.S. restaurants suggest that CEO duality contributes to financial performance. However, a more recent study made by Semenova and Savchenko (2015) who used the 2010 bank-level data from 112 countries shows that combining CEO and chair of the board of directors' positions reduces banks' profitability.

The above discussion of findings convey that which governance structure benefits firm performance remains equivocal that requires further study before definitive conclusions can be reached.

2.5.5 Board Committees

It is customary for a board of directors to establish different standing committees since it is difficult for the entire board members to sit together and deal with every issue that seeks its attention. Establishing committees would allow the board to have the division of work and there by maximum use of the board's expertise. This would presuppose that each committee should have a clear task and reporting obligation at the appropriate board meetings (Tricker, 2009; Colley et al., 2003; Klein, 1998). Though boards delegate tasks to committees, the ultimate responsibility for the areas rests on the board covered by the committee (Mallin, 2010; Klein, 1998). Most boards have audit, remuneration and nomination committees as principal standing committees. Moreover, depending up on corporate constitutions, other committees such as executive committee, risk management committee, and governance committee could be formed as need be to meet specific corporate demands (Tricker, 2009). Locke and Fauzi's (2012) study revealed that board committees have a positive and significant impact on firm performance.

Audit Committee

The audit committee is the most important sub-committees that play a crucial role in ensuring the protection of shareholders interests in matters pertaining to financial reporting and internal control (Mallin, 2010; Klein, 1998). Colley et al. (2003) argued that the audit committee should be composed of independent directors who should not have been in management or part of management in the last five years, nor is anyone who is a close family or has business ties to management. In line with the above, Klein (1998) in examining the firm performance and board committee structure found the predominance of outsiders on the boards' audit committee. Adegbite (2015) emphasizes the independence of the board audit committee as an essential element of good corporate governance and identified moral uprightness and individual integrity as major instruments to ensure independence beyond regulations. A recent investigation by Arif and Syed (2015) on the impact of corporate governance on the performance of financial institutions demonstrates that audit committee independence has significant impact on return on assets.

The audit committee serves as a bridge between the board and both internal and external auditors and ensures that the board gets all relevant audit information (Mallin, 2010; Tricker, 2009). The committee works closely with an external auditing firm and has the responsibility to ensure the accuracy of the financial statements and report properly to outsiders. Its functions include oversight of financial control using internal control and overseeing processes that monitor compliance with laws, regulations, and the corporate code of conduct. It also undertakes risk management tasks by assessing the system and understanding all the risks that the company faces and how they can be managed (Mallin, 2010; Tricker, 2009; Colley et al., 2003). Klein (1998) sees the audit committee as vital in alleviating the agency problem by facilitating a timely release of unbiased financial information by management to shareholders and other stakeholders. The unbiased and timely release of information helps to reduce the information asymmetry between management and all outsiders.

Tricker (2009) affirms that, currently, all codes of corporate governance practices and stock exchange requirements demand listed companies to have audit committees entirely composed of independent non-executive directors. In spite of this, Tricker (2009) stated that there are some criticisms and concerns about the audit committee that it can get involved in management affairs and interfere in management's legitimate responsibilities. Tricker further stated that apart from exercising sound commercial judgment, there is a concern that the audit committee can possibly be bureaucratic and process driven.

Remuneration Committee

It is the sub-committee of the main board that deals with compensation and benefits of board members and executives, possibly, members of senior management. The committee is composed wholly or mainly of outside directors (Klein, 1998; Colley et al., 2003; Tricker, 2009; Mallin, 2010).

Directors' remuneration has been a subject of discussion for long as noted by Tricker (2009: 70) that "… investigative media and institutional investors in both the United States and the United Kingdom have been challenging the apparently high levels of directors' remuneration. High rewards in companies with poor corporate performance were particularly suspect". In 1995, a Greenbury Report, which has now been integrated with the UK Combined Code of conduct, looked into the board pay level. The report proposes the formation of a remuneration committee composed of independent non-executive directors with the role to make recommendations to the main board on the compensation package that includes salary, fees, pension arrangements and other benefits that comprise travel costs, housing costs, school fees etc. of executive directors and, sometimes, other senior executives.

Mallin (2010) stated that the formation of the remuneration committee precludes executive boards from determining their compensation packages and the committee should also provide a transparent procedure for setting executive pay levels that includes setting appropriate targets for performance related pay schemes. According to Klein (1998), the remuneration committee's primary job is to determine and review the nature and amount of all compensation for the top management group of the company. By doing so the committee helps to reduce the agency problem by designing and implementing compensation packages that better align the interest between top management and owners (shareholders).

Nomination Committee

The nomination committee is a sub-committee of the main board, consisting of wholly or mainly outside directors, charged with the responsibility of identifying and recommending new members to the board or proposing on replacements to the board. Tricker (2009) noted the time when boards were composed of people known to each other, with similar values and backgrounds that looked like a cosy club where the incumbent members appointed people on same wavelength to join them. The nominating committee serves as a means to prevent the board from becoming a cosy club and serve as a check and balance tool to minimize the possibility of nomination of the dominant boards' potential candidate. The nomination committee is expected to heavily engage in search for the best candidates in order to ensure a balanced board composition in terms of executive and non-executive directors, knowledge, skills, qualities, and experience (Mallin, 2010).

The strength of a board depends up on the aggregate capabilities of the members with individual capabilities. Thus, strength of the individual member will have a significant impact up on the strength of the board in general. Therefore, the stronger the individual members in a board, it is highly likely that the board will be the reflection of it. Furthermore, in addition to the individual attributes, members must develop team spirit and be capable of playing active role and reflect different views for the good of the company. In selecting a member it is important to be cautious and every member has to be selected in light of his/her experience, integrity, and also demonstrated performance in areas related to the company's activities (Colley et al., 2003). This major job is accomplished by a nomination committee.

2.6 The Board Process

The board process refers to how the board executes its expected functions (decision making process, commitment, meetings, and critical debate). In promoting better corporate governance, among other things, board structure and process are pivotal. But most of the talks and empirical studies have focused on the board structure than board process (Minichilli, Zattoni & Zona, 2009; Wan & Ong, 2005; Finkelstein & Mooney, 2003; Lablanc & Gillies, 2003).

The theoretical and empirical discussion on board process, until recently, was sparse and insufficient and one possible reason could be inaccessibility of boards. Now there is a shift in emphasis on studying board process because the relationship between board structure and firm performance is consistently inconclusive and mixed (Wan & Ong, 2005). These authors attribute the lack of relationship between the two variables to the insufficient understanding of the board process. Of course, board process greatly depends up on the board structure because it is the way the board is structured that affects the quality of the process.

By board process, it is meant the way boards function and make decisions. Gillies and Lablanc (2003) argue that board process is the most important factor in bringing about better governance. These scholars link board process with a firm's financial performance. They say (2003:1), "Improving process will not only improve board governance but will improve that there really is a link between a board of directors and a firm's financial performance". Similarly, Huse (2005) identified board decision making as the foremost predictor of board performance and indicated commitment, creativity, and criticality as the main variables that define a boardroom decision making culture. Wan and Ong (2005) also concur on the impact of board process on board performance but differ in regard to whether board structure is related to board performance while they agree that board structure does not influence board performance.

Understanding board process is not an easy task and Finkelstein and Mooney (2003) proposed that if someone wants to understand the board process and effectiveness, someone has to talk to and ask the people who sit on boards about their board experiences and what really makes boards work or not work. In the early years of this century, corporate scandals such as auditing lapses, the hiding of losses or loans, inflating revenue, and insider trading led to the losses of the Fortunes and eroded faiths of investors in many institutions. Relatively little is known about how the past corporate failures occurred. Many generally attribute the disasters to poor corporate governance practices (Ahmed, 2015). Though one of the tasks of boards is to monitor management and corporate stewardship, one may attribute that at least one of the causes of corporate failure may be boards' inability to function effectively, that is, a failure of the board process. The way how boards make decisions may be critical factor in determining the effectiveness of corporate governance. Therefore, it should not be only the board structure that must be given due attention to determine board effectiveness but also effectiveness of the board in the decision making process to determine corporate performance.

It makes much more sense to consider the board process as a missing element in determining the effectiveness of corporate governance than only the structure since how boards are selected, how they actually work, how they make decisions, their capacity to make appropriate decision, or how they interact with each other are the inner workings of the board that must be analyzed to determine corporate performance.

Therefore, for a board to effectively accomplish its task, it has to have the right structure with the right board membership involved in the right board process. Hence, to bring about effectiveness and good performance, board process should be taken as an important component in corporate governance.

2.7 Roles, Duties and Responsibilities of Boards

The cause of corporate failure, be it accounting fraud, auditing lapses, concealment of losses, or excessive executive remuneration, all are linked to lack of effective corporate governance (Ahmed, 2015; Monks & Minov, 2011; Mallin, 2010). Thus, there is strong need for good corporate governance in order to prevent corporate failure and restore investor confidence. According to King III (2009: 55), "Good corporate governance is essentially about effective and responsible leadership, which calls for integrity, transparency and accountability. Leaders need to define strategy, provide direction and establish the ethics and values that will influence, and guide practices and behavior to achieve sustainable performance".

The board of directors is one of the key players responsible for bringing and ensuring sound corporate governance in a company (Tricker, 2009). Of course, a failure in a company is also attributed to a failure in corporate governance. Ayogu (2001:5) substantiates this by stating that "a crisis of governance is basically a crisis of board of directors". Colley et al. (2003) support the above view point and state that the collective problems of business today are seen in many instances as a failure of corporate governance which in turn is caused by failures of a board of directors to effectively execute their duties and responsibilities, both collectively and individually.

The collapse of Enron, WorldCom and others demonstrates the overriding need for integrity, honesty, and transparency in boards of directors which has also raised concern for increased demand on their effectiveness (Mallin, 2010). A board of directors needs to be transparent, show a high level of integrity at all times, and be responsible and accountable for their actions in order to restore confidence and achieve the desired results.

2.7.1 Roles of the Board

Boards play a crucial role in bringing about good governance if there is a system that enables them to carry out their pivotal role of directing, governing, and controlling activities of a company. Boards play important role of linking between managers and investors which at the same time is fundamental to good corporate governance and owners' relation (Millan, 2010; Monks & Minow, 2011). Boards are thus, "the overlap between the small, powerful group that runs the company and a huge, diffuse, and relatively powerless group that simply wishes to see the company run well" (Monks & Minow, 2011: 252).

Boards play strategic roles in crafting vision for a company that guides and sets the pace for its future development, formulating and reviewing strategy, and shape the direction in collaboration with management; and establish corporate values to be promoted. They also play the monitoring and control roles to ensure corporate survival and protect shareholder' interests (Ahmed, 2015). This includes hiring, evaluating and firing of CEO; monitoring and evaluating management; reporting to, and communicating with shareholders; evaluating board performance and planning board succession; ensuring compliance with statutory and other regulations; and reviewing social responsibilities.

Furthermore, boards take part in providing services in the form of advice and counseling and connecting it with the environment. In executing this role, boards provide support and counsel to CEO, assist in obtaining scarce resources, and participate in relationships with outside bodies (Millan, 2010; Ticker, 2009).

2.7.2 Duties of the Board

The roles of directors can be defined in terms of a set of duties that are charged to them, which include: the fiduciary duty (duty of trust), the duty of loyalty and the duty of fair dealing, the duty of care, the duty not to entrench, and the duty of supervision.

The Fiduciary Duty

The fiduciary role of the board of directors is a duty to act honestly, in good faith and in the best interest of those whom the directors represent (shareholders). Ahmed (2015), Monks and Minow (2011), Tricker (2009), and Colley et al. (2003) argued that fiduciary duty is the primary responsibility of directors as they are required to act honestly by providing sufficient and accurate information on issues that affect the interests of the shareholders. This duty includes elements of integrity, honesty, and competence that begin with understanding of objectives of the corporation (Colley et al., 2003). According to Tricker (2009), one of the primary responsibilities of directors is integrity as they are steward of the interests of the shareholders. Members should act in the company's interest and resist the temptation to make personal gain at the expense of shareholders.

The Duty of Loyalty and the Duty of Fair Dealing

This is the duty to be faithful when a corporate director assumes office by acknowledging that the interest of the corporation and the shareholders precede any director's interest and avoid conflicts of interest in fulfilling their duty. The underlying principle is that directors should not make use of their office to profit out of it or take personal advantages (Johnson, Daily & Ellstrand, 1996). Monks and Minow (2011:268) illustrate the issue stating that, "… if a director sat on the boards of two companies with conflicting interests ..., he would be forced to resign from one board because clearly he could not demonstrate loyalty to the shareholders of both companies at the same time". The duty of fair dealing can be considered as a subsidiary to the above demanding that corporate transactions be executed in a direct and transparent manner; fair to the interest of the shareholders (Colley et al., 2003).

The Duty of Care

This calls up on directors to act carefully, reasonably, and exercise independent judgment and skill in carrying out their duty (Johnson et al., 1996). Monks and Minow (2011), Tricker (2009), and Colley et al. (2003) state that due diligence be given in making a decision by discovering as much information as possible and considering all alternative courses of action. And the duty of care has to be relevant to the skill, experience and knowledge of the board member. Failure to exercise such care amounts to negligence in common law countries. Courts asses the duty of care within the context of the "business judgment rule" (when conflicts of interest are absent), which provides directors with the benefit of the doubt when things go wrong. That is, if directors show that they acted responsibly and with due care then courts will defer to their business judgment.

The Duty not to Entrench

The duty not to entrench is based on objective evaluation of corporate situation and board's willingness to take appropriate action when a corporation is not performing well. That is, if management does not perform well, change should be made and this has to be applied to the board if it does not perform well. Resistance to change as shown in the formation of a coalition between management and board is called entrenchment. Colley et al. (2003: 24), elucidate entrenchment by stating that "There are many […] companies with poor performance where the board and management continue in place without successfully addressing the issue-in effect, they become entrenched. It emerges as an issue when the board attempts to block a change- of- control transaction …"

The Duty of Supervision

This is an element of duty of care that oversees the operations of management, how they should control it, and what should be done when a problem manifests. In executing this duty, the board sets policies of ethics and disclosure against which the behaviors of directors and senior executives are measured. Furthermore, this requires the establishment of internal controls so that accurate reporting of what is going on in the corporation is ensured. This function is usually performed by the Audit committee of the board (Colley et al., 2003).

2.7.3 Responsibilities of the Board

The overall responsibility of a board of directors is to strategically guide, govern and control a corporation. A set of board responsibility, applicable to both unitary and dual structure, is put in the OECD principles of corporate governance (2004: 58) as follows,

> " Together with guiding corporate strategy, the board is chiefly responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the corporation. In order for boards to effectively fulfill their responsibilities they must be able to exercise objective and independent judgment''.

Moreover, the board has the responsibility to oversee organizational systems that conform to applicable legislation that includes tax, competition, labour, environmental, equal opportunity, health, and safety laws. It further states that boards have the responsibility to act in the best interest of shareholders and also held accountable to the same and the company. Their responsibility is not limited to the shareholders; in fact they are required to account for other stakeholder interests that include employees, creditors, customers, suppliers and local communities.

According to OECD principles of corporate governance (2004: 24-25), boards have the responsibility to perform key functions that include the following:

- Reviewing and guiding corporate strategy, major plans of action, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance.
- Monitoring the effectiveness of the company's governance practices.
- Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.
- Aligning key executive and board remuneration with the longer term interests of the company and its shareholders.
- Ensuring a formal and transparent board nomination and election process.
- Monitoring and managing potential conflicts of interest of management, board members and shareholders.
- Ensuring the integrity of the corporation's accounting and financial reporting systems.
- Overseeing the process of disclosure and communications.

Moreover, the board has the responsibility of ensuring that an appropriate structure (with sufficient number of non-executive board) is in place so that boards can exercise objective and independent judgment on corporate affairs.

2.8 Codes of Corporate Governance Best Practices

The critical role that corporate forms of business organizations play in a country's economy is beyond doubt. A country's competitiveness and capital accumulation is also a reflection of the competitive nature of its corporations. As a result, the issue of good corporate governance has drawn global attention. Good corporate governance has a vital role in enhancing investors' confidence and attracting new capital inflow. Good corporate governance should be incorporated as a key component of a firm's strategy but not simply to fulfill the formality for the requirements of best practices (Grove & Clouse, 2015; Jakada & Inusa, 2014).

Good corporate governance can be ensured when companies have codes of best practices that address the roles of boards, composition, fairness, transparency and disclosure, accountability and responsibility issues, to mention a few. Corporate governance codes are voluntary set of principles, standards and best practices that govern business with the objective of maximization of shareholders value (Cadbury, 1992; OECD, 2004). There is no doubt that countries that have standards of corporate governance attract more capital, build better trust and bear more positive impact on their companies than those that are short of it.

Because of the crucial role that codes of best practices play in improving corporate governance, below are presented the Cadbury report, the Basel Committee on Banking Supervision of codes of best practices for the financial institutions, the OECD global framework of good corporate governance principles and the King III code of corporate governance principles of South Africa. The former three are based on a developed economy context and a western orientation and the last one is based on a developing economy context and with an African touch. According to Jakada and Inusa (2014), the codes are general guidelines for implementing corporate governance principles based on a country’s prevalent situation as there can be no universally prescribed specific solution to structural problems, in view of differing contexts, which implies that the regulations and rules do not have to be the same for different countries.

2.8.1 The Cadbury Report

The Cadbury Report, published in 1992, is one of the reports of codes of best practices developed by the United Kingdom Committee on the Financial Aspects of Corporate Governance, chaired by Sir Adrian Cadbury. The purpose of development of the code was to promote good corporate governance. The recommendations of the Cadbury Report not only contributed to the development of corporate governance to the United Kingdom but also to other countries. The code is a voluntary code based on ‘comply or explain’ approach of implementation. That is, listed companies in the London Stock Exchange are required to state whether they are complying with the code or explain for their non-compliance. The report covers such key governance elements such as (Cadbury report, 1992):

- The board should meet regularly, retain full and effective control over the company and monitor the executive management.

- The role of the board chair, who is responsible to run the board functions, and the chief executive officer, who is responsible to run the operation, should be separated;
- The necessity of establishment of board committees which will be accountable to the board. The committees include audit committee composed of non-executive directors; remuneration committee for recommendation of directors' remuneration; nomination committee for the purpose of instituting formal and transparent procedure for the nomination and selection of new directors to the board;
- The board should be composed with majority non-executive directors of sufficient caliber so that their views will bear significant influence in the boards' decision.
- Non-executive directors should bring an independent judgment to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct.
- Directors' service contracts should not exceed three years without shareholders' approval.
- Executive directors' pay should be subject to the recommendations of a remuneration committee made up wholly or mainly of non-executive directors.
- It is the board's duty to present balanced and understandable assessment of the company's position.

2.8.2 Basel Committee on Banking Supervision

Basel Committee on Banking Supervision was established with the view to enhance understanding of key supervisory issues and improve the quality of banking supervision in the globe (Andres & Vallelado, 2008; Basel Committee, 1999). The committee was composed of banking supervisory authorities from different countries with the objective of formulating guidelines and standards in different areas that concern the best practices of banking supervision. The committee issued reports of principles and regulations as deemed necessary to ensure and enhance corporate governance practices in banks. The Committee reports are in line with OECD principles and reinforce the importance of them for banks (Basel Committee, 1999). The Basel Committee believes that to ensure sound financial system, increase monitoring efficiency and thereby a country's economic development, then, the role of corporate governance is paramount (Ahmed, 2105; Andres & Vallelado, 2008; Basel Committee, 1999). The Basel Committee on Banking Supervision reports incorporates the following basic issues (Basel Committee, 1999 and 2006),

- The need for corporate values, codes of conduct;
- A well articulated corporate strategy against which overall success of enterprise and contribution of individuals can be measured;
- A clear assignment of responsibility and decision making authority with a clear picture of the hierarchy of approval steps for individuals up to the board of directors;
- Establishment of mechanisms for the interaction and cooperation among the boards, top management and auditors;
- Establishment of mechanisms for strong internal control system that include internal and external audit functions;
- Monitoring of risk exposures especially when conflict of interest are likely to happen;
- Appropriate information flow internally and to the public

The Basel Committee reports also include the following specific practices.

- Board members should be qualified, have a clear understanding of their roles and be able to exercise independent and sound judgment in governing the affairs of the bank;
- The board and top management should understand the bank's operational structure;
- The board should approve and oversee the bank's strategic objectives and corporate values;
- The board should set and enforce clear lines of responsibility, authority and accountability in the bank;
- The board should ensure that there is appropriate oversight by senior management consistent with board policy; and
- The bank should ensure transparency in the governance process.

2.8.3 The OECD Principles

The OECD is an international body formed by 34 developed countries to produce a set of globally accepted principles of corporate governance. In publishing the elements of good corporate governance, the OECD has considered the views of the member counties on what constitutes sound corporate governance. The OECD principles provide a framework for developing and establishing a corporate governance system and practice of a country in line with its own political, economic, institutional, legal and regulatory environments (OECD, 2004). It also serves as a framework for assessing a country's corporate governance. The following are some of the key elements of the OECD's (2004) good corporate governance principles.

- The rights of shareholders
- Equitable treatment of shareholders
- The role of stakeholders in corporate governance
- Transparency and disclosure of information
- The responsibility of the boards

The Rights of Shareholders

This is one of the basic rights that states that the corporate governance framework should protect and aid the exercise of shareholders' rights. Shareholders have the right to vote, thus, corporate governance should ensure that there is one vote for one share. It ensures that shareholders have the right to vote in absentia if they cannot be present physically; should have the right for authorization of additional shares and should have the right to ask questions. Furthermore, this principle seeks ensuring that shareholders obtain relevant and material information on the corporation on a timely and regular basis. It encourages shareholders to participate in general shareholder meetings; elect and remove members of the board; and share in the profits of the corporation. Shareholders also have the obligation to use their voting rights as mechanism of ensuring sound corporate governance.

Equitable Treatment of Shareholders

A corporate governance framework should ensure equitable treatment of all shareholders in the same series of classes· It should ensure the same voting rights and equal treatment of shareholders within the same class of shares.

The Role of Stakeholders in Corporate Governance

A corporate governance framework should acknowledge the key place that stakeholders have in promoting good governance. Corporate governance should acknowledge the rights of stakeholders that are protected by law and ensure that these rights are respected. It should acknowledge that relationship with stakeholders is important for building sustainable enterprises and mutual development by fostering teamwork. Therefore, corporations should recognize the contributions of stakeholders for the long term success of the corporation and should always take into account their interests in taking decisions and actions

Transparency and Disclosure of Information

The corporate governance framework ensures transparency and disclosure of material information on a timely and accurate basis concerning the financial situation, operating performance, annual audit, and governance structure and policy, board and management members, and objectives of the company

The Responsibilities of the Board

This principle aims at ensuring the strategic guidance of the corporation, the efficient monitoring of management, and accountability of the board to its corporation and the shareholders. The principle specifically states that boards have the responsibility to act on informed basis, in good faith, with due care and in the best interests of the company and the shareholders. The board has also the responsibility to take into account the interests of stakeholders in its decisions and actions. In general board members should be able to commit themselves effectively to the responsibilities entrusted to them.

2.8.4 The King Code of Corporate Governance Principles of South Africa (King III)

As repeatedly noted in this document, corporate governance is about establishing systems, structures, processes, along with appropriate control mechanisms so as to enable upper echelon leaders to effectively discharge their responsibilities. To this effect, King Code and Report on Corporate Governance for South Africa, usually referred to as King III was developed and became effective on March 1, 2010. King III is the third report on corporate governance that replaces the previous King I and II reports. King III is based on the idea that governance issues that had been legislated have to be accepted as a minimum baseline. In line with this, Institute of directors in South Africa (2009:7) states that “Good governance is not something that exists separate from the law and it is inappropriate to unhinge governance from the law.”

King III is in line with the global corporate governance principles, such as OECD, which includes major corporate governance components in its guidelines. The code applies to all entities incorporated in South Africa regardless of their size or nature of their business. King III is based on ‘apply or explain’ self regulation basis in the sense that companies are required to explain how the codes were applied, or if not applied, explain the reasons for not applying them. South Africa has the Johannesburg Stock Exchange (JSE) market with listing requirements as an enforcing mechanism and those listed are bound to adopt King III. King III code and recommendations, among other things, cover the following corporate governance elements: Ethical leadership and corporate citizenship, roles and responsibilities of boards and executives, composition of boards, board committee, governing stakeholder relationships, integrated reporting and disclosure, and compliance with laws, rules, codes and standards (Institute of directors in South Africa, 2009).

2.9 Summary

In this chapter empirical and theoretical assessments were made on corporate governance literature relevant to the thesis. In particular, emphasis was given to the agency, stewardship, stakeholders, resource dependence and social capital views. Further the empirical studies on corporate governance structure, process and roles were reviewed

The first, second and third sections of the chapter focused on the role, mechanisms and requirements of effective corporate governance. This part discussed the role corporate governance plays in the modern economy, the common mechanisms to ensure sound corporate governance and requirements to institute effective corporate governance. The fourth section reviewed the role of the board of directors in light of the agency, stewardship, stakeholders, resource dependence and social capital perspectives. The fifth and the sixth sections of the chapter assessed the board structure and process. The assessment revealed that the relationship between the different aspects of the board structure and performance are inconsistent and inconclusive. Research on the board process is spares and this may be due to inaccessibility of the board of directors. One of the reasons for the inconsistent results of the relationship between the different aspects of the board structure and performance may be due to lack of understanding of the board process as a missing link. The seventh and the eighth sections reviewed the duties and responsibilities of boards and codes of corporate governance that included the Cadbury Report, the Basel Committee on Banking Supervision, the OECD Principles and the King Code of corporate governance principles of South Africa.

In the next chapter, a conceptual model is developed based on relevant corporate governance theories and prior research works. In line with Chapter Two, the next chapter also reviews additional empirical studies in developing the framework and generating testable hypotheses. The testable hypotheses are developed based on the conceptual framework. In explaining the framework and the hypotheses, earlier empirical studies and corporate governance theories are considered.

Chapter 3 Conceptual Framework and Hypothesis Development

3.1 Introduction

The analytical model in this chapter builds on the gaps identified in the literature (chapter two) and the relevant theoretical frameworks that provide insight to answer the research questions. To answer the research questions and meet the objectives, the study is steered by the theoretical frameworks and earlier empirical studies. The analytical framework also serves as the basis to generate and empirically test the hypotheses. In addition to the literature review made in chapter two, extensive review has also been made in this chapter in the development of the hypotheses.

3.2 Conceptual Framework of Corporate Governance

Previous theoretical discussions have revealed that corporate performance is affected by three interlinked variables (see Figure 3.1), which include:

1. The board structure that refers to board composition, director independence, and board committee. The board structure has influence on the board process i.e., the decision making activities of the board.
2. The board process refers, among other things; to the way decisions are made involving board member commitment, critical debate (process and cognitive conflicts) in board meetings, and board room behavior/activity. The board structure and process in turn have implications for the board roles or task performances.
3. The board role includes the service and control tasks (Forbes & Milliken, 1999; Huse, 2005; Minichilli et al., 2009).

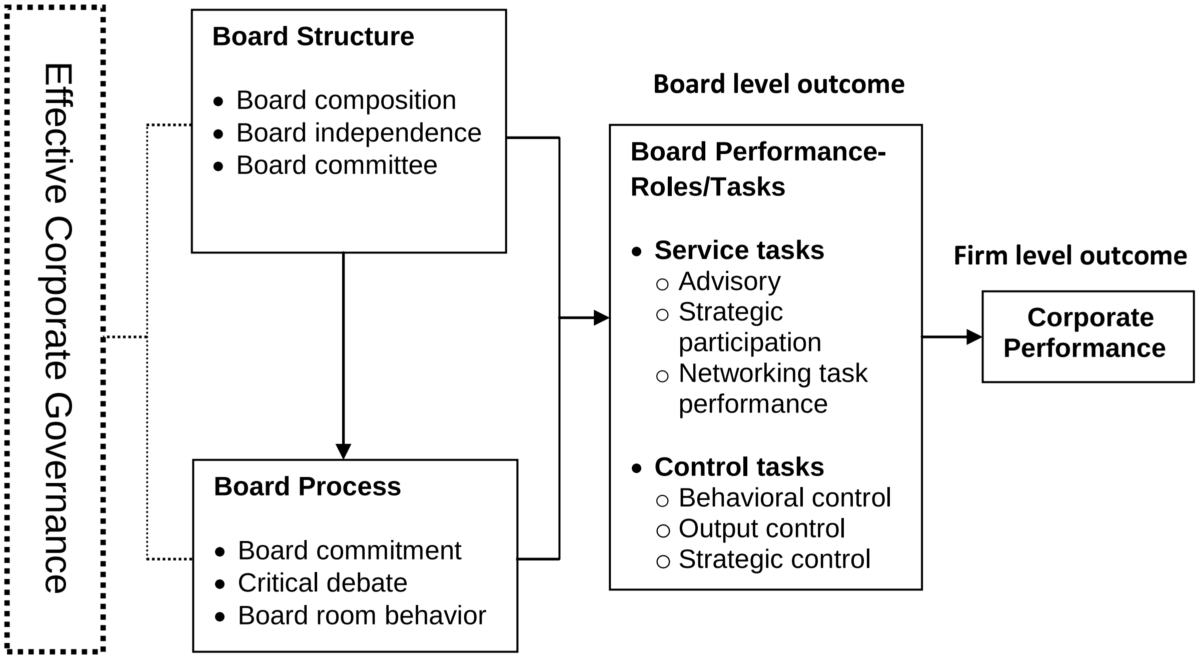

Figure 3. 1: Analytical framework of corporate governance

Source: Adapted from Forbes and Milliken (1999), Lablance and Gillies (2003), Huse (2005) and Minichilli, Zattoni, and Zona (2009).

In general, the framework adopted assumes that board performance (roles/tasks) has a direct relationship with board structure and board process. It also displays that effective corporate governance is a function of appropriate board structure and process, on which effective board performance depends. These corporate governance variables are interlinked in the sense that boards engage in right process when structural issues such as composition, independence and committee work are well addressed. The structural variables are believed to have an influence on the working of the board (process), as the decision making activity of the board benefits from boards with a mix of different backgrounds, composition, and independence (Wan & Ong, 2005). This will also have an impact on boards' performance, i.e., to diligently execute their roles and responsibilities. All these in turn impact on corporate performance (Forbes & Milliken, 1999).

The corporate governance theories discussed in Chapter Two are in one way or another linked with the three factors that affect the functioning of corporate governance from which the study benefits to have different lenses of examining the issue under discussion. The theories also shade light on the roles played by boards.

According to Minichilli et al. (2009), Forbes and Milliken (1999) and Johnson, Daily and Ellstrand (1996), boards are expected to provide board services in the form of advice and counselling and networking with the environment. A board's role in this regard has to do with the resource dependence, stewardship, and social capital theories, which argue that board of directors perform service task by bringing in different types of resources to an organization due to their diversity (co-opting outside directors) and the connections (linkage) they have with the environment. The service tasks are in the form of advice and counseling (advisory task), which is mentoring and supporting management; and strategic participation that includes initiating, formulating, evaluating, selecting, implementing strategic alternatives, and improving the quality of strategic decisions of the top management.

Boards of directors also perform control tasks (Minichilli et al., 2009; Forbes and Milliken, 1999; Johnson et al., 1996; Fama & Jensen, 1983), which is associated with the agency theory or role. Advocates of the agency theory believe that boards of directors play the control role by safeguarding the interests of shareholders from unhealthy management behavior. According to Minichilli et al. (2009), Johnson et al. (1996), Zahra and Pearce (1989), a set of related activities is performed in accomplishing the board control role that includes controlling the firm's performance, monitoring essential activities of the firm, and monitoring internal behavior particularly the CEO's behavior.

In line with the behavioral control task, boards also perform output control tasks. An output control task, according to Minichilli et al. (2009), is basically based on both agency and stakeholder theory with an external focus, which is performed through monitoring corporate financial performance. The third control task performed by boards refers to strategic control, which is based on the agency theory having a strategic focus. This is primarily concerned with evaluating and monitoring strategic decision making.

3.3 Hypothesis Development

3.3.1 Board Structure and Board Service and Control Task Performances

The need for corporate governance becomes evident in corporate forms of organizations where ownership and control are separate giving rise to the agency problem, which for the first time was identified by Berle and Means (1932) as resulting from the separation of ownership and control.

The agency problem occurs because of dispersal of shareholding ownership in corporate forms of organizations, in which a typical shareholder may not show interest in the day-to-day affairs of a company. Likewise the thousands of shareholders that make up the majority of owners may demonstrate the same behavior as the typical shareholder, resulting in agency cost. The agency cost results when those who are directly interested in day-to-day affairs, the management, have the ability to manage the resources of companies to their own advantage without effective shareholder control (Berle & Means, 1932). This situation is explained in terms of the key theoretical lens of the agency theory, which is a dominant theory in corporate governance studies (Jensen & Meckling, 1976; Fama, 1980; Fama & Jensen, 1983; Hermalin & Weisbach, 1991; Dalton, Daily, Ellstrand & Johnson, 1998; Dulewicz & Herbert, 2004; Grant, 2007; Anderson, Melanson & Maly, 2007; Minichilli et al., 2009; Yusoff & Alhaji, 2012). The agency problem makes both accountability and governance assume a greater significance and have emphasis in corporate organizations. It is this context that brought boards into play as one major internal governance mechanism to overcome the agency problem and thereby maintain effective organization (Fama & Jensen, 1983). These authors also view the board of directors as the top most important internal decision control system of firms. Furthermore, the resource dependence theory views outside board of directors as key board members that link the firm with the environment and help bring important resources which may not be available in the firm. They also provide services in the form of advice and counsel based on their experience and exposure. Their networking with the environment, in addition to resource generation, enhances corporate image and reputation (Daily & Danton, 1993).

As stated above, one of the internal governance mechanisms is to have an appropriate board structure that is explained in terms of composition, independence and committee functioning (Fauzi & Locke, 2012). Andres, Azofra and Lopez (2005), underline the importance of board committee as one factor that potentially affects the way boards operate by explaining their impacts on firm performance if they are omitted. The debate on corporate governance largely centers on the board characteristics, especially size and CEO duality in the context of developed economies (Hermalin & Weisbach, 1991; Daily & Dalton, 1993; Dulewicz & Herbert, 2004; Andres et al., 2005). The research focusing on developing economies is scant; particularly the study on the relationship between board composition, board independence, and board committee, the individual association of which with board performance, is not well established (Fauzi & Locke, 2012). It is clear that the system of corporate governance has to be context-specific, which should be based on a particular country's economic, legal, institutional framework, and cultural factors (Weimer & Papa, 1999; OECD, 2004). Garg (2007) also stated that board structure might have different relationship with firm performance in transition economies as opposed to western economies as there are differences in institutional contexts.

Therefore, in helping to overcome the agency problem, the make-up of boards and institutional contexts vary considerably from country to country, which might result in different relationships between structure and performance. For example, the recommendation by the National Bank of Ethiopia (NBE) about the composition of boards is totally in favour of a non-executive (outside) board of directors (Ethiopia Proclamation no. 592/2008, 2008) unlike the King Committee (2009), the OECD (2004) and the Cadbury Report (1992), all of which advocate for both executive and non-executive directors but with a majority of non-executive board of directors. Thus, this study limits itself to examining whether proper board structure (composition, independence, and committee) influences board performance. Emphasis is given to the above structural components as there are no CEO duality and executive (insider) directors in the Ethiopian banking context. The researcher recognizes other aspects of structural variables like CEO duality, size, and insider/outsider boards that have been examined extensively though the findings between these structural variables and firm performance have equivocal results (Minichilli et al., 2009; Dalton & Daily, 1999; Johnson et al., 1996; Zahra and Pearce, 1989). It is, therefore, hypothesized that,

H1a: A *board with proper structure is positively and significantly related to board service task performance; and*

H1b: *A board with proper structure is positively and significantly related to control task performance.*

3.3.2 Board Structure, Board Process and Board performances

The model in section 3.2 illustrates that the board process encompasses three constructs: board commitment, critical debate and board room behavior/activity. According to Minichilli et al. (2009:60), the board members' commitment implies,

"… preparation before meetings and the involvement during meetings. The board members' *preparation* refers to their willingness and ability to participate in board meeting with a deep knowledge of the topic to be discussed in order to actively contribute to the decision making process … The board members' *involvement* during meetings refers to the effort they devote during discussions and in the follow up of the decisions taken during the board meetings."

The second construct in the board process is board members' critical debate that relates to the task-related disagreements resulting from differences in opinions. Critical debate reflects the exchange of ideas, information and the examination of issues from different perspectives. This exercise can improve the strategic decision making process and the quality of the decision (Minichilli et al., 2009). The board room behavior, the third set of variables in the model, is expressed in terms of the board room's internal atmosphere at board meetings, the length of board meetings to attend to relevant issues, equal opportunity for board members to discus and ask questions and the chair's ability to lead meetings well with a clear focus on the major issues. Minichilli et al.'s (2009) empirical study shows that process variables such as commitment and critical debate have positive influence on board service and control task performances. Following these results, two hypotheses are established.

H2a: *Board process has positive and significant relationship with board service task performance;*

H2b*: Board process has positive and significant relationship with board control task performance.*

The model also takes board process as an intervening/moderator variable between structure and performance following the arguments by Wan and Ong (2005), Forbes and Milliken (1999), and Johnson et al. (1996). Previous researches studying corporate governance focused on board structure more than board processes, and this could be due to the inaccessibility of board members as they are extremely busy. The strong need to study board process emanates from the fact that process is a reflection of the structure. The way boards operate, their commitment, and decision process would highly depend on structural variables such as composition, independence and committee functioning. To know what is going on in the board room, it is very important to get first hand information of the board process and this is possible only by accessing the board of directors who play a major role in directing, governing, and monitoring a company's affairs. Beyond board structure, to better understand board performance, about which the empirical literature has been inconclusive, governance scholars advise that the black box be uncovered to see its relationship with performance. In line with this, Buchanan and Huczynski (2010) in their organizational behavior book, argue that performance should be approached as a function of structure and process. Accordingly three hypotheses are formulated in this regard:

H3: *A properly structured board has positive and significant relationship with board process;*

H4a: *The board process mediates the relationship between board structure and board service task performance;*

H4b: *The board process mediates the relationship between board structure and board control task performance.*

3.3.3 Ownership Type and Board Performance

Chapter one section 1.4 which presented the problem statement emphasized the noticeable differences observed in corporate governance practices of the private and state owned banks in terms of election and composition of board of directors. That is, privately owned banks are structured and monitored by the board of directors elected by the shareholders; whereas state owned banks are governed by a board of directors composed of senior officials that are appointed by the government (Okeahalam & Akinboade, 2003). The current practice of election versus appointment (ownership structure) is expected to bring variation in board demographics, board process and ultimately board service and control task performances. In line with this argument, the study attempts to investigate whether ownership type has a moderating effect on board service and control task performances due to the difference in structure. Thus the following hypotheses are formulated:

H5a: *Type of ownership does not moderate board service task performances.*

H5b: *Type of ownership does not moderate board control task performances.*

3.3.4 Ownership Structure and Firm Performance

Financial performance is one of the measures of firm performance, which in effect, is the measurement of the outcomes of a firm’s policies and operations. To evaluate the financial performance of a firm, one should look into the income statement and balance sheet. These reports demonstrate the status of financial operations and net worth of a firm, respectively. The impact of ownership structure on firm performance has become the center of attention in the corporate governance literature (Rahman & Reja, 2015; Ongore & Kusa, 2013; Bokpin, 2013; Fauzi & Locke, 2012; Ongore, 2011; Arouri, Hossain & Muttakin, 2011; Cornett, Gou, Khaksari & Tehranian, 2010; Zeitun, 2009; Zeitun & Tian, 2007; Bhaumik & Dimova, 2004; Sun, Tong & Tong, 2002; Morck et al., 2000; Sarkar & Sarkar, 1998). However, the empirical studies on the relationship between ownership structure and firm performance have resulted in mixed and inconclusive outcomes. For example, Ongore (2011) concludes that ownership concentration and government ownership have significant negative relationships with firm performance while diffuse ownership has significant positive relationship with firm performance. Mule and Mukras (2015) and Arouri et al. (2011) findings are also consistent with Ongore's with regard to ownership concentration. Zeintun and Tian (2007) and Bhabra (2007) found that ownership structure has significant effects on a firm's financial performance. The empirical evidence of Kapopoulos and Lazaretous (2007) suggests that a more concentrated ownership structure positively relates to higher firm profitability where as Demsetz and Villalonnga (2001), and Demestz and Lehn (1985) found no significant relationship between ownership structure and firm performance. Aburime's (2008) study of Nigerian banks also shows that ownership structure has no significant impact on profitability.

Several attempts have also been made to study financial performances in light of public and private forms of ownership. Empirical studies (Kapur & Gualu, 2012; Micco, Panizza & Yanez, 2007; LaPorta, Lopez-de-Silanes, Shleifer & Vishny, 2002) show that private banks that operate specially in developing economies have higher profitability compared to public (state-owned) banks. Berger, Clarke, Cull, Klapper and Udell's study (2005) of Argentinean banks found strong evidence indicating that state-owned banks have poor long-term performances. An international comparison of performances of privately-owned versus state-owned banks by Cornett et al. (2010) demonstrated that state-owned banks operated less profitably than privately-owned banks prior to 2001. The study of Lannota, Nocera and Sironi (2007) also confirmed that government owned banks are less profitable compared to privately owned banks. A more recent study by Rahman and Reja (2015) on the ownership structure of banks shows that government ownership is significant to return on asset (ROA), that is, a high level of government ownership decreases performance. On the contrary, Bonin, Hasan and Wachtel's (2005) study of transition countries shows that government-owned banks' performances are better than the domestic private bank's while Najid and Rahman (2011) found a positive relationship between government ownership and performance.

Kapur and Gualu (2012) have specifically studied the impact of ownership structure on the performance of eight Ethiopian commercial banks from 2001 to 2008 period. They used parametric and nonparametric tests of the differences of financial performances between private and public banks. The results showed that the profitability of private banks is better than their public counterparts. Kiyota et al., (2008) also analysed the performances of state-owned vis-a-vis privately owned banks and found that state owned banks were less efficient. In line with the above, Zeitun and Tian (2007) and Zeitun (2009) examined whether ownership affects a firm's performance in accounting terms and found that government ownership is significantly and negatively related to a firm's accounting performances. But, Sumon and Dimova (2003) argue that in a proper market where firms are subject to competition, firms can operate efficiently regardless of being private or public holdings, that is, ownership is no longer a significant determinant of performance. Given the diverse results of the relationship between ownership structure and firm performance, this study will empirically examine whether profitability of banks differ due to the difference in ownership structure, in an emerging economy setting, by establishing the following hypothesis.

H6: *There is no significant difference in the return on average asset (ROA) between private and public banks due to the difference in ownership structure.*

3.4 Summary

This chapter presented the conceptual framework on the basis of which the hypotheses were developed. The conceptual framework was developed based on existing major corporate governance theories that include the agency, stewardship, stakeholder, resource dependence, and social capital theories. Furthermore, the literature and frameworks of Forbes and Milliken (1999), Lablance and Gillies (2003), Huse (2005), and Minichilli et al. (2009) were considered in developing the conceptual model. The chapter explained how the conceptual model was developed and the link to the exogenous and endogenous latent variables by formulating a total of eight hypotheses. The hypotheses developed are empirically tested in Chapter Eight. The next chapter discusses the research methodology and tools used to operationalize the conceptual model before testing the hypotheses empirically.

Chapter 4 Research Methodology

4.1 Introduction

This chapter deals with methodological issues that, among others, include philosophical foundations of the research, approach (design) to the study and the specific research methods chosen. It also includes research strategy, time horizon, techniques and procedures and justifications for their appropriateness. In order to show the links that these research components have in the research process, the research-process onion developed by Saunders, Lewis and Thornhill (2009:108) is adopted.

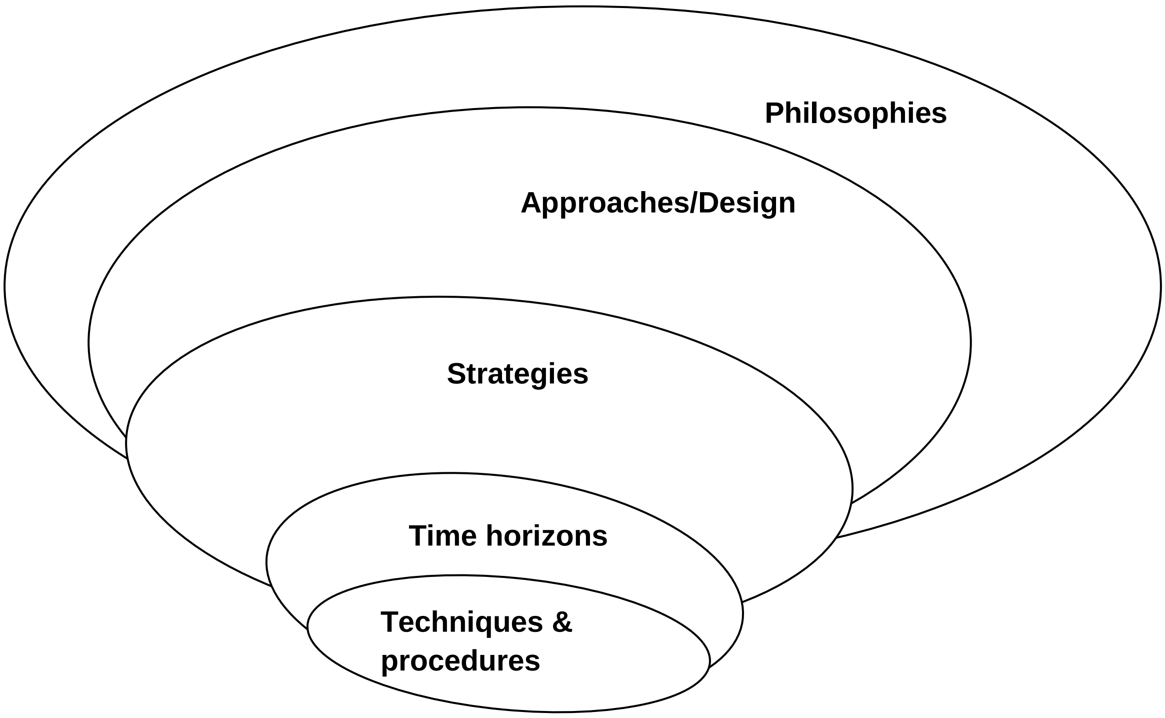

Figure 4. 1: The research – process 'onion'

Source: Adapted from Saunders et al. (2009).

4.2 Research Philosophy

According to Saunders et al. (2009) and Creswell (2009), before delving in to design and choice of methods, researchers need to focus on the importance of understanding and defining the research philosophy (basic beliefs/world view) that steers the study. Research philosophy refers to "the development of knowledge and the nature of that knowledge" (Saunders et al., 2009: 107). They further explain that the research philosophy adopted for a certain study contains fundamental assumptions about how the researcher views the world. The assumptions about the world view support the research strategy and method chosen for the study (Hall, 2003; Gray, 2009; Saunders et al., 2009; Creswell, 2009).

Accordingly, the philosophical choice for this study is both positivism and interpretivism as the research questions fall into the two philosophical domains. As these ontological stances influence the research process, the mixed methods, both quantitative and qualitative, are highly appropriate for the study because the research questions do not clearly fall only into one of the research philosophies (Saunders et al., 2009). Therefore, the ontological positions for the research are both objectivism and subjectivism. Objectivism assumes that social entities exist in reality external to the social actors vis-a-vis the subjectivism stance that states that social phenomena are created from the perception and actions of the social actors. This study has taken the two positions for the following reasons:

- The Ontological position for this study is dominantly objectivism because the board of directors, as an organogram, in a corporate form of organizations is a reality separate from the members that live in that reality. Board of directors is a reality that exists in corporate forms of organizations (be it public or private) where ownership and control are separated. To fill the gap, there is always a need for a board of directors with proper structure, process, roles and responsibilities regardless of changes in members. The structure is a reality to be discovered that is separate from the members that perceive that reality.
- It is partly subjectivism because it is important to study and understand the perceptions, feelings, and individual meanings that boards, owners and stakeholders attach to their roles and the way the board members and owners think how boards should be structured, engage in the board process, and execute their roles.

4.3 Research Approach/Design

The main aim of this study is to investigate and analyze the impact of corporate governance on the performances of private and public banks. In doing so, the study will explore, describe, and critically examine the board structures, board processes and responsibilities, and ultimately their impacts on board tasks and firm performances.

As the research questions and objectives are mainly descriptive and exploratory, the research involves describing and exploring the system of corporate governance in the context of the different ownership structures – public and private. It is a descriptive study because it will depict corporate governance practices/situation and gives meanings and draws conclusion from the data that are described. It is exploratory as it will find out what has happened and is happening and assess corporate governance practices in light of standards, shareholders, boards and stakeholders views in the different ownership structures.

The research, as stated above, draws up on the positivist and interpretvist paradigms and it is based on deductive reasoning to explore and analyze what the various data sources will reveal. This study is, therefore, motivated towards using a mixed method to triangulate information from various data sources and have an in-depth understanding of the subject of inquiry. As Saunders et al. (2009) argue, the mixed method also gives room to evaluate the extent to which findings of the research and inferences made can be trusted as the two of them complement each other.

The quantitative method, which expresses the assumption of the positivist paradigm, will be used to examine and measure the relationships between corporate governance variables (see details in section 4.4.5). The qualitative method, which reflects the phenomenological paradigm, will also be used in order to provide sufficient details about the study situation (Leedy & Ormrod, 2010). Creswell (2009) states that in qualitative research there is no necessarily single truth to be discovered, rather there might be numerous views reflected by different participants having equal truth. Therefore, the qualitative approach is employed to explore, describe and understand corporate governance practices from the participants' viewpoints.

Advocates of the mixed method argue that in order to capture the complexity of phenomena and give sense to meanings, a more complex research design is important (Creswell, 2009; Teddlie & Tashakkori, 2009). Thus using the mixed method approach has the advantage of maximizing the benefits from both. That is why this approach is selected to study corporate governance practices of the Ethiopian banks.

4.4 Research Strategy

The study of corporate governance involves examination and analysis of complex structures, processes, dynamic relationships between multiple stakeholders, and ultimately the impacts on the performance of corporate firms. Research that deals with such a complex subject needs to find out in-depth information that uncovers detailed characteristics of the issues so that dynamic and complex phenomenon can be captured. A research strategy capable of handling such a complex issue is the case study method.

Case study, as a strategy, is an empirical method of inquiry that investigates a contemporary phenomenon within its real-life context (Robson, 2002); thus, it is an essential method that is capable of capturing a dynamic and complex phenomenon. Case study is an ideal method when “how”, “why”, and “what” questions are being posed, and when a holistic and in-depth investigation is needed (Yin, 2003; Saunders et al., 2009). Case method is most appropriate when the research aims to cover not only the phenomenon of study, but also the contextual conditions from the view points of participants (Yin, 2003; Bartex & Jack, 2008; Leedy & Ormord, 2010).

Case study gives special attention to completeness in observation, reconstruction, and analysis of the cases by incorporating the views of the actors in the case under study (Tellis, 1997a). Thus, it enables multi-perspectival analysis that considers relevant groups of actors and their interactions. Moreover, case study promotes triangulated research through the adoption of multiple data collection techniques (questionnaire, interview, document analysis and observation) to seek information from multiple sources (Yin, 2003; Tellis, 1997b; Saunders et al., 2009). Hamel et al.(1993) and Yin (1994) as cited in Tellis (1997a) argue that a study that focuses on exploring, describing, understanding, and explaining relationships between phenomena/actors and the results thereof can best be achieved through a case study. This argument is further strengthened by other authors that recommend that case study as a research strategy can be used for descriptive and exploratory purposes (Yin, 2003). Therefore this research strategy is appropriate for this study as it aims at making context specific analysis, conclusions, and recommendations.

The banks covered by this study operate in the public and private domain. In recent times, malpractices, conflicts of interest, divisions, hostilities among boards’, interference of regulatory body, and also losses of trust of shareholders have become common to observe. The research aims to uncover the how and why of such occurrences. Moreover, the current practice of setting boards by appointment and election in the public and private banks, respectively, is expected to affect the board's composition, diversity, role, integrity, transparency, accountability, process, and thereby performances. Thus, the research adopted a comparative case study method to capture the whole dynamic processes and relationships in the context of public and private banks. According to Tellis (1997a: 4), "case study evaluation can cover both process and outcomes, because they can include both quantitative and qualitative data". Thus, in this study, the structure, processes and performances will be explained through quantitative statistical results and contexts are to be explained through qualitative data.

Case study can be designed for a single or multiple cases. In this research, 17 banks are selected and thus, a multiple comparative case study design is adopted. The cases however, are grouped into two; public and private banks. Multiple comparative case studies are preferred to a single case study since evidence from multiple cases are often considered more compelling (Yin, 2003). Furthermore, a multiple comparative case study enables to make comparisons in order to explore similarities and differences within and between cases that will enable to make generalization about the analysis based on corporate governance theories (analytical generalization) but not the population (Yin, 2003; Baxter & Jack, 2008).

Case studies are selected based on certain criteria. Corporate firms prevail in different sectors of the economy and the banking sector is selected for this study. This sector, composed of limited liability companies, is selected for various reasons, which among others, include:

(1) It is in this sector that ownership and control are well separated,

(2) It involves diversified ownership (public vs. private) and board structure (appointed vs. elected),

(3) The sector, compared to other sectors, has longer years of accumulated experience of corporate governance.

(4) Banks, as financial intermediaries, are vulnerable and sensitive to bad corporate governance practices. Thus, the agency, stewardship, stakeholders, resource dependence and social capital theories can better be applied.

(5) Preliminary survey by the researcher about the corporate firms in the country

revealed that, as compared to other sectors, the banking sector has relatively sufficient and organized data as well as better levels of awareness about corporate governance.

4.5 Time Horizon and Sampling Procedures

4.5.1 Time Horizon

In this study, the potential respondents were boards of directors, board secretaries, CEO and groups of stakeholders of both private and public banks. These are high profile, busy and hardly accessible people with a tight time schedule. This makes a longitudinal survey design undesirable but the cross-sectional survey desirable for the study.

The study, therefore, is a cross-sectional one because the information was collected using questionnaire and interview and then analyzed over a relatively short period of time, with the intention of determining possible relationships but not to test causality relationships.

4.5.2 Sampling Procedures

There are different sampling techniques which can be classified into two broad categories as probability/representative and non-probability/judgmental sampling. This research adopted non-probability sampling techniques, which are most appropriate for exploratory research especially when the research questions require an in-depth study (Saunders et al., 2009). Non-probability sampling is a technique applicable in a situation in which the chance of each case being chosen from the population is not known. Therefore, selection is based on subjective judgment and this makes it difficult to make statistical inference about the population from a non-random sample.

From among the non-probability sampling techniques, this research selected the purposive sampling type since it enables the researcher to use his judgment to select sampling units that would best enable to answer research questions and meet objectives. It is best applied in a case study research with a relatively small sample of informative cases (Saunders et al., 2009).

As has been stated in chapter one section 1.7, this study has two parts, main study (hypothesis testing) and exploratory (descriptive) study. For these studies, the unit of analysis is banks in Ethiopia and the target population is board of directors of banks and stakeholders that include shareholders, members of parliament (MP), employees and regulatory agencies. Accordingly, two groups of samples, for the main and exploratory studies, were considered in the survey. The first group (Sample-1) consists of the boards of directors of private and public banks, board secretaries and presidents (CEO) of the Ethiopian banks. The choice to have these respondents as key informants in the study is that these people are considered knowledgeable about corporate governance issues as they are the key drivers of corporate forms of organizations. Especially CEOs are in a better position to report about boards of directors (Minichilli et al., 2009). The second group of samples (Sample-2) involves stakeholders that include shareholders[4], parliamentarians, private and public bank employees, regulatory and supervisory bodies.

The study involves both private and public banks, in which ownership is used as a basis for stratification. The total number of public banks is only three; as a result, all of them are considered and constitute one group while the private banks constitute the other group. The private banks are further stratified on the basis of years of service in operation. In the interest of encompassing one term of board tenure as well as data availability, at least three years of service was taken as a minimum requirement for inclusion in the study. Thus, private banks that have been operating for less than three years were excluded from the study. The total number of private banks is sixteen out of which fourteen banks, which have been in operation for at least three years, were selected purposely. The purpose of the selection was guided by experience, availability of data, and willingness to provide information.

4.5.3 Data Type, Sources, and Instrument Design

4.5.3.1 Data Type and Sources

As stated earlier, this study adopted a mixed research approach and a case study method which enable the use of multiple data collection techniques from multiple primary and secondary sources. It is believed that using both qualitative and quantitative data collection techniques help to obtain sufficient information, strengthen the validity and quality of data and ultimately the research findings.

Both primary and secondary data sources of information are vital in a multiple-case study in order to have a wider perspective and make an in-depth analysis of the

[4] Annual general meetings (AGM) are usually conducted over the months of October and November and the researcher exploited this opportunity to collect data from the shareholders during their AGM.

corporate governance practices in its context. Accordingly, primary and secondary data were collected both from the primary and secondary sources in order to arrive at a sound conclusion about the relationship between corporate governance variables and performance in public and private banks in Ethiopia.

4.5.3.1.1 Primary Data Sources and Structure of Survey Instrument

Current and former board members and CEOs, shareholders, MPs, employees and supervisory and regulatory agencies were important primary data sources in this study. Primary data collection tools include survey questionnaire and interview. Saunders et al. (2009) state that using multiple data collection techniques in the same research has advantages in obtaining sufficient and triangulated information.

Questionnaires

Though questionnaires as data collection instruments are commonly used within the survey strategy, case study research can also use them. Questionnaires can be used for descriptive research such as attitude and opinion surveys. Questionnaires as data collection tools fall in the domain of quantitative study (Saunders et al., 2009).

In this study ‘delivery and collection of questionnaires’ (Saunders et al., 2009:363) was employed as another main technique. Accordingly, survey questionnaire was prepared and distributed to board members, board secretaries and presidents/CEOs of the banks under study. In order to measure the attitude and degree of confidence of shareholders and MPs about the effectiveness of the corporate governance system, another set of questionnaires was developed for the sampled shareholders and MPs. Similar questionnaires were also used for employees of sampled banks and regulatory agencies to triangulate the perceptions of professionals and other stakeholders (See Appendices 4.2a, 4.2b and 4.2c). Delivery, follow-up, and collection were done by the researcher in order to increase the response rate. Details are given in Chapter Seven section 7.3.

The questionnaires that were developed and distributed to the board of directors, secretaries and CEOs consisted two sets of questions: the first part focused on the background information, which included questions on the profiles of the respondent and the bank. The second part concentrated on the main issues of the board structure, board process and board performance variables. In the structural variables of the second set of the questionnaire, questions regarding board composition, board independence, and board committees are addressed. The board process part of the questionnaire is composed of three sets of questions focusing on commitment, critical debate and boardroom activities. The questionnaire that contained questions on the role of boards was divided into two sections that addressed service and control roles respectively. The service and control roles are measured each through three sets of variables: advisory, networking, and strategic participation; and the control role using behavioral, output, and strategic control variables.

Furthermore, there are measurement questions on the responsibility of boards and their leadership. Questions on disclosure of information, board independence, shareholders' rights, and role of stakeholders are included. To capture the views of stakeholders on the corporate governance system, a survey questionnaire that focused on shareholders' rights, corporate performance, strategic issues, board independence, and role of stakeholders was prepared and distributed to the key stakeholders.

Interview

Interview as a data collection instrument may be employed in both quantitative and qualitative studies. There are different types of interview as used in quantitative and qualitative studies. These include; structured interviews, semi- structured interviews, and unstructured interviews (Saunders et al., 2009; Leedy & Ormrod, 2010). This study used semi-structured interview as the main research categories are descriptive and exploratory in nature. The semi-structured interviews help to reveal and understand the 'what' and the 'how' but also to place emphasis on exploring the 'why' (Saunders et al., 2009:321). The semi-structured interview will also provide an opportunity to the interviewee to discuss issues of interest which might be significant for the researcher's understanding and which may at the same time be helpful to address the research questions. Furthermore, using interviews as an instrument in this mixed method research may be helpful in validating findings from the questionnaire. In collecting the relevant data, the researcher employed an interview guide format.

Accordingly, in this study, semi-structured interviews were conducted with different groups of key informants, which included: board members, board secretaries and presidents/CEOs of sampled banks. Such varied groups of interviews were designed with the objective of preventing heavy dependency on a single informant and triangulating the information from different sources, which enhances validity. The researcher did not obtain the consent of the respondents to audio tape the interview; as a result, there was total reliance on note taking with noted attendant risks of losing the flow of conversation and some points. The interview questions mainly focused on seeking information on board members' commitment to good corporate governance practices, their role in assurance of sound stewardship, board structure, functioning of the board of directors and issues on transparency and disclosure (see Appendix 4.2d). Details are given in Chapter Seven section 7.6.

4.5.3.1.2 Secondary Data Sources

Secondary data are both quantitative and qualitative as used in descriptive research. As Saunders et al. (2009:258) state, in 'business and management research such data are used most frequently as part of a case study or survey research strategies, including archival research …'

In this study, secondary sources such as statistical reports, annual reports, journal articles, books, official reports of regulatory agencies, news papers, and periodicals were collected and analyzed through desk review. In spite of the attempts made to review other documents that are relevant to the study (such as minutes of board of directors and management, reports of shareholders, letters, memoranda, administrative reports), the researcher did not get the chance to access anyone of them due lack of permission by the banks. In regard to those documents that have been collected, attempt was made, as much as possible, to evaluate the accuracy and consistency of the documents and records before using them.

4.5.3.2 Instrument Design/ Development

Instrument development is an important process in research methodology in order to operationalize the constructs of the conceptual model (Chapter 3) in a measurable and quantifiable way. The choice of design depends on what is to be answered and the depth one needs to probe (Adams, Khan, Raeside & White, 2007). The importance of this process is also emphasized by Greener (2009) that well designed questionnaires are the skeleton of any good research study. Leedy and Ormrod (2010:91) further explain its importance by stating that, "Measurement instruments provide a basis on which the entire research effort rests. Just as a building with a questionable foundation is unlikely to be safe for habitation, so, too, will research efforts employing faulty measurement tool provide little of value in solving the problem under investigation." Therefore, a measurement instrument should be reliable to yield consistent results in comparable situations and be valid in a way that the instrument measures what it actually intends to measure (Leedy & Ormrod, 2010).

Based on Adams et al. (2007), Greener (2008) and Churchill (1978), a procedure for developing better instrument, among others, includes specifying the constructs based on literature search, generating a sample of items to operationalize the constructs, and pre-test them using a panel of experts' (POE) comments in order to purify the measure before using the instrument for actual data collection. This process of instrument design helps to enhance content validity by minimizing the possibility of measurement errors of the instrument. Below, the activities carried out and measures taken to purify the survey instrument before the actual data collection are detailed.

4.5.3.2.1 Survey Instrument Development, Pilot Testing and Fine-tuning of Instrument

The study has two parts: the main study which focused on the upper echelon leaders largely composed of the board of directors, and a sideline study that examined corporate governance practices and perception of stakeholders.

The main study examines the relationships among three major constructs: board structure, board process and board performance. These constructs involve eleven latent variables. The board process and performance latent variables items are customized from prior studies and board structure latent variables largely formulated based on theoretical foundations. Based on Minichilli et al. (2009) and Wan and Ong's (2005) prior studies, commitment, critical debate, board performance items were retained and two new items added to strategic participation to enhance its measuring power/ dimension. Reliability and validity tests were performed at both item and construct level in the measurement model of section 6.2.

The following are some of the items adapted and their sources. Composition items which have not been validated in prior research were obtained from the World Bank (2011); OECD (2004), King III, Board Evaluation Questionnaire and Proclamation number 592/2008. Board independence items are adapted from World Bank (2011) and OECD (2004). Board committee related items are adapted from

Nam and Nam (2004), OECD (2004) and Proclamation number 592/2008. Board composition, independence, and committee consist of a total of 19 items; of which 11 items measure board composition, three items independence and five items committee, on a five point likert scale, using a “strongly disagree” to “strongly agree” format. Both board independence and committee variables were not validated in prior research. Board process and board role variables, which are rated on a five point Likert scale anchored from “strongly disagree” to “strongly agree” were adapted from and validated in the works of Minichilli et al. (2009) and Wan and Ong (2005). Appendix 4.1 provides further details of the main constructs, variable’s name, operationalization/ measurement items adapted and their sources.

To ensure content validity, the measurement scales were tested on different groups with the expertise and experience on corporate governance. The group involved five scholars who work at Addis Ababa University and one experienced practitioner and consultant. Three members of this group have served as board members in public and private banks. One member of this group is also a statistician and researcher.

The group of experts commented in writing on each questionnaire item and gave their overall assessment on the instrument’s clarity, understandability and relevance to the research context. Up on the initiatives of the experts, meetings were also held with each of them for further clarifications and understanding of the instrument. Each discussion took an average of one hour and three of the meetings were held in the researcher’s office and the other three in the offices of the experts.

Overall, the general impression of the group was that the tool is usable with minor refinements. Minor improvements such as rewording, rearrangement of items, and clarification of technical words were made based on the pre-test feedback from the panel of experts. Following the panel of experts’ pre-test and subsequent refinements, the instrument was pilot tested with a board of directors and board secretaries.

The pilot runs were carried out with four boards of directors and one board secretary. The survey instrument was hand delivered by the researcher. Two weeks later, scheduled face -to- face meetings were held with each of them to discuss the wording of the survey questionnaire, its clarity, understandability and relevance to the research setting. The meetings with each of them took roughly one hour and thirty minutes. Overall, the above validation process (pre-tests and pilot runs) resulted in minor amendments that included shortening of items, explanation of technical words, and rewording and sequencing of items in the questionnaires. (Appendices 4.2a, 4.2b, and 4.2c provide the final research instruments made ready for the survey).

4.5.3.4 Data Collection Techniques

Data were collected from boards of directors, board secretaries, CEOs and stakeholders (Shareholders, MPs, and employees, supervisory and regulatory bodies) using survey questionnaire methods. Semi-structured interviews were also conducted with different groups of key informants, which included: board chairpersons/members, secretaries and Presidents/CEOs and shareholders of sampled banks.

A total of 556 questionnaires were distributed by the researcher to Sample-1 and Sample-2 concurrently. The sampled respondents were heterogeneous, and covered all categories, in order to have a representative view. Of the 556 questionnaires, 154 were distributed to Sample-1 and 402 to Sample-2. In Sample-1, members of the senior corporate leadership that included all members of the board of directors, board secretaries and the Presidents/CEOs of the public and sampled private banks were subjects of the study. In order to have a clear picture of the governance process during their tenure, attempt was also made to include former board members from the public and private banks. The distribution of the questionnaire to the board members was done through the board chairpersons, board secretaries, and the researcher as convenient. A letter of support from the College of Business and Economics of the Addis Ababa University, where the researchers works, was attached in order to get the necessary support from all concerned during all steps of the questionnaire distribution and collection (see sample letter of support in Appendices 4.3a and 4.3b). The table below shows the number of questionnaires distributed to board members and Presidents/CEOs by ownership type.

Table 4.1: Number of questionnaires distributed to Sample-1

Bank's name	Type of ownership and number of questionnaires distributed to BOD , board secretaries and CEOs	
	Private Bank	Public Bank
Commercial Bank of Ethiopia (CBE)		11
Development Bank of Ethiopia (DBE)		10
Construction and Business Bank (CBB)		9
Awash International Bank (AIB)	12	
Dashen Bank	8	
Bank of Abyssinia	10	
Wegagen Bank	9	
United Bank	10	
Nib International Bank (NIB)	12	
Cooperative Bank of Oromia (CBO)	8	
Lion International Bank (LIB)	12	
Zemen Bank	10	
Oromia International Bank OIB	9	
Bunna International Bank	6	
Berhane International Bank	6	
Abay Bank S.C.	5	
Addis International Bank S.C	7	
Total	154	

In Sample-2, 402 survey respondents that included shareholders, members of the parliament (MPs), employees of the case banks, and Regulatory and Supervisory Agencies were purposively selected as important stakeholders from the respective domains of banks for their views about corporate governance. 51 (≈10% of 547 members) questionnaires were distributed to Members of Parliament (MPs) as representatives of public interest. The MPs include members of the Public Accounting Affaires Standing Committee (20), Budget and Finance Affairs Standing Committee (20), Justice and Administration Affairs Standing Committee (6) and

Human Resources Development Affairs Standing Committee (5). Five questionnaires each were also distributed to Regulatory and Supervisory bodies at the National Bank of Ethiopia (NBE) and Public Financial Enterprises Agency (PFEA), respectively. In addition, 75 questionnaires were distributed to public bank employees. In regard to the private bank domain, 120 and 146 questionnaires were distributed to shareholders and employees, respectively.

Administration of the questionnaire to the shareholders was made by the researcher during a shareholders' annual general meeting based on their willingness, recognition of their knowledge, and information about corporate governance in their banks as well as their accessibility whereas the distribution to public and private employees was done by the concerned offices of the banks. The following table details the categories of stakeholder respondents to whom the questionnaires were distributed.

Table 4. 2: Number of questionnaires distributed to Sample-2

Bank's name	Type of ownership, categories of respondents & number of questionnaires distributed			
	Private Bank		Public Bank	
	Shareholders	Employees	MPs	Employees
Commercial Bank of Ethiopia			51	25
Development Bank of Ethiopia				25
Construction and Business Bank				25
Awash International Bank	15	10		
Dashen Bank	15	10		
Bank of Abyssinia	15	10		
Wegagen Bank	20	15		
United Bank	20	10		
Nib International Bank	15	15		
Cooperative Bank of Oromia		7		
Lion International Bank	20	15		
Zemen Bank		10		
Oromia International Bank		10		
Bunna International Bank		10		
Berhane International Bank		7		
Abay Bank S.C.		7		
Addis International Bank S.C		10		
Total	**120**	**146**	**51**	**75**
NBE	5			
PFEA			5	
Grand Total	**402**			

In the survey method, different studies have resulted in different response rates due to, among other things, type of the respondent, clarity of questions, style and length of questionnaire, and respondents' fatigue. Due to these reasons, the return rates are usually low (Adams et al., 2007 and Babbie, 2007). According to Minichilli et al., (2009), Zona and Zattoni (2007) and Pittigrew (1992), the response rate of boards of directors has usually been as low as less than 25% as board of directors are typically busy and often refrain from revealing information about their organization. In corporate governance related surveys, for example, Zona and Zattoni (2007) and Minichilli et al., (2009) each found 15% response rates. However, in this study, the following activities were accomplished to raise the response rate and thereby to decrease non response rate (Adams et al., 2007).

(i) Care was taken in the design of the questionnaire

(ii) A pre-test was conducted to fine-tune the questionnaire

(iii) A cover letter was attached stressing the importance of the study so as to elevate the respondents interest in the topic

(iv) Repeated personal reminders were made to increase the response rate.

With all these strategic efforts and without any incentives to respondents, monetary or otherwise, a total of 419 questionnaires were collected, the overall response rate being a high 75%. After adjusting for incomplete questionnaires, the response rate was the same 75%, which is significant considering response rates in similar surveys in corporate governance studies reported in the literature. When we consider the response rate breakdown for Sample-1 and Sample-2, it is shown that given the leadership position for Sample-1 suggesting a lesser completion only 106 responses out of 154 were returned, representing a response rate of 69%. For Sample-2, the response rate was 77.9%. The table below represents a summary of the above and Appendix 4.4 gives a summary together with questionnaire (case) identification numbers.

Table 4.3: Questionnaires distributed and returned by category of respondents

<table>
<tr><th rowspan="3">Banks</th><th colspan="7">Respondents Category</th></tr>
<tr><th colspan="2">BOD and President</th><th colspan="2">MP/Shareholders</th><th colspan="2">Employees</th><th>Remark</th></tr>
<tr><th>Distributed</th><th>Returned</th><th>Distributed</th><th>Returned</th><th>Distributed</th><th>Returned</th><th></th></tr>
<tr><td>CBE</td><td>11</td><td>8</td><td rowspan="3">51</td><td rowspan="3">51</td><td>25</td><td>16</td><td></td></tr>
<tr><td>CBB</td><td>9</td><td>6</td><td>25</td><td>22</td><td></td></tr>
<tr><td>DBE</td><td>10</td><td>7</td><td>25</td><td>22</td><td></td></tr>
<tr><td>Awash</td><td>12</td><td>9</td><td>15</td><td>8</td><td>10</td><td>7</td><td></td></tr>
<tr><td>Dashen</td><td>8</td><td>5</td><td>15</td><td>7</td><td>10</td><td>8</td><td></td></tr>
<tr><td>Abyssinia</td><td>10</td><td>8</td><td>15</td><td>9</td><td>10</td><td>5</td><td></td></tr>
<tr><td>Wegagen</td><td>9</td><td>8</td><td>20</td><td>16</td><td>15</td><td>15*</td><td>*1 not properly filled (Case 312)</td></tr>
<tr><td>United</td><td>10</td><td>8</td><td>20</td><td>12</td><td>10</td><td>8</td><td></td></tr>
<tr><td>NIB</td><td>12</td><td>7</td><td>15</td><td>11*</td><td>15</td><td>14</td><td>*1 not properly filled (Case 80)</td></tr>
<tr><td>CBO</td><td>8</td><td>4</td><td></td><td></td><td>7</td><td>6</td><td></td></tr>
<tr><td>LIB</td><td>12</td><td>10</td><td>20</td><td>16</td><td>15</td><td>14</td><td></td></tr>
<tr><td>Zemen</td><td>10</td><td>7</td><td></td><td></td><td>10</td><td>6</td><td></td></tr>
<tr><td>OIB</td><td>9</td><td>6</td><td></td><td></td><td>10</td><td>5</td><td></td></tr>
<tr><td>Bunna</td><td>6</td><td>3</td><td></td><td></td><td>10</td><td>8</td><td></td></tr>
<tr><td>Berhane</td><td>6</td><td>2</td><td></td><td></td><td>7</td><td>5</td><td></td></tr>
<tr><td>Abay</td><td>5</td><td>3</td><td></td><td></td><td>7</td><td>6</td><td></td></tr>
<tr><td>Addis</td><td>7</td><td>5</td><td></td><td></td><td>10</td><td>8</td><td></td></tr>
<tr><td>NBE</td><td></td><td></td><td></td><td></td><td>5</td><td>5</td><td></td></tr>
<tr><td>PFEA</td><td></td><td></td><td></td><td></td><td>5</td><td>3</td><td></td></tr>
<tr><td>Total</td><td>154</td><td>106 (69%)</td><td>171**</td><td>130***</td><td>231</td><td>183</td><td></td></tr>
<tr><td rowspan="2">Grand Total</td><td>Distributed</td><td>556</td><td rowspan="2" colspan="2">Stakeholders (Shareholders, MPs, employees, NBE, PFEA)</td><td>Distributed</td><td colspan="2">402</td></tr>
<tr><td>Returned</td><td>419 (75%)</td><td>Returned</td><td colspan="2">313 (78%)</td></tr>
</table>

171** = 120 shareholders and 51 MPs; 130***** = 79 shareholders and 51 MPs

4.5.4 Ethical Clearance

The study was conducted in line with Unisa's policy on research ethics. The researcher was granted research ethics clearance certificate on 12 December 2013 to conduct the study in Ethiopian banks (see Appendix 4.5).

4.5.5 Corporate Governance Variables and Data Analysis Techniques

The corporate governance framework in private and public banks was studied to have a clear picture and understanding of the governance system. The research assessed the relationship between corporate structure, process and board performances. Board performance (service and control tasks) was treated as a dependent variable and corporate structure (board composition, board independence and board committee) and corporate processes (commitment, critical debate, and boardroom dynamics) as independent variables. These structural and process variables were measured against boards service and control task performance to establish relationships. Board performances as dependent variables were examined in light of service tasks (advisory, networking, and strategic participation variables) and control tasks (behavioral, output, and strategic control variables). The structural, process and board performance variables were measured using a 5-point Likert scale with responses ranging from strongly agree to strongly disagree. Accordingly, in the analysis, a higher average score could mean higher level of achievements in corporate governance variables.

The research used both quantitative and qualitative methods of analysis because the integration enhances the validity and quality of the data analysis as reflected in the research outcome. Quantitative data were analyzed mainly using the Partial Least Squares Method (PLS) to determine relationships and SPSS was used to calculate t-statistics, averages and deviation on the variables and qualitative data obtained from primary and secondary sources were transcribed, summarized and analyzed for important themes through narrations and descriptions.

As mentioned above, the research mainly used the Structural equation modeling (SEM), which is a family of statistical models that attempts to explain the proposed relationships among multiple variables in a model. SEM examines construct validity and theoretical interrelationships among constructs expressed in a series of equations, similar to a series of multiple regression equations (Hair, Hult, Ringle & Sarstedt, 2014b). Before analysis was made, the data was prepared using

SPSS Version 20 and then data analysis was performed using partial least squares technique (PLS), which is the second generation regression analysis technique. PLS is used for outer model evaluation to handle reliability and validity tests. It is further employed for the inner model evaluations to formally test the hypothesis generated in chapter three. The specific software used to perform the analysis (both for outer model tests of reliability and validity and inner model tests of hypotheses evaluations) was Smart PLS 2.0, developed by Ringle, Wende and Will (2005). This software program was chosen for the following reasons: (1) it is assumption free (does not require the normality and independence assumptions (Vinzi, Chin, Henseler & Wang, 2010; Chin and Newsted, 1999), (2) it is open source, (3) it is appropriate to handle SEM (Structural Equation Modelling) and (4) it can be used with small samples (Bart & Bontis, 2003) (5) removes the problem of multicolinearity in a regression model (Mateos, 2011).

For the main study, the data set has a few items with a relatively small sample size (106). Given this characteristic of the data set and other restrictive data assumptions (normality, large sample, multicollinarity), PLS is arguably a suitable tool and, therefore, used for analysis. The data analyses were conducted in two stages. First, the measurement model was estimated using confirmatory factor analysis (Hair et al., 2014b) and in the second stage, the hypotheses were tested with the structural modeling technique of PLS. The sub-section below introduces PLS.

4.5.5.1 Overview of the Partial Least Squares

Partial Least Squares (PLS) is a family of structural equation modeling (SEM) which is a statistical approach employed for modeling complex multivariable relationships among observed and latent variables. As a Structural Equation Model, PLS estimates the measurement of relationship of latent variables by means of a number of observable indicators. This approach of structural equation modeling is called Partial Least Square-Path Modeling (PLS-PM) (Vinzi et al., 2010; Mateos, 2011; Sanchez, 2013; Hair et al., 2014b). This method allows combining multiple observed measures of a latent variable and then modeling the causal relationships amongst the latent variables, instead of single observed variables which are merely manifests of the latent constructs.

PLS-PM as a second generation multivariate analysis model is a correlation, component-based approach and more prediction-oriented method mainly recommended for predictive research models (Mateos, 2011). When the model is reflective, PLS-PM primarily goal is to estimate the variance of endogeneous constructs and in turn their respective manifest variables (Vinzi et al., 2010). It is a '*soft modeling'* technique with the ability of greater flexibility of handling hard assumptions of multivariate analysis of data distributions (assumption of normality) and sample size (large sample) (Vinzi et al., 2010; Mateos, 2011). PLS-PM enables to work with observable variables and latent variables (constructs) by estimating the latent variables as linear combinations of the observable (manifest) variables. The following are some of the characteristics of PLS (Haenlein & Kaplan, 2004; Vinzi et al., 2010; Mateos, 2011; Bobe, 2012, Hair et al., 2014b).

- PLS is a powerful analytical tool that can handle multifaceted structural models.
- It removes the problem of multicolinearity in a regression model.
- It is more appropriate for predictive research model.
- It does not require data with normal or known distributions.
- It works with relatively small sample size (minimum sample size of 10 times the largest number of structural paths directed at a particular construct in the structural model (Hair et al., 2014b).
- It uses a more complex, two-step estimation process to estimate latent variable scores (weight relations) directly using cross products of multi-item measures.

The figure below depicts a PLS-PM output of the current main study using SmartPLS 2.0 software. Details of the PLS-PM output are discussed in Chapter Eight.

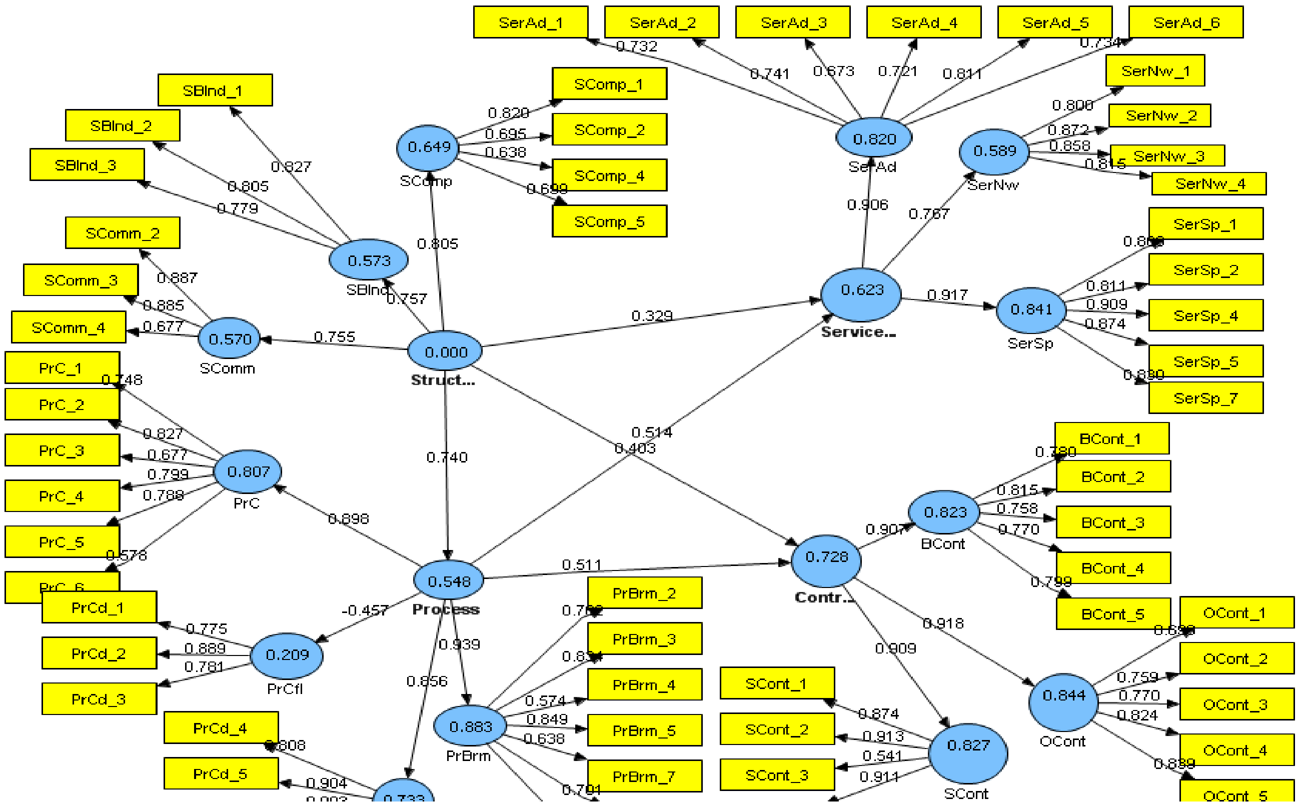

Figure 4. 2: Partial view of PLS-PM output of the current main study

4.6 Summary

This chapter described the research methodology, in general, and the specific methods used in the entire research process, in particular. It discussed the relevant methodological literature, the ontological position of the research, the research design and strategy, sampling issues, approaches and steps followed in developing and testing survey instruments, the process of survey administration, and the statistical approaches chosen to analyze and test the hypotheses.

The research largely draws up on the positivist and interpretivist paradigms. It used a mixed-method research approach mainly composed of a quantitative survey to measure corporate governance variables. The quantitative section is followed by a qualitative study of corporate governance practices, which triangulates the results of the quantitative analysis. To address the research questions using suitable methodologies, the research adopted a case survey strategy by taking both the private and public banks. The unit of analysis, therefore, is banks with different categories of respondents that include board members, and secretaries, as well as bank presidents and stakeholders. Subsequently, these are the primary sources of information, which is obtainable using questionnaire and interview. Annual reports of banks, statistical reports, journal articles, books, proclamations and directives of the regulatory body were secondary sources of information. The tasks carried out in instrument design, pilot testing and fine tuning of the instrument are described in this chapter. Particularly, the steps followed in the survey instrument development that include specifying the domain of the constructs, sources of the measurement items, and validation of the content of the survey instrument are addressed.

Finally, the exogenous and endogenous corporate governance variables were specified together with data analysis techniques to be used. Both SPSS and SmartPLS were used for empirical analysis. The former was employed for assessment of the unidimensionality of scales, reliability tests, descriptive and bivariate correlation analysis whereas the later was used for validity tests through outer model evaluation and hypotheses testing through inner model evaluation. As outlined above, the next chapter will examine and prepare the data for the next stage of instrument validation and measurement model evaluation.

Chapter 5 Data Examination and Preparation

5.1 Introduction

Data examination and preparation are the crucial first steps in any statistical analysis especially in multivariate procedures such as SEM/PLS (Hair, Black, Babin & Anderson, 2014a). The initial steps help the researcher to perform a number of tasks such as: evaluating the impact of missing data, identifying outliers, and testing the assumptions underlying most multivariate techniques (Straub, Boudreau & Gefen, 2004; Hair et al., 2014a).

This chapter discusses the steps followed in examining the data and actions taken in regard to irregularities and paving the way for statistical analysis. More specifically, the current chapter, which contains six sections, discusses the data preparation process, identifies missing data and reports actions taken, spots outliers and outlines decision taken to retain them or otherwise, and conducts tests for non-respondent bias.

5.2 Data Screening and Entry

Bajpai (2011) states that the data preparation process must start from preliminary questionnaire screening followed by data editing and coding. Subsequently data are entered into spread sheet and data analysis strategies initiated.

The data for this study were collected from Ethiopian private and public bank boards of directors, board secretaries, CEOs and stakeholders (shareholders, MPs, employees, regulatory agencies) using a paper-based survey questionnaire (see Appendices 4.2a, 4.2b and 4.2c). To conduct the main study 154 questionnaires were distributed to board members, board secretaries and CEOs. To assess corporate governance practices and stakeholders' perceptions, 402 questionnaires were distributed to different groups of stakeholders. Since the physical distribution of questionnaires was done by the researcher, it was accomplished in two stages. In the fourth week of October, 2013 where annual shareholders' general meetings of private banks commence, distribution of questionnaires to the shareholders was made on the dates of the meetings whilst distribution to the private board members and CEOs was made prior to the meetings. Concurrently, questionnaires for public banks' board members, MPs, both private and public bank employees, and supervisory and regulatory bodies were also distributed during the annual shareholders' meetings.

After several efforts were made in the form of repeated personal visits and phone reminders for almost five months, 419 questionnaires were collected, which constitutes a 75% return rate. Preliminary questionnaire screening was made that included re-checking for missing pages, irrational consistency in the answers, pattern of similar answers to different questions and possibility of substantial missing data. After the preliminary data screening was done, the next step was to prepare the data for analysis (Bajpai, 2011) which was done by means of data coding. This is considered as an important and crucial step in data analysis (ibid.). Taking into account the importance of coding, the researcher coded the data in a way convenient for data entry and thereafter for importing and exporting to other software applications.

During preliminary screening of the 419 questionnaires, 2 incomplete cases with too much missing data were identified and removed, leaving 417 cases for use in the analysis. The data were entered into SPSS version 20 by the researcher, and every necessary care was taken to avoid data entry error. After the data entry, data cleaning was conducted to identify problems associated with inconsistent or illogical data entry and handling of missing data (ibid.). To minimize the risk of common method bias, multiple respondents were used to evaluate the system of corporate governance but not their individual performances. Therefore, the problematic issue of common method bias is not the worry of this study.

5.3 Handling Missing Values

Missing values arise due to lack of responses to one or more questions in a survey, which creates difficulties in statistical analysis as it reduces statistical power and results in biased estimates calculated from incomplete data set (Hair et al., 2014a & b; Babbie, 2013; Bajpai, 2011; Wang, Henseler, Chin & Vinzi, 2010).

In order to solve the problem of missing data, some techniques or data imputation algorithms for transforming the incomplete data to a complete data set have been proposed. One of the estimation methods which is mostly used in this regard is the Mean Imputation (Mean) method. This method uses the available observations and fills the missing values with a calculated mean of those observations (Hair et al., 2014a & b; Wang et al., 2010).

All the missing data in this study is due to non-response by the respondents but does not exceed the permissible limit of 10% per observation (Hair et al., 2014a; Bajpai, 2011) and therefore can be ignored. Hair et al. (2014b) propose that when using PLS-SEM, an observation should be removed whenever the missing data exceeds 15% and the mean replacement for missing data be considered when the percentage of missing data is less than 5% of values per indicator. On the basis of the recommendation of Hair et al. (2014b), the mean imputation method was used to replace the missing values as the missing data per indicator is less than 5% and also missing data per observation does not exceed 15%. Table 5.1 presents a summary of the pattern of the figures of missing data by case and variable for the metric data.

Table 5.1: Pattern of missing data by case and variable for metric data

# of missing data	# of cases with missing data	%age of case with missing data	Subtotal of missing data by cases	# of variables with missing data	%age of variables with missing data	Subtotal of missing data by variables
0	81	76%	0	54	68%	0
1	19	18%	19	14	18%	14
2	2	2%	4	8	10%	16
3	0	0	0	1	1%	3
4	2	2%	8	1	1%	4
5	1	1%	5	2	2%	10
7	1	1%	7	0	0	0
Total	**106**	**100%**	**43**	**80**	**100%**	**47**

Table 5.2: Summary of cases with missing data

Cases	**Missing data**		**Cases**	**Missing data**	
	Number missing	**Percentage missing**		**Number missing**	**Percentage missing**
12	1	1.3	**86**	1	1.3
55	1	1.3	**65**	2	2.5
61	1	1.3	**102**	1	1.3
66	1	1.3	**84**	2	2.5
68	1	1.3	**106**	1	1.3
91	1	1.3	**73**	1	1.3
93	1	1.3	**101**	1	1.3
98	1	1.3	**49**	1	1.3
75	1	1.3	**82**	4	5.0
76	1	1.3	**96**	5	6.3
77	1	1.3	**88**	4	5.0
83	1	1.3	**97**	7	8.8
85	1	1.3			

There are no cases with 10% or more missing values.

Table 5.3: Summary of variables with missing data

Variables	Missing data		Variables	Missing data		Variables	Missing data	
	Count	Percent		Count	Percent		Count	Percent
SComp_3	3	2.8	**PrCd_1**	1	.9	**SerSp_3**	1	.9
SComp_4	2	1.9	**PrCd_4**	1	.9	**SerSp_5**	1	.9
SComp_6	1	.9	**SerAd_2**	1	.9	**SerSp_8**	2	1.9
SComp_9	4	3.8	**SerAd_6**	1	.9	**BCont_1**	1	.9
SComp_10	2	1.9	**SerAd_7**	5	4.7	**BCont_2**	1	.9
SBInd_1	1	.9	**SerNw_3**	2	1.9	**BCont_7**	2	1.9
SBInd_2	1	.9	**SerNw_4**	2	1.9	**OCont_1**	1	.9
SBInd_3	2	1.9	**SerNw_5**	1	.9	**OCont_6**	5	4.7
SComm_2	1	.9	**SerNw_7**	2	1.9			

There are no variables with 5% or more missing values.

More precisely, Appendices 5.1 and 5.2 show that there are 8480 data values (80 metric manifest variables times 106 cases), of which 43 (0.5%) are missing. None of the observations has more than 10% missing values and none of the manifest variables has more than 5% missing values. In fact, the highest figures of missing values per observation and per variable are 7(8.8%) and 5(4.7%), respectively. There is only one observation with 7 missing values and only two variables with the highest number of 5 missing values each. Thus, all observations and metric variables have a low level of missing values that is acceptable and that does not affect the results of the study. Therefore, all the 106 cases can be analysed. Furthermore, the SmartPLS-SEM software recommends the mean replacement option for missing value treatment. Thus, for further analysis the data was made complete by inputting the mean values.

5.4 Examination of Outliers

Outliers refer to extreme responses or observations with a unique combination of characteristics that are different from other observations or cases in the data set. Outliers may have the potential to influence the outcome of any statistical analysis and must be handled properly to avoid distortion and meet research objectives (Hair et al., 2014a & b).

Several methods can be used to detect and assess the impact of outliers that include univariate, bivariate, or multivariate tests. Detection of outliers for this study is performed based on a multivariate perspective as the study involves more than two variables. The issue of detection of multivariate outliers for each observation across a set of variables is addressed by the Mahalanobis D^2 measure (Hair et al., 2014a). This method measures each case's or observation's distance from the mean of all observations, providing a single value for each case regardless of the number of variables that are involved in each case. That means higher D^2 values observations are distanced from the center of all observations on a set of variables implying that these observations are dissimilar and will be removed from further analysis.

According to Hair et al. (2014a), observations with a D^2/df value that exceeds 2.5 in small samples of less than 200 and 3 or 4 in large samples of at least 200 can be considered as outliers. Thus, on the basis of the recommendations of Hair et al. (2014a), a Mahalanobis D^2 diagnostic measure was considered to examine the data set, consisting of 106 cases with 80 metric variables, to detect multivariate outliers (see for details Appendix 5.3). The analysis in Appendix 5.3 shows that there are no cases that have a value (D^2/df) exceeding 2.5, indicating the values are below 1.0 implying there is no observation detected as a multivariate outlier. To further confirm the absence of outliers, a partial view of SPSS analysis is produced and presented in Table 5.4 below.

Table 5. 4: Partial output of Residuals Statistics[a] for examination of outliers

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-6.855	110.6844	53.500	27.43437	106
Mahalanobis Distance (D^2)	50.874	96.402	79.245	9.513	106

a. Dependent Variable: IDNo

The critical χ^2 value for degrees of freedom equaling the number of metric variables (80) at the 0.05 level is 101.88. From Table 5.4 it can be observed that the maximum score for Mahalonobis distance is 96.40, which is less than the critical value of 101.88 implying that there are no outliers surrounding any observation. Hence, all the 106 cases from sample one are used in this study as there are no cases as outliers.

5.5 Estimating Non-response Bias

In survey sampling, individuals chosen for the sample may be unwilling or unable to participate in the survey. This may result in non-response bias. This is a kind of bias that results from a difference between those respondents who volunteer to participate in the survey and those who do not. Non-response is often considered a bigger problem with mail survey (which often results in very low response rates) than other forms (Churchill, 2010). A proxy method of measurement used to test for non-response error is simply to compare the mean responses of early period respondents with those of late respondents during data collection periods. The literature does not point to any established norm or procedure to determine the numbers of responses and time period to be included in the test. As mentioned in chapter four section 4.5.3.3, due to the precautionary measures taken in the design of the questionnaire and collection stages to decrease the non-response rate, 106 completed questionnaires were received with an overall response rate of 69%. To differentiate between early and late arrivals, the questionnaires were numbered with dates of return.

To check for non-respondent bias, an independent samples t-test was run to help verify if differences existed between respondents and non-respondents regarding board structure, board process, and board performance variables. As stated above, non-response bias was tested based on comparison of early and late respondents in reference to the specified constructs. The means (composite indexes) of the constructs were taken for analysis. To perform the test, the first 30% (32 responses) and the last 30% (32 responses) responses were taken as response and non-respondent samples. There were 80 Likert scale questions grouped under the four main constructs and all were included in the test. Next, the means of the two groups were compared using SPSS version 20 independent samples t-test. The analysis revealed that no significant difference existed between the mean values of answers of the early and late respondents at the 5% significant level for all latent variables. The non-response bias for the entire first order latent variables is given in Appendix 5.4. Table 5.5 presents a summary of independent sample t-test for non-response bias.

Table 5.5: Summary of independent samples t-test for non-response bias.

Second order latent variables	t-test for Equality of Means						
	t	df	Sig. (2-tailed)	Composite Index (mean) of Latent Variables			Std. Error Difference
				Early	Late	Mean Difference	
Board structure- BStruct	.55	56	.59	3.875	3.810	.065	.119
BProcess- Board process	1.379	62	.173	3.831	3.662	.169	.122
Board service role-BServrole	-.596	57	.571	3.749	3.839	-.090	.152
Board control role-BControle	.442	56	.671	3.779	3.722	.057	.134

5.6 Summary

This chapter examined and prepared the survey questionnaire for the instrument validation and measurement evaluation of the research process. It first made a preliminary visual assessment of the questionnaire for incomplete cases before proceeding to the next data examination statistical approaches. There were only two questionnaires with too much missing data and these were automatically discarded as unusable. Then, the data was carefully coded and entered into SPSS version 20 in order to examine and handle any missing values, outliers and non-response bias. As discussed in the above sections, the data went through the data cleaning process and it was ascertained that the data did not suffer from any one of the anomalies mentioned above. Consequently, based on the results of the analysis, the data was made ready for the next stage of the research process, i.e. ensuring instrument reliability and validation of the measurement model.

Chapter 6 Instrument Validation, Measurement Model, Descriptive Study and Bivariate Correlation Analysis

6.1 Introduction

To maintain internal validity, triangulated sources and evidence were used. Moreover, the research design chosen for this study is based up on the research questions which ensure that the findings that are expected would reflect the reality. As Saunders et al. (2009) state, a proper research design guided by research questions, objectives, and philosophical underpinnings reduces the possibility of getting wrong findings, which this study strives to achieve. To ensure the validity of the research instrument, a questionnaire was pilot tested involving at least 5% of sampling units and professional colleagues to see how the items adequately measure the variables under the major constructs. Furthermore, to measure internal consistency reliability, Cronbach's alpha reliability coefficient was calculated for items measuring the variables. Therefore, it is by taking the intentions above that this research was conducted to ensure the internal validity and consistency of the research process.

To avoid potential problems of inferences, pattern-matching techniques were used against theoretical perspectives. Generalizations beyond the cases were not made but only analytical generalizations[5] about the cases (Yin, 1984), so the study would not suffer from external validity problems. According to Tellis (1997a), a case study achieves its reliability through the development of a study protocol that includes case study issues, objectives, and questions, as undertaken in this study.

6.2 Assessment of Unidimensionality of Scales (using EFA and CFA)

This is a follow up to Chapter Five, which is done in two processes to ensure unidimensionality of items. Unidimensionality means that each actual scale item on an instrument measures (reflects) a single construct, which also means that one single construct explains a set of measured variables (items) (Hair et al., 2014a; Gefen & Straub, 2005). First, construct (latent) variables with multi-items that have been formulated based on theoretical grounds and that have not been empirically validated in prior research were evaluated using the principal component analysis

[5] This is when a previously developed theory is used as template against which the empirical results of the case study are compared.

(PCA) extraction with Varimax with Kaiser Normalization rotation (Mande, Ishak & Idris, 2013). Then, the items that were retained after PCA analysis, were subjected to reliability and validity tests (CFA) using a PLS measurement (outer) model (ibid.). PCA is an important tool that extracts an appropriate number of components that account for a maximal amount of total variance in the observed variables (Hair et al., 2014a). PCA extracts factors assuming uncorrelated (orthogonal) linear combinations of the measurement items. The loading pattern is rotated to simplify the interpretation of the results. The rotation is a Varimax rotation which creates orthogonal factors with minimized high loadings of the measurement items on other factors (Hair et al., 2014a; Gefen & Straub, 2005).The PCA is performed using SPSS version 20. According to Hair et al. (2014a), the following rule of thumb is followed in assessing the unidimensionality of manifest variables. Factor loadings (a factor loading represents the correlation between an original variable and its factor) in the range of 0.30 to 0.40 are considered sufficient to meet the minimal level of acceptance for interpretation of the structure and loadings of at least 0.50 are considered practically significant.

In this study, to ensure the robustness of the scale and consider the practical significance, a factor loading of at least 0.50 was used. Those items with a factor loading of at most 0.49 were dropped from the next stage of confirmatory factor analysis (CFA) of the PLS. After this process, the new components brought about by the PCA and those constructs adopted from prior studies were further evaluated using PLS to establish their reliability and validity. Items that did not meet the requirements of reliability and validity were excluded from further analysis.

For this study EFA was run for those constructs not empirically validated in prior studies and those validated but slightly modified to meet the objectives of the study. The ones not validated include the following constructs: board composition, board independence and board committee, and boardroom atmosphere. Those validated but slightly modified include board process, service role and control role variables. Although EFA often tests unrestricted factor models, it can also be run in a restricted model to determine a set of items measuring each theoretical construct (Kassahun, 2012). Straub, Boudreau and Gefen (2004:25), state that “When PCA is used, […] as exploratory factor analysis technique, researchers can simply test the group of variables separately.” On the basis of the recommendations that EFA be run separately for each set of items that reflect a given theoretical construct, this study run five separate EFA models for those constructs that were not validated through prior studies and also those that are empirically supported. PCA has been used with the following rules to extract the factors (Hair et al., 2014a; Gefen & Straub, 2005):

- Minimum factor loading of 0.5 used to allocate an item to a factor,
- Number of factors retained is based on eigenvalues greater than 1.0,
- Enough factors that meet about 60% of total variance explained,
- Varimax rotation method used for factor rotation to clearly load items to factors and gain better interpretation,
- One item or two items factors were dropped (Hair et al., 2014a) and
- Items with cross loadings on more than one-factor were dropped.

Below are the different EFA models.

Table 6.1: Board composition: Initial factor solution Rotated Component Matrix[a]

Manifest variables	Component			Action
	1	2	3	
SComp_1	**.785**	-.094	.064	
SComp_2	**.697**	-.310	.136	
SComp_3	-.127	**.666**	-.248	Removed (only two items under component 2)
SComp_4	**.543**	.424	-.101	
SComp_5	**.590**	.204	.198	
SComp_6	-.002	**.706**	.392	Removed (only two items under component 2)
SComp_7	.261	.327	**.561**	Removed (only two items under component 3)
SComp_8	.251	.296	-.013	Removed due to low factor loading (<0.50).
SComp_9	-.112	-.149	**.765**	Removed (only two items under component 3)
SComp_10	**.545**	.083	.040	
SComp_11	.115	-.028	.443	Removed due to low factor loading (<0.50).

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 4 iterations.

Table 6.1 provides an EFA model for composition construct producing a three component solution with eigenvalues greater than 1.0 and explaining 58 percent of the variance. At this stage, a total of six items were removed due to either low factor loadings (less than 0.50) or low number of less than three items under one factor. In deciding the number of items representing a factor, the recommendation of Hair et al. (2014a: 608) that "… good practice dictates a minimum of three items per factor, preferably four, not only to provide minimum coverage of the construct's theoretical domain, but also to provide adequate identification for the construct …'' was followed. The point of the recommendation is that, it is difficult to assess the construct validity of a single item dimension as its adequacy to reliably represent a construct is suspect. As a result, only one factor was retained and named as 'board composition' based on the overall nature of the items in the construct (see Table 6.1). The labeling of a latent variable is based on items with higher loadings. These items with high loadings are considered more important as they have significant influence on the name selected to represent a factor (Hair et al., 2014a).

Table 6.2: Board committee and independence: Rotated Component Matrix[a]

Manifest variables	Component			Action
	1	2	3	
SBInd_1	.442	**.654**	.055	
SBInd_2	.114	**.831**	.084	
SBInd_3	-.005	**.841**	.101	
SComm_1	**.582**	.242	-.126	
SComm_2	**.907**	.075	.098	
SComm_3	**.834**	.035	.186	
SComm_4	**.653**	.124	.412	
SComm_5	-.108	.086	**.870**	Removed (only one item factor)

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

Regarding board independence and committee of the structural construct, eight items were assessed for dimensionality and 3 items loaded onto component 2 (labeled as board independence) and four items onto component 1 (labeled as board committee) with eigenvalues of greater than 1.0, accounting for 68 percent of total variance explained. One item was dropped as it solely loaded only on factor 3.

Table 6.3: **Board process: Rotated Component Matrix[a]**

Manifest variables	Component				Action
	1	2	3	4	
PrBrm_1	.475	.194	.389	.043	Removed due to low factor loading (<0.50).
PrBrm_2	.112	.254	**.661**	.249	
PrBrm_3	.405	.392	**.583**	.156	
PrBrm_4	.274	.368	.097	.413	Removed due to low factor loading (<0.50).
PrBrm_5	.424	**.590**	.427	.174	
PrBrm_6	**.620**	.264	.259	.278	Can't be assigned in a meaningful way
PrBrm_7	.439	.234	.395	.113	Removed due to low factor loading (<0.50).
PrBrm_8	.207	.258	**.756**	.015	
PrBrm_9	.238	.288	**.561**	.448	
PrCd_1	.038	.066	-.207	**-.788**	
PrCd_2	-.052	-.012	-.202	**-.860**	
PrCd_3	-.231	-.256	.121	**-.669**	
PrCd_4	.281	**.660**	.260	.211	
PrCd_5	.211	**.844**	.223	.056	
PrCd_6	.186	**.832**	.301	-.035	
PrCd_7	.404	**.636**	.171	.122	
PrC_1	**.681**	.064	.405	.186	
PrC_2	**.618**	.305	.393	.108	
PrC_3	**.559**	.351	.151	-.149	
PrC_4	**.817**	.214	.066	.061	
PrC_5	**.613**	.478	.115	.274	
PrC_6	.211	.097	**.715**	.047	Can't be assigned in a meaningful way

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

The EFA for the board process construct also extracted a four-factor solution, explaining 63 per cent of the total variance with eigenvalues greater than 1.0. Based on the items with the highest loadings and the overall nature of the items in the factor, four components were identified and named as, 'board commitment', 'cognitive conflict', 'process/procedural conflict' and 'boardroom atmosphere'.

Table 6.4: Board Service role: Rotated Component Matrix[a]

Manifest variables	Component				Action
	1	2	3	4	
SerAd_1	.188	.317	**.674**	.185	
SerAd_2	.302	.365	**.599**	.208	
SerAd_3	.490	.015	**.590**	-.054	
SerAd_4	.299	.070	**.723**	.146	
SerAd_5	.401	.186	**.697**	.098	
SerAd_6	**.717**	.169	.192	.180	
SerAd_7	.440	**.659**	-.163	.005	
SerNw_1	.147	**.804**	.215	.082	
SerNw_2	.127	**.731**	.330	.333	
SerNw_3	.232	**.774**	.171	.189	
SerNw_4	.190	**.666**	.254	.285	
SerNw_5	.195	.290	.097	**.699**	
SerNw_6	.256	.182	.129	**.689**	
SerNw_7	.149	.086	.114	**.835**	
SerSp_1	**.749**	.192	.285	.166	
SerSp_2	**.825**	.080	.174	.134	
SerSp_3	**.719**	.338	.295	.211	
SerSp_4	**.793**	.206	.205	.321	
SerSp_5	**.725**	.341	.261	.251	
SerSp_6	**.627**	.172	.244	.431	
SerSp_7	**.741**	.289	.222	.091	
SerSp_8	**.543**	.158	.344	.119	

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 7 iterations.

With reference to the board service role construct, the EFA resulted in a four factor solution with eigenvalues of at least 1.0 and explaining 67 percent of total variance. Based on the item with the highest loadings and the overall nature of the items in the factor, four factors were identified and labeled as, ‘advisory role’, ‘networking-resource dependency’, networking-image building’ and ‘ strategic participation’.

Table 6.5: Board control role: Rotated Component Matrix[a]

Manifest variables	Component			Action
	1	2	3	
BCont_1	**.716**	.205	.078	
BCont_2	**.714**	.072	.464	
BCont_3	**.742**	.086	.152	
BCont_4	**.612**	.483	.243	
BCont_5	**.624**	.279	.250	
BCont_6	.178	.163	**.757**	
BCont_7	.037	.362	**.629**	
OCont_1	.311	.095	**.695**	
OCont_2	.422	.017	**.555**	
OCont_3	.139	.227	**.728**	
OCont_4	.489	-.127	**.549**	
OCont_5	**.542**	-.059	**.626**	Removed due to cross loading
OCont_6	-.029	-.143	.071	Removed due to low factor loading (<0.50).
SCont_1	.331	**.760**	-.056	
SCont_2	.473	**.721**	-.151	
SCont_3	.072	.272	**.690**	
SCont_4	.462	**.502**	-.088	

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 6 iterations.

Board control role was the last construct evaluated using EFA and the result was a three factor solution with eigenvalues of greater than 1.0 and explanatory power of 62% of total variance. Two items were dropped due to cross loadings and low factor loadings (of less than 0.5). Based on the item with the highest loadings and the overall nature of the items in the factor, three components were identified and labeled respectively as, ‘behavioral control’, ‘output control’ and ‘strategic control’.

The following table gives a summary of the EFA output for the above construct models that include items dropped and factor (construct) names and revised codes. In all, out of the total of 80 items, EFA led to the removal of 14 items that failed to meet any of the component extraction criteria stated above. Of the 66 items filtered out, 48 (73%) demonstrated significant factor loading of more than 0.60. Furthermore the EFA procedure grouped the 66 items into 14 factors. This factorial validity process represents an initial requirement/specification of the measurement model which lays the ground for the confirmatory factor analysis performed using the PLS-PM.

Table 6.6: Summary output of EFA

Construct	No. of items before EFA	No. of items removed	Items removed	Criterion for removal	No. of components	Component name	No. of items after EFA
Board structure	19	7	SComp_3, SComp_6, SComp_7, SComp_8, SComp_9, SComp_11, SComm_5	Two item factor Two item factor Two item factor Factor loading<.5 Two item factor Factor loading<.5 One item factor	3	Board composition Board Independence Board committee	12
Board process	22	5	PrBrm_1, PrBrm_4, PrBrm_6 PrBrm_7 PrC_6	Factor loading<.5 Factor loading<.5 Not meaningful Factor loading<.5 Not meaningful	4	Commitment Cognitive conflict Process/procedural conflict Boardroom atmosphere	17
Board service role	22				4	Advisory role Networking-resource dependency Networking- image building Strategic participation	22
Board control role	17	2	OCont_5 OCont_6	Cross-loading Factor loading<.5	3	Behavioral control Output control Strategic control	15
Total	80	14			14		66

Table 6.7: Summary of main constructs, latent variables, initial and revised codes obtained through EFA

Construct	Latent variable label	Initial code	Factor loadings	Revised code
Board Structure	Board composition	SComp_1	**.785**	SComp_1
		SComp_2	**.697**	SComp_2
		SComp_4	**.543**	SComp_3
		SComp_5	**.590**	SComp_4
		SComp_10	**.545**	SComp_5
	Board Independence	SBInd_1	**.654**	SBInd_1
		SBInd_2	**.831**	SBInd_2
		SBInd_3	**.841**	SBInd_3
	Board committee	SComm_1	**.582**	SComm_1
		SComm_2	**.907**	SComm_2
		SComm_3	**.834**	SComm_3
		SComm_4	**.653**	SComm_4
Board Process	Commitment	PrC_1	**.681**	PrCom_1
		PrC_2	**.618**	PrCom_2
		PrC_3	**.559**	PrCom_3
		PrC_4	**.817**	PrCom_4
		PrC_5	**.613**	PrCom_5
	Process conflict	PrCd_1	**.788**	PrCon_1
		PrCd_2	**.860**	PrCon_2
		PrCd_3	**.669**	PrCon_3
	Cognitive conflict	PrCd_4	**.660**	PrCog_1
		PrCd_5	**.844**	PrCog_2
		PrCd_6	**.832**	PrCog_3
		PrCd_7	**.636**	PrCog_4
		PrBrm_5	**.590**	PrCog_5
	Boardroom atmosphere	PrBrm_2	**.661**	PrBrA_1
		PrBrm_3	**.583**	PrBrA_2
		PrBrm_8	**.756**	PrBrA_3
		PrBrm_9	**.561**	PrBrA_4
Service role	Advisory role	SerAd_1	**.674**	SerAd_1
		SerAd_2	**.599**	SerAd_2
		SerAd_3	**.590**	SerAd_3
		SerAd_4	**.723**	SerAd_4
		SerAd_5	**.697**	SerAd_5
	Networking- resource dependency role	SerNw_1	**.804**	SerNwR_1
		SerNw_2	**.731**	SerNwR_2
		SerNw_3	**.774**	SerNwR_3
		SerNw_4	**.666**	SerNwR_4
		SerAd_7	**.659**	SerNwR_5
	Networking- image building role	SerNw_5	**.699**	SerNwI_1
		SerNw_6	**.689**	SerNwI_2
		SerNw_7	**.835**	SerNwI_3
	Strategic participation role	SerSp_1	**.749**	SerSp_1
		SerSp_2	**.825**	SerSp_2
		SerSp_3	**.719**	SerSp_3
		SerSp_4	**.793**	SerSp_4
		SerSp_5	**.725**	SerSp_5
		SerSp_6	**.627**	SerSp_6
		SerSp_7	**.741**	SerSp_7
		SerSp_8	**.543**	SerSp_8
		SerAd_6	**.717**	SerSp_9
Control role	Behavioral control	BCont_1	**.716**	BCont_1
		BCont_2	**.714**	BCont_2
		BCont_3	**.742**	BCont_3
		BCont_4	**.612**	BCont_4
		BCont_5	**.624**	BCont_5
	Output control	OCont_1	**.695**	OCont_1
		OCont_2	**.555**	OCont_2
		OCont_3	**.728**	OCont_3

		OCont_4	**.549**	OCont_4
		BCont_6	**.757**	OCont_5
		BCont_7	**.629**	OCont_6
		SCont_3	**.690**	OCont_7
	Strategic control	SCont_1	**.760**	SCont_1
		SCont_2	**.721**	SCont_2
		SCont_4	**.502**	SCont_3

The analysis from this point onwards is based on the new factor groupings and revised codes of the retained indicator variables obtained after the PCA process. In the following section further assessment of the scales, construct validity and reliability, is performed through the CFA of the PLS-PM.

6.3 Reliability and Validity Assessments (CFA) through PLS Outer Model Evaluation

In the previous section, assessment of factorial validity was undertaken through EFA to determine the factor structure of each of the theoretical constructs. Once this was done, the next step was to conduct an outer model evaluation that provides evidence of reliability and construct validity. These evaluations are performed through the CFA of the partial least squares path modeling (PLS-PM) approach. This assessment precedes the assessment of the structural model and the test of the research hypothesis (Hair et al., 2014a & b, Mande et al., 2013). This section, therefore, addresses the assessment of the indicator (manifest variable) reliability, construct reliability and validity (i.e., convergent validity and discriminant validity). These tests are performed using a partial least squares (PLS) measurement model evaluation approach. The important point in CFA is to confirm how well the model fits the data. In other words, the CFA assesses the contribution of each manifest variable in representing its associated construct and measures how well the group of manifest variables represents a construct. Once the constructs meet the required measurement standards, the relationships between constructs are assessed (Hair et al., 2014b). The following gives a brief account of the principles and concepts applied in the evaluation of the measurement model (reliability and validity). However, the following sample size requirement should be fulfilled to have a robust model when employing PLS-PM.

The minimum sample size requirement for an analysis using PLS-PM is based up on the 10 times rule of thumb, which requires that the minimum sample size should be at least 10 times larger than the largest number of structural paths directed at a particular construct in the structural model. In other words, the minimum sample size should not be less than 10 times the maximum number of structural path arrowheads heading to a latent variable anywhere in the PLS path model (Hair et al., 2014b; Henseler, Ringle & Sinkovics, 2009). On the basis of this rule of thumb and taking the first order level into account, the maximum number of paths that could have been directed into any target latent variable would be seven. Since the second order level is considered for hypothesis testing, the maximum number of paths was reduced to two. However, as the first level is simply embedded in the second level, the first level is taken as a basis to determine the minimum threshold value for the sample size. Accordingly, the minimum sample size for this study should be 10*7 = 70. Previous empirical studies proposed a sample size of 100 to 200 as a good starting point for studies based on path modeling (Wong, 2013). In the current research, the main study is carried out with a sample size of 106, which satisfies the 10 times rule of thumb as well as the prior research suggestion of 100 to 200 sample size (ibid.).

As stated elsewhere PLS is a structural equation modeling (SEM) statistical approach that models multivariable relationships among observed and unobserved variables. PLS-SEM is described by two sub models: the outer model (measurement model) and the inner model (structural model). The outer model relates a block of observed variables (manifest variables or indicators or measures) to their respective unobserved variables (latent variables or constructs). This method allows the estimation of a causal theoretical network of relationships linking latent variables, each measured by means of a number of observable variables. The inner model relates some endogenous latent variables to other latent variables on the basis of hypotheses established by a researcher (Tenenhaus, Vinzi, Chatelin & Lauro, 2005; Vinzi et al., 2010).

The PLS path model examines a number of issues in a two-stage process: (1) the assessment of the measurement model, and (2) the assessment of the structural model (Mande et al., 2013). The analysis has to be conducted in this order because it is necessary to check, first, that what is being measured is what is intended to be measured, before any conclusion about the relationships among the latent variables can be drawn (Sanchez, 2013). The PLS measurement model assesses the reliability of the manifest variables with respect to their latent variables. This section focuses on the measurement model; and the structural model analysis results will be treated in Chapter Eight. For the purpose of assessing the quality of the measurement model, issues such as individual item (indicator) reliability (outer model loading), construct reliability, convergent and discriminant validity are addressed for the reflective constructs. These evaluations are performed by carrying out a series of PLS algorithm calculations using the SmartPLS computer program that produces several reports. The following steps are followed in the evaluation of the measurement model (Hair et al., 2014b:97).

Step 1. Assess Indicator reliability

Step 2. Internal consistency (composite reliability)

Step 3. Convergent validity (average variance extracted)

Step 4. Discriminant validity

6.3.1 Assessment of Reliability

Reliability is about estimating the consistency of the measurement or the degree to which an instrument measures the same way each time it is used under the same conditions with the same subjects. In other words, reliability of a measure is an indication of the stability and consistency with which the instrument measures construct. Hence, reliability ensures consistent measurement across time and across the various items in the instrument. That means, if we measure something many times and the result is always the same, then we can say that our measuring instrument is reliable. When the outcome of the measuring process is reproducible, while it does not indicate that it is valid; it simply means that the measurement instrument does not produce erratic and unpredictable results (Adams et al., 2007). The sub-section below presents and examines the two parts of reliability called individual indicator reliability and internal consistency reliability (the reliabilities for each construct's composite of measures).

6.3.1.1 Indicator and Internal consistency reliability (construct reliability)

Indicator reliability is a variable (individual) level reliability that measures the extent to which a measurement item is measuring what it intends to measure. The factor loading (correlations) value of the outer model is used to measure individual item (indicator) reliability. Loadings are correlations between a latent variable and its indicators. Indicator reliability is considered adequate when an indicator has a factor loading of greater than 0.70 regarding a particular construct, which in other words, means that more than 50% of the variance in the indicator variable is captured or explained by the construct. The amount of variance explained by a latent variable is called communalities and these are just squared loadings (Hair et al., 2014; Sanchez, 2013; Vinzi et al., 2010; Bart & Bontis, 2003; Hulland, 1999). For exploratory research of this kind, 0.40 or higher is acceptable (Hulland, 1999).

The second aspect of a reliability test is internal consistency reliability (construct reliability), which is indicative of the homogeneity of the items in measuring or reflecting their construct. In other words, it is the reliability of a set of indicators for their consistency in measuring their constructs jointly (Mande et al., 2013). The two commonly applied methods to evaluate internal consistency reliability for reflective measures are composite reliability and Cronbach's alpha (Hair et al., 2012).

Cronbach Alpha is a measure of squared correlations between observed scores and true scores. It is measured in terms of the ratio of true score variance to observed score variance. The Cronbach's alpha is a ratio used to evaluate how well a block of indicators measures their corresponding latent construct. It is an average of inter-variable correlation between indicators of a reflective construct. Cronbach's alpha is limited by the assumption that all indicators are equally reliable (tau-equivalence) or it uses equal weighting (each manifest variable is assumed to be equally important in defining the latent variable). If a block of manifest variables is unidimensional, they have to be highly correlated, and consequently will have a high average inter-variable correlation. On the other hand, a low alpha value implies multidimensional structure of data. A common threshold value of Cronbach's alpha is 0.6 (Vinzi et al., 2010) though other scholars consider a value greater than 0.7 acceptable (Sanchez, 2013).

The other measure of internal consistency which is similar to Cronbach's alpha is composite reliability. Composite reliability evaluates how well a construct is measured by its assigned indicators (Vinzi et al., 2010). In contrast to Cronbach's alpha, composite reliability does not assume tau-equivalence (parallelity) of the manifest variables, rather it uses actual factor loadings (Vinzi et al., 2010), making it more suitable for PLS-SEM, which prioritizes indicators according to their individual reliability (factor loadings) (Hair et al., 2012; Hair et al., 2014b). Because of this, the index is considered to be a better indicator than the Cronbach's alpha as it takes into account to what extent the latent variable explains its block of indicators. The composite reliability can vary between 0 and 1 and values larger than 0.6 are frequently judged as acceptable in exploratory research (Vinzi et al., 2010; Hair et al., 2014b). Other scholars suggest a threshold of at least 0.70 (Hair et al., 2012). Composite reliability is considered as the best alternative to Cronbach's alpha as it is usually calculated in conjunction with structural equation modeling (Hair et al., 2012; Hair et al., 2014b).

Assessment of reflective outer models involves determining indicator reliability (squared standardized outer loadings), internal consistency reliability (composite reliability), Cronbach's alpha, convergent validity (average variance extracted, AVE), and discriminant validity (Fornell-Larcker criterion, cross-loadings). The assessment is done in two phases. In phase one the indicator variables with their latent variables are screened with their outer loadings and a report is produced containing AVE, composite reliability and Cronbach's alpha. The assessment is done through a visual examination as well as the reading of the outputs obtained from the PLS algorithm. Furthermore, the evaluations are based on the acceptable thresholds stated above. In the second phase, the model is revised with the indicators that meet the evaluation criteria at step one, and the PLS algorithm computation is iterated once again and made ready for validity tests.

In phase one, the 66 indicators, which were retained after PCA analysis, were assigned to their respective latent variables in the PLS-PM. Then, the SmartPLS was run to generate the pictorial and calculation results of outer loadings, AVE, composite reliability, Cronbach's alpha for the first order measurement model. The results of this process are reported in Table 6.8 below.

Table 6.8: Phase one of PLS first order outer (measurement) model analysis

	Loadings	AVE	Composite Reliability	Cronbach's Alpha	R Square	Action
Board composition (SComp)		**0.45**	**0.80**	**0.69**	**0.71**	
SComp_1	0.80					
SComp_2	0.70					
SComp_3	0.59					**Drop**
SComp_4	0.70					
SComp_5	0.59					**Drop**
Board Independence (SBInd)		**0.65**	**0.85**	**0.73**	**0.55**	
SBInd_1	0.83					
SBInd_2	0.80					
SBInd_3	0.77					
Committee function (SComm)		**0.56**	**0.83**	**0.72**	**0.62**	
SComm_1	0.59					**Drop**

SComm_2	0.89					
SComm_3	0.84					
SComm_4	0.70					
Board Process – Commitment (PrCom)		**0.61**	**0.89**	**0.84**	**0.78**	
PrCom_1	0.73					
PrCom_2	0.83					
PrCom_3	0.70					
PrCom_4	0.83					
PrCom_5	0.81					
Board Process – Conflict (PrCon)		**0.67**	**0.86**	**0.75**	**0.21**	
PrCon_1	0.78					
PrCon_2	0.89					
PrCon_3	0.78					
Board Process – Cognitive Conflict (PrCog)		**0.70**	**0.92**	**0.89**	**0.81**	
PrCog_1	0.81					
PrCog_2	0.88					
PrCog_3	0.88					
PrCog_4	0.78					
PrCog_5	0.85					
Process- Boardroom atmosphere (PrBrA)		**0.67**	**0.89**	**0.84**	**0.76**	
PrBrA_1	0.82					
PrBrA_2	0.86					
PrBrA_3	0.77					
PrBrA_4	0.83					
Board Service role- Advising (SerAd)		**0.57**	**0.87**	**0.81**	**0.71**	
SerAd_1	0.76					
SerAd_2	0.76					
SerAd_3	0.67					
SerAd_4	0.75					
SerAd_5	0.82					
Board Service role- Networking - resource dependency (SerNwR)		**0.63**	**0.90**	**0.85**	**0.62**	
SerNwR_1	0.80					
SerNwR_2	0.84					
SerNwR_3	0.85					
SerNwR_4	0.81					
SerNwR_5	0.68					
Board Service role- Networking- image building (SerNwI)		**0.66**	**0.85**	**0.75**	**0.44**	
SerNwI_1	0.81					
SerNwI_2	0.83					
SerNwI_3	0.80					
Board Service role- Strategic participation (SerSp)		**0.66**	**0.95**	**0.94**	**0.89**	
SerSp_1	0.83					
SerSp_2	0.82					

SerSp_3	0.86					
SerSp_4	0.90					
SerSp_5	0.85					
SerSp_6	0.78					
SerSp_7	0.83					
SerSp_8	0.70					
SerSp_9	0.77					
Board control role (BCont)		**0.62**	**0.89**	**0.84**	**0.87**	
BCont_1	0.79					
BCont_2	0.82					
BCont_3	0.76					
BCont_4	0.77					
BCont_5	0.80					
Output control role (OCont)		**0.43**	**0.83**	**0.76**	**0.81**	
OCont_1	0.70					
OCont_2	0.74					
OCont_3	0.75					
OCont_4	0.78					
OCont_5	0.48					**Drop**
OCont_6	0.40					**Drop**
OCont_7	0.57					**Drop**
Strategic control role (SCont)		**0.84**	**0.94**	**0.90**	**0.76**	
SCont_1	0.91					
SCont_2	0.92					
SCont_3	0.92					

Phase one of this process displays that a total of six items (SComp_3, SComp_5, SComm_1, OCont_5, OCont_6, OCont_7) that fell short of meeting the criteria of a factor loading of at least 0.70 were considered not reliable and removed. All the remaining 60 items out of the total of 66 items have factor loadings of at least 0.70, the lowest being 0.70 and the highest 0.92. This implies that the individual item reliability is adequate, which also means that more than 50 percent of the variance in the observed variable is shared with the respective latent variables. Even though Hulland (1999) proposed acceptable indicator reliability of 0.40 or higher for exploratory research, this study considered a threshold of 0.50 recently proposed by other scholars, as noted above, to enhance even further its construct validity.

From the table it can be observed that the two latent variables (Board composition and Output control role) out of the fourteen, produced lower values of 0.45 and 0.43 of AVEs respectively, which are below the threshold value of 0.50. For the remaining 12 latent variables, the lowest AVE is 0.56 and the highest 0.84. These values represent the average variance shared between a latent variable and its associated indicator variables. With regard to internal consistency reliability or construct validity, all the fourteen latent variables showed composite reliability values of at least 0.80, the lowest being 0.80 and the highest 0.95. Cronbach's alpha values for the latent variables ranged from 0.70 to 0.94, which are above the modest level of reliability.

To move to validity tests, the above process has to be reiterated in order to improve the AVE values for the two latent variables namely: Board composition (Scomp) and Output control role (Ocont). Accordingly, five observed variables, in the constructs, with factor loadings of less than 0.70 were removed. These were: Scomp_2, Scomp_5, Ocont_5, Ocont_6 and Ocont_7. This resulted in improving the AVEs values above the threshold of 0.50. Furthermore, one variable (Scomm_1) under the Board committee (SComm) construct, which had a low factor loading of 0.59, was also removed. The details of phase two of the outer model evaluation process are given in Table 6.9 below.

Table 6.9: Phase two of PLS first order outer (measurement) model analysis

LVs and indicators	Loadings	AVE	Composite Reliability	Cronbach's Alpha	R Square	Action
Board composition (SComp)		**0.59**	**0.81**	**0.65**	**0.61**	
SComp_1	0.85					
SComp_2	0.76					
SComp_4	0.70					
Board Independence (SBInd)		**0.65**	**0.85**	**0.73**	**0.58**	
SBInd_1	0.82					
SBInd_2	0.81					
SBInd_3	0.78					
Committee function (SComm)		**0.68**	**0.86**	**0.75**	**0.61**	
SComm_2	0.89					
SComm_3	0.89					
SComm_4	0.70					
Board Process – Commitment (PrCom)		**0.61**	**0.89**	**0.84**	**0.78**	
PrCom_1	0.73					
PrCom_2	0.83					
PrCom_3	0.70					
PrCom_4	0.83					
PrCom_5	0.81					
Board Process – Conflict (PrCon)		**0.67**	**0.86**	**0.75**	**0.21**	
PrCon_1	0.78					
PrCon_2	0.89					
PrCon_3	0.78					
Board Process – Cognitive Conflict (PrCog)		**0.70**	**0.92**	**0.89**	**0.81**	
PrCog_1	0.81					
PrCog_2	0.88					
PrCog_3	0.88					
PrCog_4	0.78					

PrCog_5	0.85					
Process- Boardroom atmosphere (PrBrA)		**0.67**	**0.89**	**0.84**	**0.76**	
PrBrA_1	0.82					
PrBrA_2	0.86					
PrBrA_3	0.77					
PrBrA_4	0.83					
Board Service role- Advising (SerAd)		**0.57**	**0.87**	**0.81**	**0.70**	
SerAd_1	0.76					
SerAd_2	0.76					
SerAd_3	0.67					
SerAd_4	0.75					
SerAd_5	0.82					
Board Service role- Networking -resource dependency (SerNwR)		**0.63**	**0.90**	**0.85**	**0.62**	
SerNwR_1	0.80					
SerNwR_2	0.84					
SerNwR_3	0.85					
SerNwR_4	0.81					
SerNwR_5	0.68					
Board Service role- Networking- image building (SerNwI)		**0.66**	**0.85**	**0.75**	**0.44**	
SerNwI_1	0.81					
SerNwI_2	0.83					
SerNwI_3	0.80					
Board Service role- Strategic participation (SerSp)		**0.66**	**0.95**	**0.94**	**0.89**	
SerSp_1	0.83					
SerSp_2	0.82					
SerSp_3	0.86					
SerSp_4	0.90					
SerSp_5	0.85					
SerSp_6	0.78					
SerSp_7	0.83					
SerSp_8	0.70					
SerSp_9	0.77					
Board control role (BCont)		**0.62**	**0.89**	**0.84**	**0.86**	
BCont_1	0.79					
BCont_2	0.82					
BCont_3	0.76					
BCont_4	0.77					
BCont_5	0.80					
Output control role (OCont)		**0.61**	**0.86**	**0.79**	**0.77**	
OCont_1	0.74					
OCont_2	0.82					
OCont_3	0.78					
OCont_4	0.78					
Strategic control role (SCont)		**0.84**	**0.94**	**0.90**	**0.78**	
SCont_1	0.91					
SCont_2	0.92					
SCont_3	0.92					

On the basis of the outcome of phase one which eliminated 6 indictors, phase two of the PLS algorithm was carried out on the remaining 60 items. As can be seen from Table 6.9, the PLS computational process on the 60 manifest variables showed that each of them has a factor loading of at least 0.70, all latent variables resulted in AVEs of above 0.57 and a composite reliability of greater than 0.81. The above results of the measurement model are significant; therefore, the measurement model is adequate. In other words, the measurement model has passed the tests of indicator reliability (factor loadings of 0.70 or more) and internal consistency (construct) reliability (composite reliability value of at least 0.70) and is ready for validity tests as described in the following sub-section. The following table summarizes the number of manifest (observed) variables removed and retained in phases one and two of measurement model evaluation of the reliability tests.

Table 6.10: Summary of phases one and two of the CFA

Latent variables	**No. of items Pre-EFA**	**Items removed by EFA**	**No. of item post EFA (PCA)**	**Phase 1 of CFA**		**Phase 2 of CFA**
				No. of items removed	**No. of items retained**	**No. of items retained**
Board composition	11	6	5	2	3	3
Board Independence	3		3		3	3
Board committee	5	1	4	1	3	3
Commitment	6	1	5		5	5
Process conflict	3		3		3	3
Cognitive conflict	4		5[i]		5	5
Boardroom atmosphere	9	4	4[ii]		4	4
Advisory role	7		5 [iii]		5	5
Networking-resource dependency role	4		5[iv]		5	5
Networking-image building role	3		3		3	3
Strategic participation role	8		9[v]		9	9
Behavioral control	7		5 [vi]		5	5
Output control	6	2	7[vii]	3	4	5
Strategic control	4		3[viii]		3	3
Total	**80**	**14**	**66**	**6**	**60**	**60**

i =More by one item due to PCA; ii = Less by one item due to PCA; iii = Less by two items due to PCA; iv =More by one item due to PCA; v= More by one item due to PCA; vi =Less by two items due to PCA; vii= More by two items due to PCA, viii = Less by one item due to PCA

6.3.2 Assessment of Construct Validity of First Order Model through CFA

Validity refers to the degree to which an instrument measures what it intends to measure, and the degree to which the measured item or construct has meaning. In other words, it is the extent to which the research is accurate (Hair et al., 2014a) or the degree of accuracy of measurement. Once indictor and construct reliability assessment of the measurement model is performed, the next step is to establish content and constructs validity. Content validity is indicator validity that shows the extent to which the variables in a measurement model belong to the domain of the construct (Vinzi et al., 2010). The indicator validity in this study was determined using the principal component analysis, which examined the indicators' unidimensionality of scales (see section 6.2.1 for details).

The other type of validity that was assessed using CFA/SEM is construct validity. Construct validity is used to test constructs with multiple indicators. According to Hair et al. (2014a: 618), "Construct validity is the extent to which a set of measured items actually reflects the theoretical latent construct those items are designed to measure." They further state that "…evidence of construct validity provides confidence that item measures taken from a sample represent the actual true score that exists in the population (ibid.)". Construct validity has two main components: Convergent validity and discriminant validity. Both are subtypes of construct validity and they work together. In other words, if the process can demonstrate evidence for both, it means there is evidence for construct validity. Convergent validity is assured when multiple measures of the same construct hang together or operate in similar ways or when multiple indicators of a specific construct converge or share a high proportion of variance in common (Hair et al., 2014a). In simple terms, convergent validity applies when multiple indicators converge or are associated with one another as opposed to discriminant validity which measures the extent to which a construct is truly distinct from other constructs (Hair et al., 2014a). This means that the indicators of one construct hang together or converge, but also diverge from other constructs. Thus, high discriminant validity means that a construct is unique and captures some phenomena in relation to other constructs. The convergent and discriminant validity (construct validity) results of the measurement model are shown below.

6.3.2.1 Convergent Validity

Factor loadings and AVE (Average Variance Extracted) are two of the several methods that are used to test convergent validity among measurement items. The size of the factor loadings is one important consideration as high loadings on a factor would indicate that they converge on the latent construct. As a good rule of thumb, a factor loading of 0.7 or higher for each of the items is considered significant and this can be understood in the context of an item's communality, the proportion of variation in the item that is explained by the latent variable (factor) (Hair et al., 2014a). But the most common measure of convergent validity is AVE (Average Variance Extracted) which is the average of the squared factor loadings of the items that reflect a construct (Vinzi et al., 2010; Hair et al., 2014a). AVE explains the proportion of the variance of its indicators captured by the construct, relative to the total amount of variance. The minimum required level for AVE is 0.5, implying that the construct explains 50% of the variance of its reflective indicators and, therefore, has adequate convergence (Chin, 2010). In evaluating a measurement model, AVE measure has to be obtained for each latent variable. For this study, AVEs have been calculated for the measurement model as shown in Table 6.9 above. As can be seen from the table, all the fourteen latent variables have a measurement of at least 0.5 AVEs, actually the lowest being 0.57 and the highest 0.84. These measurements demonstrate that the convergent validity of all the latent variables is acceptable.

6.3.2.2 Discriminant Validity

The other measure of construct validity is discriminant validity, which refers to the degree to which a dimension is demonstrably different from other constructs (Hair et al., 2014). According to Hair et al. (2014: 218), "…, high discriminant validity provides evidence that a construct is unique and captures some phenomena other measures do not". Similarly Hulland (1999) says that one condition for discriminant validity is that a latent variable should share greater variance with its indicators than the variance shared with other latent variables. In regard to relevant tests, there are two ways to evaluate discriminant validity: The Fornell-Larcker criterion and cross-loadings comparison. Fornell-Larcker criterion uses AVEs to assess discriminant validity. In order to demonstrate the evidence of discriminant validity, AVEs of each latent variable should be greater than the latent variable's highest squared correlations with any other latent variable in the model (Fornell & Larcker, 1981). This is simply to compare the square root of the AVEs with correlations between the latent variables. The latent variables correlation values are found under quality criterion of Smart PLS Default report. These values are exported and then the correlation value between the same latent variables, which is 1, is replaced by the square root of AVEs of the reflective latent variables. The square root of the latent variables AVEs are on the diagonal position and the correlations between the constructs are in the lower left triangle. To pass the discriminant validity test, the square root of AVE should be greater than all the correlation values in the row and column of the latent variable (ibid). This process is presented in Table 6.11.

Table 6. 11: Discriminant Validity Assessment: Fornell- Larcker Criterion

LV	1	2	3	4	5	6	7	8	9	10	11	12	13	14
BCont(1)	**0.79**													
OCont(2)	0.72	**0.78**												
Pr Cog(3)	0.63	0.58	**0.84**											
PrBrA(4)	0.67	0.66	0.69	**0.82**										
PrCom(5)	0.65	0.67	0.72	0.66	**0.78**									
PrCon(6)	-0.22	-0.35	-0.29	-0.39	-0.30	**0.82**								
SBInd(7)	0.53	0.60	0.49	0.49	0.55	-0.31	**0.81**							
SComm(8)	0.50	0.45	0.52	0.55	0.42	-0.17	0.36	**0.82**						
SComp(9)	0.56	0.52	0.46	0.51	0.47	-0.31	0.41	0.43	**0.77**					
SCont(10)	0.71	0.71	0.61	0.69	0.60	-0.38	0.56	0.48	0.54	**0.92**				
SerAd(11)	0.66	0.57	0.57	0.59	0.53	-0.12	0.38	0.42	0.55	0.59	**0.75**			
SerNwI(12)	0.57	0.32	0.41	0.46	0.47	-0.03	0.21	0.30	0.27	0.32	0.45	**0.81**		
SerNwR(13)	0.54	0.52	0.35	0.45	0.43	-0.04	0.24	0.39	0.46	0.46	0.56	0.52	**0.80**	
SerSp(14)	0.77	0.71	0.70	0.77	0.63	-0.31	0.57	0.49	0.57	0.77	0.73	0.53	0.61	**0.81**

Note: diagonal values (bold) are the square root of the variance shared between the LVs and their indicators (AVEs) and the off-diagonal elements are the correlations among the LVs. For discriminant validity, diagonal elements shoulder be greater than off-diagonal elements.

As can be observed from the above table, the diagonal values (square root of AVEs) exceed their corresponding off-diagonal values (correlation of the latent variables with other latent variables in the model), providing good evidence of discriminant validity.

As stated above, the other alternative approach to evaluate discriminant validity is to examine the cross-loadings of the indicator (manifest) variables. Sufficient discriminant validity is established when an indicator’s loading (correlation) on a latent variable is greater than all of its cross-loadings with other latent variables. Table 6.12 shows the loadings and cross-loadings of indicators, suggesting adequate discriminant validity.

Table 6.12: Cross- lodgings/Correlations of Individual Items to Constructs/ Discriminant validity Report

Items/LV	BCont	OCont	PrCog	PrBrA	PrCom	PrCon	SBInd	SComm	SComp	SCont	SerAd	SerNwI	SerNwR	SerSp
BCont_1	**0.79**	0.58	0.43	0.52	0.50	-0.29	0.38	0.37	0.53	0.61	0.52	0.27	0.42	0.57
BCont_2	**0.82**	0.52	0.48	0.55	0.56	-0.09	0.40	0.33	0.41	0.51	0.60	0.60	0.45	0.62
BCont_3	**0.76**	0.54	0.59	0.60	0.60	-0.22	0.43	0.53	0.42	0.58	0.50	0.45	0.39	0.59
BCont_4	**0.76**	0.63	0.46	0.50	0.43	-0.16	0.41	0.36	0.49	0.58	0.52	0.43	0.51	0.65
BCont_5	**0.79**	0.54	0.52	0.47	0.48	-0.09	0.48	0.37	0.34	0.51	0.47	0.49	0.36	0.62
OCont_1	0.53	**0.74**	0.33	0.43	0.46	-0.14	0.36	0.39	0.40	0.46	0.50	0.28	0.53	0.47
OCont_2	0.53	**0.82**	0.41	0.51	0.53	-0.29	0.47	0.30	0.46	0.52	0.49	0.18	0.37	0.55
OCont_3	0.64	**0.78**	0.49	0.57	0.60	-0.34	0.48	0.29	0.35	0.63	0.40	0.36	0.42	0.58
OCont_4	0.53	**0.78**	0.57	0.53	0.48	-0.30	0.55	0.42	0.41	0.59	0.41	0.17	0.31	0.62
PrBrA_1	0.49	0.44	0.45	**0.82**	0.42	-0.29	0.40	0.38	0.40	0.55	0.47	0.32	0.28	0.57
PrBrA_2	0.59	0.65	0.67	**0.86**	0.67	-0.29	0.50	0.49	0.39	0.62	0.53	0.35	0.38	0.72
PrBrA_3	0.54	0.49	0.55	**0.77**	0.51	-0.21	0.29	0.48	0.42	0.52	0.47	0.47	0.43	0.61
PrBrA_4	0.56	0.56	0.55	**0.83**	0.54	-0.47	0.42	0.44	0.47	0.57	0.45	0.37	0.40	0.62
PrCog_1	0.43	0.54	**0.80**	0.54	0.59	-0.31	0.43	0.39	0.42	0.45	0.46	0.21	0.23	0.52
PrCog_2	0.52	0.49	**0.88**	0.54	0.58	-0.22	0.39	0.40	0.35	0.49	0.45	0.26	0.23	0.55
PrCog_3	0.55	0.48	**0.88**	0.54	0.55	-0.14	0.30	0.43	0.43	0.49	0.54	0.38	0.35	0.59
PrCog_4	0.53	0.37	**0.78**	0.54	0.58	-0.24	0.43	0.43	0.32	0.52	0.35	0.35	0.23	0.55
PrCog_5	0.60	0.54	**0.85**	0.69	0.69	-0.28	0.50	0.50	0.38	0.59	0.56	0.50	0.41	0.72
PrCom_1	0.56	0.57	0.49	0.56	**0.73**	-0.28	0.49	0.45	0.48	0.54	0.46	0.36	0.35	0.54
PrCom_2	0.53	0.53	0.61	0.62	**0.83**	-0.24	0.39	0.36	0.37	0.44	0.41	0.42	0.32	0.49
PrCom_3	0.38	0.45	0.50	0.41	**0.70**	-0.05	0.36	0.17	0.18	0.41	0.40	0.35	0.33	0.42
PrCom_4	0.47	0.52	0.51	0.44	**0.83**	-0.21	0.49	0.24	0.30	0.39	0.34	0.33	0.29	0.44
PrCom_5	0.58	0.54	0.67	0.54	**0.81**	-0.35	0.42	0.38	0.47	0.57	0.46	0.39	0.39	0.56
PrCon_1	-0.08	-0.19	-0.14	-0.28	-0.15	**0.78**	-0.21	-0.07	-0.13	-0.19	-0.07	-0.06	0.05	-0.17
PrCon_2	-0.19	-0.33	-0.23	-0.39	-0.25	**0.89**	-0.32	-0.14	-0.24	-0.32	-0.14	-0.07	-0.07	-0.32
PrCon_3	-0.24	-0.30	-0.31	-0.28	-0.30	**0.78**	-0.23	-0.18	-0.34	-0.37	-0.07	0.04	-0.06	-0.24
SBInd_1	0.52	0.63	0.45	0.55	0.54	-0.29	**0.82**	0.41	0.43	0.58	0.41	0.26	0.37	0.60
SBInd_2	0.41	0.37	0.36	0.30	0.40	-0.25	**0.81**	0.24	0.27	0.38	0.24	0.10	0.04	0.34
SBInd_3	0.33	0.40	0.37	0.29	0.35	-0.21	**0.78**	0.17	0.27	0.37	0.24	0.13	0.11	0.38
SComm_2	0.33	0.37	0.41	0.39	0.36	-0.14	0.32	**0.89**	0.38	0.37	0.33	0.16	0.36	0.35
SComm_3	0.42	0.39	0.42	0.42	0.33	-0.16	0.28	**0.89**	0.36	0.39	0.37	0.29	0.38	0.42
SComm_4	0.50	0.34	0.44	0.56	0.34	-0.10	0.28	**0.70**	0.31	0.44	0.34	0.31	0.21	0.46
SComp_1	0.53	0.57	0.36	0.40	0.45	-0.28	0.44	0.34	**0.85**	0.49	0.49	0.17	0.35	0.50
SComp_2	0.30	0.28	0.32	0.33	0.33	-0.24	0.21	0.29	**0.76**	0.34	0.43	0.19	0.18	0.34

SComp_4	0.43	0.31	0.37	0.44	0.28	-0.18	0.27	0.36	**0.70**	0.39	0.32	0.28	0.53	0.46
SCont_1	0.68	0.63	0.60	0.67	0.65	-0.30	0.57	0.49	0.49	**0.91**	0.54	0.35	0.40	0.72
SCont_2	0.66	0.69	0.53	0.62	0.52	-0.38	0.49	0.45	0.55	**0.92**	0.52	0.27	0.41	0.69
SCont_3	0.62	0.63	0.54	0.61	0.49	-0.36	0.49	0.37	0.43	**0.92**	0.56	0.26	0.46	0.71
SerAd_1	0.57	0.39	0.48	0.45	0.43	-0.06	0.24	0.31	0.35	0.50	**0.76**	0.37	0.50	0.52
SerAd_2	0.56	0.42	0.40	0.44	0.39	-0.09	0.30	0.20	0.48	0.42	**0.75**	0.51	0.53	0.54
SerAd_3	0.45	0.46	0.43	0.51	0.41	-0.14	0.34	0.49	0.35	0.49	**0.67**	0.17	0.28	0.56
SerAd_4	0.39	0.41	0.41	0.40	0.39	-0.08	0.29	0.23	0.33	0.40	**0.75**	0.28	0.35	0.52
SerAd_5	0.51	0.47	0.41	0.44	0.39	-0.08	0.27	0.36	0.51	0.42	**0.82**	0.32	0.44	0.61
SerNwI_1	0.51	0.31	0.35	0.37	0.39	0.00	0.27	0.28	0.30	0.26	0.38	**0.81**	0.47	0.45
SerNwI_2	0.47	0.23	0.36	0.43	0.38	-0.08	0.08	0.25	0.26	0.26	0.39	**0.82**	0.43	0.46
SerNwI_3	0.40	0.25	0.29	0.31	0.38	0.01	0.17	0.20	0.09	0.26	0.31	**0.80**	0.36	0.39
SerNwR_1	0.43	0.38	0.21	0.31	0.33	0.02	0.12	0.29	0.44	0.40	0.45	0.31	**0.79**	0.44
SerNwR_2	0.52	0.50	0.32	0.37	0.44	0.00	0.23	0.29	0.38	0.41	0.52	0.50	**0.84**	0.51
SerNwR_3	0.51	0.54	0.35	0.44	0.44	-0.15	0.34	0.33	0.39	0.46	0.46	0.43	**0.85**	0.51
SerNwR_4	0.38	0.35	0.28	0.38	0.30	0.00	0.14	0.36	0.27	0.26	0.48	0.49	**0.80**	0.48
SerNwR_5	0.31	0.26	0.22	0.30	0.16	-0.03	0.11	0.29	0.37	0.29	0.31	0.31	**0.70**	0.47
SerSp_1	0.60	0.58	0.67	0.64	0.51	-0.25	0.44	0.42	0.45	0.58	0.63	0.40	0.47	**0.83**
SerSp_2	0.59	0.52	0.57	0.61	0.50	-0.27	0.55	0.30	0.31	0.60	0.54	0.34	0.38	**0.82**
SerSp_3	0.62	0.51	0.57	0.64	0.49	-0.24	0.40	0.34	0.48	0.59	0.69	0.49	0.61	**0.86**
SerSp_4	0.69	0.65	0.75	0.72	0.64	-0.28	0.48	0.52	0.49	0.69	0.62	0.54	0.53	**0.90**
SerSp_5	0.69	0.61	0.57	0.69	0.60	-0.22	0.45	0.41	0.54	0.64	0.63	0.54	0.60	**0.85**
SerSp_6	0.64	0.52	0.50	0.58	0.51	-0.14	0.43	0.41	0.44	0.67	0.56	0.52	0.47	**0.78**
SerSp_7	0.67	0.69	0.49	0.58	0.52	-0.31	0.48	0.40	0.56	0.71	0.56	0.31	0.50	**0.83**
SerSp_8	0.56	0.65	0.46	0.59	0.42	-0.32	0.45	0.34	0.47	0.57	0.52	0.33	0.41	**0.69**
SerSp_9	0.60	0.49	0.55	0.60	0.41	-0.25	0.50	0.47	0.43	0.59	0.58	0.41	0.44	**0.77**

Note: Factor loadings of the indicators (bold) are larger than any other factor loading values, thus, qualifying for discriminant validity.

Table 6.12 shows that the factor loadings of the indicators and their respective latent variables, highlighted in bold, are higher than any other factor loading values of the indicators of the other construct variables. Thus, the model has passed the test of discriminant validity. The two tests have yielded similar results demonstrating the discriminant validity of the first order model.

As can be noted from the conceptual model and the first order model of PLS evaluation, the research hypotheses of the main study were established at a second-order (second level constructs). Thus second-order CFA is needed in order to test the validity of the second order measurement model. Before employing CFA to test the validity of the higher level constructs, an overview of second order factor model is presented below followed by the validation process.

6.3.3 Second Order Factor Model and Construct Validity

Whenever researchers examine complex abstracts of higher level, they usually consider higher-order models or hierarchical component models (HCM) that involve second-order structures which are of two layers of constructs (Hair et al., 2014b). These types of models are special cases of the first order because they contain latent variables of higher order that have embedded the lower order model in them (Sanchez, 2013; Hair et al., 2014b). Hair et al. (2014b) state that one of the reasons for considering the HCM is that, HCM simplifies the model set up by using a single construct (dimension) that represents all lower order constructs. That is, HCM can be used to reduce the number of relationships in the structural model reducing the complexity of the analysis and making the relationship easy to grasp. As a result, the PLS path model becomes parsimonious and easy to analyse. Furthermore, higher order constructs mediate the relationship between the lower order constructs and their associated targeted endogenous constructs in the PLS-PM.

Taking into account the complexity of the relationships of first order latent variables and the nature of the hypotheses, this study was based on the second-order model PLS-PM. To perform the second order outer model assessment, the first order outer model measurement has to be validated using the CFA which this study has taken care of. Then, as in the first order outer (measurement) model evaluation (CFA), a second order outer model has to be estimated using CFA before the second order inner model is assessed to test the hypotheses.

Phase one of the PLS outer model evaluation as done in section 6.2.2 illustrated that the first order measurement model was adequately valid satisfying both the requirements of the convergent and discriminant validity. As mentioned above, the indicators of the first order constructs form the second level constructs. What this simply means is that the lower level model is embedded in the higher level model. Thus, the validity of the second order measurement model is logically expected to be satisfactory if the first order outer model proves to be valid. The problem of collinearity for the current second order constructs cannot be a critical issue as the first order measurement model has established the discriminant validity of all the first order constructs. Further to the above justification regarding the validity of the second order model on the basis of the results of the first order measurement model (CFA), a second order CFA was carried out for each higher level construct. The second-order model has four second order constructs namely; Board structure (BStruct), Board process (BProcess), Board service role (BServrole) and Board control role (BControle). The table below reports the assessment of tests of the construct validity of the four main constructs at a second order level.

Table 6.13: PLS second order outer (measurement) model analysis

Second order constructs	**First order constructs**	**Outer loadings**	**AVE**	**Composite Reliability**	**R Square**	**Cronbachs Alpha**
Board Structure (BStruct)			**0.53**	**0.85**		**0.79**
	Scomp	0.78				
	SBInd	0.76				
	SComm	0.78				
Board Process (Bprocess)			**0.55**	**0.90**	**0.53**	**0.86**
	PrCom	0.88				
	PrCon	-0.46				
	PrCog	0.90				
	PrBrA	0.87				
Board Service Role (BServrole)			**0.65**	**0.95**	**0.61**	**0.94**
	SerAd	0.84				
	SerNwl	0.67				
	SerNwR	0.78				
	SerSp	0.94				
Board Control Role (BControle)			**0.57**	**0.94**	**0.70**	**0.93**
	Bcont	0.93				
	Ocont	0.88				
	Scont	0.88				

As can be seen from Table 6.13, 12 out of the 14 latent variables have an outer loading well above the minimum requirement of 0.70. Of the rest two, SerNwl latent variable has an outer loading of 0.67, which is only slightly below the requirement and PrCon has a much lower value of 0.46. However, these latent variables are retained in the measurement model since they have met the criteria for reliability and convergent validity. Particularly, when the composite reliabilities and AVEs (average variance extracted) of their respective higher order constructs are examined, they are well above the critical values of 0.70 (Bprocess 0.90, BServrole 0.95) and 0.50 (Bproces 0.55, BServrole 0.65), respectively. In sum, all the second order constructs' composite reliabilities are well above the minimum value of 0.70, the lowest being 0.85 and the highest 0.95, providing sufficient evidence of internal consistency reliability. The second order constructs' AVEs are all above the critical value of 0.50, ranging from 0.53 to 0.65, providing evidence of convergent validity. With regard to the relationships between the second order constructs and their respective first order latent variables, all have strong and positive relationship except for PrCon, which does not. Hence, the second order constructs have the potential to explain more than 50% of the variances of their respective first order latent variables. Likewise, the R^2s of the target endogenous variables (board service and board control role) show that both the board structure and the board process exogenous latent variables moderately explain 61% and 70% of the variances in the board service and board control roles, respectively. According to guidelines, R^2 values of 0.25, 0.50, and 0.75 represent weak, moderate, and substantial explanatory power, respectively (Hair et al., 2014b; Wong, 2013).

Table 6.14: Discriminant Validity assessment of second order constructs: Fornell-Larcker Criterion

Constructs	BStruct	Bprocess	BServrole	(BControle)
BStruct	**0.73**			
Bprocess	0.71	**0.74**		
BServrole	0.68	0.70	**0.81**	
(BControle)	0.71	0.70	0.74	**0.76**

Table 6.14 shows that the diagonal values (square root of AVEs) exceed their corresponding off-diagonal values (correlation between the constructs), providing good evidence of discriminant validity.

In SmartPLS, the algorithm to make the estimations stops in two conditions; one, when the stop criterion of the algorithm is reached or secondly, when the maximum number of specified iterations has been reached. If the algorithm converges in fewer numbers of iterations than the maximum specified, then this is a good sign of consistent and valid data (Wong, 2013). For the present measurement model, the algorithm has converged only after 7 iterations (instead of reaching the maximum specified 300 iterations), indicating that the estimation is very good. Below is a summary of the assessment of the measurement model for quick reference.

Table 6.15: Summary of measurement model evaluation (issue of reliability)

Reliability					
Latent variable	**Indicators**	**Outer loadings**	**Indicator reliability (Squared loadings) > 0.4* acceptable, preferred level >.50**	**Internal consistency reliability > 0.60****	**Reliable?**
SComp (Board composition)	SComp_1	0.85	0.72	**0.81**	**Yes**
	SComp_2	0.76	0.58		
	SComp_4	0.70	0.49		
SBInd (Board Independence)	SBInd_1	0.82	0.67	**0.85**	**Yes**
	SBInd_2	0.81	0.66		
	SBInd_3	0.78	0.61		
Committee function (SComm)	SComm_2	0.89	0.79	0.86	**Yes**
	SComm_3	0.89	0.79		
	SComm_4	0.70	0.49		
Board Process – Commitment (PrCom)	PrCom_1	0.73	0.53	0.89	**Yes**
	PrCom_2	0.83	0.69		
	PrCom_3	0.70	0.49		
	PrCom_4	0.83	0.69		
	PrCom_5	0.81	0.66		
Board Process – Conflict (PrCon)	PrCon_1	0.78	0.61	0.86	**Yes**
	PrCon_2	0.89	0.79		
	PrCon_3	0.78	0.61		
Board Process – Cognitive Conflict (PrCog)	PrCog_1	0.81	0.66	**0.92**	**Yes**
	PrCog_2	0.88	0.77		
	PrCog_3	0.88	0.77		
	PrCog_4	0.78	0.61		
	PrCog_5	0.85	0.72		
Process-Boardroom atmosphere (PrBrA)	PrBrA_1	0.82	0.67	0.89	**Yes**
	PrBrA_2	0.86	0.74		
	PrBrA_3	0.77	0.59		
	PrBrA_4	0.83	0.69		
Board Service role- Advising (SerAd)	SerAd_1	0.76	0.58	0.87	**Yes**
	SerAd_2	0.76	0.58		
	SerAd_3	0.67	0.45		
	SerAd_4	0.75	0.56		
	SerAd_5	0.82	0.67		
Board Service role- Networking - resource dependency (SerNwR)	SerNwR_1	0.80	0.64	0.90	**Yes**
	SerNwR_2	0.84	0.71		
	SerNwR_3	0.85	0.72		
	SerNwR_4	0.81	0.66		
	SerNwR_5	0.68	0.46		
Board Service role- Networking- image building (SerNwI)	SerNwI_1	0.81	0.66	0.85	**Yes**
	SerNwI_2	0.83	0.69		
	SerNwI_3	0.80	0.64		
Board Service role- Strategic participation (SerSp)	SerSp_1	0.83	0.69	0.95	**Yes**
	SerSp_2	0.82	0.67		
	SerSp_3	0.86	0.74		
	SerSp_4	0.90	0.81		
	SerSp_5	0.85	0.72		

	SerSp_6	0.78	0.61		
	SerSp_7	0.83	0.69		
	SerSp_8	0.70	0.49		
	SerSp_9	0.77	0.59		
Board control role (BCont)	BCont_1	0.79	0.62	0.89	**Yes**
	BCont_2	0.82	0.67		
	BCont_3	0.76	0.58		
	BCont_4	0.77	0.59		
	BCont_5	0.80	0.64		
Output control role (OCont)	OCont_1	0.74	0.55	0.86	**Yes**
	OCont_2	0.82	0.67		
	OCont_3	0.78	0.61		
	OCont_4	0.78	0.61		
Strategic control role (SCont)	SCont_1	0.91	0.83	0.94	**Yes**
	SCont_2	0.92	0.85		
	SCont_3	0.92	0.85		

*If the research is exploratory, 0.40 or higher is acceptable (Hulland, 1999); **in exploratory research, 0.60 or higher is considered acceptable (Hair et al., 2014b)

All the indicators have individual indicator reliabilities larger than the minimum acceptable level of 0.40. Composite reliability values are much larger than 0.60 demonstrating a high level of internal consistency among the indicators of the reflective latent variables.

Table 6.16: Summary of measurement model evaluation (issue of validity)

Validity				
Latent variable	Convergent validity AVE 0.50 or higher	Discriminant validity		Valid?
		Is square root of AVE of each LV greater than correlations among LVs (Fornell Larcker criterion)?	Is an indicator's outer loadings on a construct higher than all its cross loadings with other indicators constructs? See Table 20	
SComp (Board composition)	0.59	0.77	Yes, all indicators.	Valid
SBInd (Board Independence)	0.65	0.81	Yes, all indicators.	Valid
Committee function (SComm)	0.68	0.83	Yes, all indicators.	Valid
Board Process – Commitment (PrCom)	0.61	0.78	Yes, all indicators.	Valid
Board Process – Conflict (PrCon)	0.67	0.82	Yes, all indicators.	Valid
Board Process – Cognitive Conflict (PrCog)	0.70	0.84	Yes, all indicators.	Valid
Process- Boardroom atmosphere (PrBrA)	0.67	0.82	Yes, all indicators.	Valid
Board Service role- Advising (SerAd)	0.57	0.76		Valid
Board Service role- Networking -resource dependency (SerNwR)	0.63	0.79	Yes, all indicators.	Valid
Board Service role- Networking- image building (SerNwI)	0.66	0.81	Yes, all indicators.	Valid

Board Service role-Strategic participation (SerSp)	0.66	0.81	Yes, all indicators.	Valid
Board control role (BCont)	0.62	0.79	Yes, all indicators.	Valid
Output control role (OCont)	0.61	0.78	Yes, all indicators.	Valid
Strategic control role (SCont)	0.84	0.92	Yes, all indicators.	Valid

From the above summary table, it can be observed that both the convergent and discriminant validity are confirmed. All of the AVEs values are much larger than the minimum acceptable level of 0.50. The discriminant validity, which is also established as square roots of AVEs, is larger than the corresponding row and column correlation values. Also, all indicators' outer loadings on a construct are higher than all cross loadings with constructs of other indicators. Thus in general, the reliability and validity of the measurement model was assured through the above tests and procedures.

The next step after the reflective measurement model validation, in the structural equation modeling is evaluation of the structural (outer) model to estimate the strength and direction of the relationship among the latent variables (LV). Before presenting the structural model evaluation, the following section reports characteristics of sample 1 respondents and descriptive statistics of the manifest and latent variables of the main study. Sample 2 respondent (Stakeholders) characteristics and descriptive statistics of stakeholders' attitude towards corporate governance practice are presented in Chapter Seven sections 7.3.

6.4 Descriptive Statistics of the Manifest and Latent Variables of the Conceptual Model

This section describes the main study (sample 1). Firstly, it presents the descriptive statistics on the profiles of the respondents and type of ownership of the banks and secondly, a description of both the observed and unobserved latent variables. In regard to the later, it considers those items that have passed the validation requirements as demonstrated in sections 6.3.2 and 6.3.3 of this chapter. To examine corporate governance systems and practices, both samples 1 and 2 are considered and the descriptive statistics for sample 2 is given in Chapter Seven section 7.3.

Profile of Respondents (Sample 1)

This part analyses ownership type and presents profile of respondents in terms of demographic data, professional background and work experience. As stated in the methodological section, the sample frame for the main study was restricted to banks (private and public) in Ethiopia. The respondents were those stated below. The respondents provided their answers through questionnaires, a summary of which is given in Table 6.17.

The collected data shows that 80 % (85) of participants serve private banks and 20% (21) public banks. Of the 106 participants in the study, 10 % (11) are board chairmen, 64% (68) non-executive board members, 7% (7) former board members, 8% (8) board secretaries, and 11% (12) bank presidents. Demographic information related to the sample group used in the main study would show that:

- approximately 90 % (95) of the participants are males;
- about 69 % (73) of the participants are above 50 years old and 31% (33) are in the range of 30 and 49 years old;
- 82 % of the participant have served for at least 3 years as a board member;
- about 96% have more than10 years of work experience other than board membership, and
- more than two-thirds (69%) hold either a master's or doctoral degree in areas such as business, economics, finance, law, accounting, agriculture and science related areas to mention few.

Table 6.17: Ownership type and profile of respondents

Ownership type & demographic Variables	Category	Count	n=106 %	Valid %	Cumulative percentage
Ownership type	Private	85	80.2	80.2	80.2
	Public	21	19.8	19.8	100
	Total	**106**	**100.0**	**100.0**	
Position	Board chairman	11	10.4	10.4	10.4
	Non-executive board	68	64.2	64.2	74.5
	Former board	7	6.6	6.6	81.1
	Board secretary	8	7.5	7.5	88.7
	Bank President	12	11.3	11.3	100.0
	Total	**106**	**100.0**	**100.0**	
Gender	Female	11	10.4	10.4	10.4
	Male	95	89.6	89.6	100.0
	Total	**106**	**100.0**	**100.0**	

Age	30-39	9	8.5	8.5	8.5
	40-49	24	22.6	22.6	31.1
	50-59	42	39.6	39.6	70.8
	>60	31	29.2	29.2	100.0
	Total	**106**	**100.0**	**100.0**	
Year of service as a board member					
	1-3	39	37	43	43
	4-6	40	38	43	86
	>6	12	11	14	100
	Total	**91**	**86**	**100.0**	
	Missing	15	14		
	Total	**106**	**100.0**		
Work experience other than board	6-10	4	3.8	3.8	3.8
	11-15	6	5.7	5.8	9.6
	16-20	18	17.0	17.3	26.9
	>20	76	71.7	73.1	100.0
	Total	**104**	**98.1**	**100.0**	
	Missing	2	1.9		
	Total	**106**	**100.0**		
Level of education	Diploma	2	1.9	1.9	1.9
	Bachelor's Degree	31	29.2	29.5	31.4
	Master's Degree	58	54.7	55.2	86.7
	Doctoral Degree	14	13.2	13.3	100.0
	Total	**105**	**99.1**	**100.0**	
	Missing	1	.9		
	Total	106	100.0		
Professional background	Business and economics related	66	62.0	70.2	70.2
	Law	12	11.3	12.8	83.0
	Development studies	4	3.8	4.3	87.3
	Engineering	2	1.9	2.0	89.3
	PSIR, social anthropology, IT	4	3.8	4.3	93.6
	Pure sciences	6	5.7	6.4	**100.0**
	Total	**94**	**88.7**	**100.0**	
	Missing	12	11.3		
	Total	106	100.0		

Referring to the above table, the questionnaires that examine the role of boards were filled by those persons that directly or indirectly play an active role in corporate leadership. Of the 106 that have properly filled the questionnaire, 93% (Boards and Presidents) were involved in making corporate decisions and, therefore, have sufficient understanding of corporate practices. Thus, the respondents' responses are representative of corporate governance data that enables to answer the research questions. From the same table, it is observed that there is no respondent who serves as executive and at the same time sits on the board. This is because the National Bank of Ethiopia's Directive No. SBB/49/2011 strictly prohibits that no employee of a bank, whether permanent or contractual, can sit on the board of any bank. The board is, therefore, exclusively drawn from non-executive directors making the composition different from that of other emerging economies. By the same directive, there is no issue of CEO duality as the CEO cannot be a member of the board of directors.

The sample was gender biased, with males accounting for 90% (95). The majority of the respondents have enough experience as non-executive board members and in other areas of practice. This characteristic of the respondents is believed to provide a good opportunity to examine issues from various perspectives and prove useful in the questionnaire completion process, which may result in valid and reliable research results. It is also noted that the majority of experienced respondents are predominantly older persons with more than 50 years of age, constituting 69%. In the sample it can also be noted that 98 % hold a minimum of a bachelor's degree. An analysis of the professional background of the respondents indicates that more than 70% are business and economics related professionals. This ensures that respondents' level of understanding of governance issues can be high enabling them to easily comprehend questionnaire items. A response obtained from such groups is expected to be reliable and valid.

Furthermore, the National Bank of Ethiopia's Directive No. SBB/54/2012, under the title 'Requirements for Persons with Significant Influence in a Bank', stipulates requirements with regard to the required knowledge, experience and age of non-executive board of directors. According to the directive, at least seventy five percent of a bank's board members should hold a minimum of a basic degree or its equivalent and the remaining members should be completers of general secondary school or its equivalent. Furthermore, board members are required to have adequate experience in business management or should take adequate training after holding a seat on the board and their age should also be at least 30 years (Directive No. SBB/54/2012). Hence, on the basis of the above table and the description given, all the board members surveyed comply with requirements set out by the NBE.

Descriptive Statistics- Board Structure

A Board's effectiveness is influenced by its structure, which includes composition, independence and committee functioning. The board structure should be clear and transparent, defining the roles, responsibilities, and functions of the board and management in unambiguous terms. The board has to have a sufficient number of members with the right blend of skills, experience, and appropriate degree of diversity relevant to the board's tasks as well as the company's operation to be able to make effective strategic decision and evaluate managements' performance objectively. For the board to be independent, the majority of its members should be external (non-executive) (OECD, 2004). Having a non-executive board member in addition to helping maintain independence has an added advantage as non-executive board members bring with them important resources and serve as a link with the external environment. One aspect of board structure is working with board committees as some board functions are performed better with committee members having specialized knowledge. It is a common practice for boards to accomplish their work through committees (Adams et al., 2010). It is believed that working with specific committees is useful as this would allow maximum use of the board's expertise and knowledge. Decision making by the board is also facilitated by establishing a specific committee as it is sometimes difficult to make effective decisions in the context of a larger board.

Regarding the board structure, respondents were asked to rate the extent to which boards have the proper composition, independence, and operate with committees. A five-point Likert scale was used to rate the extent to which they agree or disagree with item statements falling under the latent variables. On the basis of the assessment of scales using both EFA and CFA (Chapter Six), the original 80 items were reduced to 60 items falling into 14 dimensions (factors). Three of the dimensions (board composition, board independence and board committeee) were used to measure the main construct, namely, board structure. The following descriptive statistics, therefore, applies only to those items that have passed the validation process. Presented below in Tables 6.18 and 6.19 are descriptions of the items under each latent variable and results of descriptive statistics, respectively.

Table 6.18: Description of items of board structure construct

Item code	Description
SComp_1	There is a transparent and clear structure between the board, the President, and executive directors
SComp_2	The board consists of a workable number of board members to function effectively and efficiently
SComp_4	Non executive board members bring with them important resources (expertise, link to the market, knowhow, technology...) and serve as a link with the external environment
SBInd_1	The board of directors are independent from the President of the bank
SBInd_2	Board members are independent from the board chairperson as the chairperson will not influence the extension or termination of the directorship
SBInd_3	The board of directors are independent from the controlling (large) shareholders
SComm_2	Working with committees is useful as this would allow maximum use of board's expertise and knowledge
SComm_3	Committee assignments reflect the interests, experience, and skills of individual board members
SComm_4	Standing and ad hoc committees report regularly to the full board

Table 6.19: Descriptive statistics: Board structure

Latent Variable (LV)	Item code	N	Minimum	Maximum	Mean	Std. Deviation
Board Composition	**SComp_1**	**106**	**1.00**	**5.00**	**4.28**	**.83**
	SComp_2	106	1.00	5.00	4.14	.94
	SComp_4	**106**	**1.00**	**5.00**	**3.97**	**.95**
	Average value of composition				**4.13**	**0.69**
Board independence	**SBInd_1**	**105**	**1.00**	**5.00**	**4.23**	**.91**
	SBInd_2	105	2.00	5.00	4.09	.89
	SBInd_3	**104**	**1.00**	**5.00**	**3.69**	**1.17**
	Average value of Independence				**4.00**	0.80
Board committee	**SComm_2**	**105**	**1.00**	**5.00**	**4.46**	**.64**
	SComm_3	**106**	**1.00**	**5.00**	**4.17**	**.80**
	SComm_4	106	2.00	5.00	4.20	.71
	Average value of committee				**4.28**	**0.59**
Board structure	**Overall average score**				**4.14**	

From the above table, it can be seen that the mean differences are not significant but working with committees is the best rated and most well developed practice of structural element with a mean of 4.28 out of 5, followed by board composition (4.13). In regard to the individual items, **SComm_2,** which relates to the advantage of working with committees, has received the highest rating (4.46). This goes in line with the literature and empirical evidence (OCED, 2004, Millan, 2010; Fauzi & Locke, 2012). **SComp_1** is the item with the second highest mean value (4.28) confirming the existence of a transparent and clear board structure with a plain definition of roles, responsibilities and relationships. With a mean of 3.69 out of

5 the lowest rated item is **SBInd_3**. This item examines whether the board of directors are independent from the controlling (large) shareholders, and the obtained value signifies that the board of directors is not totally free from the influence of the controlling shareholders as larger shareholders have influence on the selection of board members and thus their composition. The item analysis shows that all items have individually received more than 3 points out of the maximum 5. Looking into the standard deviation of the overall construct items, the variability is relatively small denoting general homogeneity or less diverse responses. The overall average score for the board structure is 4.14 (83%), which is significant.

Descriptive Statistics-Board Process

The board of directors is expected to be engaged in making strategic decisions and providing strategic guidance to the management of corporate forms of organizations. To this end, the objective of boards is primarily to maximize shareholders' values as well as protect the shareholders' interests. To ensure attainment of these objectives, board members need to demonstrate a high level of commitment, be critical in decision making and maintain healthy discussions and good boardroom atmosphere. In this regard, respondents were asked to rate the extent to which they think board members fare on these standards. This analysis refers to these four dimensions (Board commitment, process conflict, cognitive conflict and board room atmosphere) all of which reflect the main construct, board process. The analysis is based on the 17 items that were retained after the validation phase. Table 6.20 below presents descriptions of the items under each latent variable and results of descriptive statistics, respectively.

Table 6.20: Description of items of the board process construct

Item code	Description
PrCom_1	Board members regularly attend board meetings and make informed decisions.
PrCom_2	Board members come to the meeting well prepared for the agenda and are actively involved in discussions.
PrCom_3	Board members are very active in finding their own information in addition to reports supplied by the President
PrCom_4	Board members devote sufficient time needed and are available to fulfill board activities.
PrCom_5	Board members effectively use their knowledge, skill, and experience and contribute meaningfully to board discussions.
PrCon_1	There are conflicts and disagreements on the decisions to be taken during meetings
PrCon_2	There are conflicts and disagreements on the board's working style
PrCon_3	Differences of opinion in board decisions are more often settled by vote than by more discussions

PrCog_1	The Board exerts efforts to build consensus and manage conflict constructively
PrCog_2	Board members ask critical questions of proposals initiated by the management team.
PrCog_3	Board members critically assess information presented by the management team
PrCog_4	Board members raise critical points during meetings and do not serve as rubber stamp
Prcog_5	The board conducts its deliberations in a thoughtful, objective manner, and considers viewpoints of members before making decisions.
PrBrm_1	The board focuses much of its attention on long-term strategy and policy issues
PrBrm_2	The board chair leads meetings well with a clear focus on the big issues and allows open discussion before decisions.
PrBrm_3	Board members accept and support a decision that has been made, regardless of the way they voted on the issue.
PrBrm_4	There is always a very good internal atmosphere at board meetings

Table 6.21: Descriptive statistics: Board Process

LV	Item code	N	Minimum	Maximum	Mean	Std. Deviation
Commitment	**PrCom_1**	**106**	**2.00**	**5.00**	**4.15**	**.60**
	PrCom_2	106	1.00	5.00	3.65	.93
	PrCom_3	**106**	**1.00**	**5.00**	**3.47**	**.95**
	PrCom_4	106	1.00	5.00	3.71	.89
	PrCom_5	106	2.00	5.00	4.01	.72
	Overall commitment				**3.80**	**0.64**
Process conflict	**PrCon_1**	**105**	**1.00**	**5.00**	**3.12**	**1.13**
	PrCon_2	106	1.00	5.00	2.62	1.03
	PrCon_3	**106**	**1.00**	**5.00**	**2.33**	**1.08**
	Overall process conflict				**2.69**	0.89
Cognitive conflict	**PrCog_1**	**105**	**1.00**	**5.00**	**4.17**	**.80**
	PrCog_2	106	1.00	5.00	4.13	.76
	PrCog_3	**106**	**1.00**	**5.00**	**4.02**	**.84**
	PrCog_4	106	1.00	6.00	4.14	.82
	Prcog_5	**106**	**1.00**	**5.00**	**4.19**	**.79**
	Overall cognitive conflict				**4.13**	**0.67**
Boardroom atmosphere	**PrBrm_1**	**106**	**1.00**	**5.00**	**3.56**	**1.02**
	PrBrm_2	**106**	**1.00**	**5.00**	**4.12**	**.91**
	PrBrm_3	106	1.00	5.00	4.04	.94
	PrBrm_4	106	1.00	5.00	3.93	1.05
	Overall boardroom atmosphere				**3.91**	**0.81**
Board process	**Overall average score**				**3.73**	

The descriptive analysis of the board process shows diverse results with the highest overall mean value associated with cognitive conflict (4.13) and the lowest mean value representing process conflict (2.69). Except for two process conflict items, no item has a score of less than 3 out of 5. The items forming the cognitive conflict construct scored high across the board denoting that the decision making process is based on a synthesis of important ideas, issues, principles and critical questions. Before decisions are made, deliberations are conducted in a thoughtful, discerning and objective manner, paying heed to the viewpoints of the members. On the other hand, the process conflict latent variable has received the lowest points, implying that there are barely conflicts and disagreements in the decision process, and differences of opinions in board decisions are settled by votes than more discussions. Referring to board commitment construct, it can be observed from the scores that board members regularly attend meetings with the necessary preparation, making informed decisions, actively participating in discussions using their knowledge and experience, and devoting sufficient time to perform board activities. Scores of the board room environment also show that the board chair leads meetings well with a clear focus on the big issues and allows open discussion before decisions. Board members also accept and support a decision that has been made, regardless of the way they voted on the issue. In the boardroom, there is a good internal atmosphere and the board, somehow, focuses much of its attention on long-term strategy and policy issues. The standard deviation of the main construct, except for the process conflict latent variable, is not significant, showing a pattern of similar responses. The overall average achievement score for the board process is 3.73 (75%), which is above average.

Descriptive Study: Board Service and Control Roles

It has been mentioned several times that board of directors as a governing bodies is imperative in corporate forms of organizations where ownership and management are separated. That is, due to their large number, it is not possible for the owners to manage their firms. This introduces the need for a corporate body, boards that act on behalf of the multiple owners. Boards are entrusted with the responsibility of governing and controlling corporate forms of organizations. They are charged with the responsibility, among others, executing two distinct major tasks: service and control tasks (Huse, 2005; Minichilli et al., 2009). These roles are mainly rooted in the resource dependency, agency and stewardship theories. These broader roles are further classified into six specific roles. The service related role that includes the advisory, networking, and strategic participation functions; and the control related roles that include behavioral, output, and strategic control (Minichilli et al., 2009).

The service roles involve a set of related activities. For example, boards serve as a source of advice by providing suggestions in setting corporate policies and strategic decision making. Boards also play a networking role and help in obtaining scarce resources and building external legitimacy and reputation. Likewise, the control role consists of a set of related activities that include for example: monitoring performances and behaviors of self and top management; and evaluating and monitoring strategic decision-making.

In reference to the service and control roles, respondents were asked to rate the extent to which they think boards actively play the service and control roles. The service and control main constructs are broken down into seven dimensions on the basis of EFA. EFA categorized the networking role into two factors (resource generation and image building) while keeping the other five factors as they were. As a result, the analysis is based on seven latent variables (advisory, resource dependency, image building, behavioral control, output control and strategic control roles) that reflect the main construct. The analysis is based on the 34 items that resulted from the validation procedure. Table 6.22 below presents descriptions of the items under each latent variable and results of descriptive statistics, respectively.

Table 6.22: Description of items in the board service and control roles constructs

Item code	Description of service role
SerAd_1	Board members take initiatives to give advice based on personal knowledge, ideas, and points of view
SerAd_2	The board provides support and counsel to senior executive body up on request
SerAd_3	The board has significant influence on major management issues (such as bank's structure, strategy…)
SerAd_4	The board contributes to technical issues (new technology, new product…)
SerAd_5	The board contributes to market issues (new market or consumer behavior) and legal issues affecting the bank
SerNwR_1	The board creates linkages with important external stakeholders
SerNwR_2	The board assists the bank in obtaining scarce resources
SerNwR_3	The board provides the bank with external legitimacy and reputation
SerNwR_4	The board represents the bank in the political, economic, and social arena influencing the decision-making process.
SerNwR_5	Non executive directors provide alternative viewpoints
SerNwI_1	Board members are chosen on their merit and influence in community
SerNwI_2	The board seeks information and advice from leaders of similar organization
SerNwI_3	The board invites former members to convey the bank's history and values to new members and share their experience
SerSp_1	The board understands the organization's operational and environmental contexts
SerSp_2	The board is actively involved in long-term strategic planning process and goals to align with changes in the environment
SerSp_3	The board identifies actions to seize opportunities that will contribute to the bank's strategic priorities
SerSp_4	The board applies a strategic approach to decision making: considers facts, perspectives, objectives and criteria in discussions

SerSp_5	The board demonstrates awareness of emerging trends and reflect them in decision-making
SerSp_6	The board benchmarks strategic plan with best performing banking industry data
SerSp_7	The board identifies annual strategic direction within the framework of the long range planning
SerSp_8	The board receives plan for strategy implementation from the President
SerSp_9	The board gives proper advice and directions on how to achieve goals by setting policies
	Description of control role
BCont_1	The board is actively involved in monitoring that all internal behaviors are adequately controlled
BCont_2	The board is actively involved in defining behavioral guidelines for itself and top level managers
BCont_3	The board is actively involved in controlling/preventing occurrence of conflicts of interest among itself
BCont_4	The board is actively involved in supervising and evaluating the performance of the President
BCont_5	The board actively oversees the activities of its standing committees
OCont_1	The board controls that the activities are well organized
OCont_2	The board evaluates performance according to plans and budgets
OCont_3	The board has internal mechanisms to effectively monitor key performance areas yearly
OCont_4	The board is regularly kept informed on the financial position of the bank
SCont_1	The board actively monitors and evaluates implementation of strategic decisions and main goals
SCont_2	The board critically reviews performance against strategic plan
SCont_3	Management regularly reports to the board on key outcomes and targets that flow directly from the strategy

Table 6. 23: Descriptive statistics: Board service and control roles

LV	Item code	N	Minimum	Maximum	Mean	Std. Deviation
Advisory role	SerAd_1	106	2.00	5.00	4.05	.75
	SerAd_2	105	1.00	5.00	3.90	.87
	SerAd_3	**106**	**2.00**	**5.00**	**4.29**	**.68**
	SerAd_4	**106**	**2.00**	**5.00**	**3.69**	**.82**
	SerAd_5	106	2.00	5.00	3.81	.81
	Overall advisory role				**3.95**	**0.59**
Networking- resource dependency role	SerNwR_1	106	1.00	5.00	3.62	.96
	SerNwR_2	106	1.00	5.00	3.64	.85
	SerNwR_3	**104**	**2.00**	**5.00**	**3.88**	**.76**
	SerNwR_4	**104**	**1.00**	**5.00**	**3.59**	**1.02**
	SerNwR_5	101	1.00	7.00	3.71	.92
	Overall resource dependency role				**3.69**	**0.72**
Networking- Image building role	**SerNwI_1**	**105**	**1.00**	**5.00**	**3.45**	**1.10**
	SerNwI_2	106	1.00	5.00	3.28	1.00
	SerNwI_3	**104**	**1.00**	**5.00**	**2.88**	**1.10**
	Overall image building role				**3.20**	**0.87**
Strategic participation role	**SerSp_1**	**106**	**2.00**	**5.00**	**4.12**	**.69**
	SerSp_2	106	1.00	5.00	4.10	.83
	SerSp_3	105	1.00	5.00	3.91	.87
	SerSp_4	106	1.00	5.00	4.09	.74
	SerSp_5	105	1.00	5.00	3.91	.83
	SerSp_6	**106**	**1.00**	**5.00**	**3.74**	**.94**

	SerSp_7	106	2.00	5.00	4.11	.79
	SerSp_8	104	2.00	5.00	4.10	.82
	SerSp_9	105	1.00	6.00	4.11	.83
	Overall strategic participation role				**4.02**	**0.67**
Board service role	**Overall average score**				**3.81**	
Behavioral control role	BCont_1	105	1.00	5.00	3.54	.92
	BCont_2	**105**	**1.00**	**5.00**	**3.51**	**.90**
	BCont_3	106	1.00	5.00	3.79	.84
	BCont_4	106	1.00	5.00	3.89	.87
	BCont_5	**106**	**2.00**	**5.00**	**3.99**	**.66**
	Overall behavioral control role				**3.74**	**0.65**
Output control role	**OCont_1**	**105**	**2.00**	**5.00**	**3.80**	**.77**
	OCont_2	106	2.00	5.00	4.15	.70
	OCont_3	106	2.00	5.00	3.87	.73
	OCont_4	**106**	**3.00**	**5.00**	**4.45**	**.52**
	Overall output control role				**4.07**	**0.53**
Strategic control role	**SCont_1**	**106**	**1.00**	**5.00**	**3.97**	**.83**
	SCont_2	106	1.00	6.00	4.10	.86
	SCont_3	**106**	**2.00**	**5.00**	**4.29**	**.69**
	Overall strategic control role				**4.12**	**0.73**
Board control role	**Overall average score**				**3.98**	

The overall results of the service role main construct's latent variables with the highest mean value of 4.02 for the strategic participation role and the lowest mean value of 3.20 for the networking- image building role are shown above. The highest mean value shows that more emphasis is give to the strategic participation task, which agrees with the literature that recommends that boards should devote more time to strategic issues than operational ones. The networking-image building role has the lowest achievement with a relatively larger standard deviation of diverse responses.

looking into the control role main construct's latent variables, both the output control and strategic control latent variables demonstrate the highest overall mean values suggesting that boards do make follow ups on key performances, financial position and outcomes that flow directly from the strategy. All in all, except the image building variables, none of the observed variables have a mean value of less than 3.5 out of 5. The standard deviations are relatively small suggesting homogeneity of responses.

The examination of individual items under each latent variable shows that, SerAd_1 and SerAd_3 have a mean rating of 4.05 and 4.29, respectively, confirming that board members take initiatives to give advice based on personal knowledge and that they have significant influence on major management issues such as structure and strategy. The networking-resource dependency latent variable has 5 observable variables with the highest mean value of 3.88 (SerNwR_3), lowest mean value of

3.59 (SerNwR_4), and overall mean value of 3.69. The values represent that boards as external resources provide the bank with external legitimacy and reputation; make available alternative view points and help in securing access to scarce resources. With regard to image building items, the mean values range between 2.88 and 3.45 with a standard deviation of between 1.00 and 1.10. The achievements are relatively small implying that boards as image building inputs, are not chosen exclusively on merit basis and influence in the community. This further indicates that active boards do not necessarily invite former boards to share their experience and relate the bank's history and pass on values to new members. This latent variable has a diverse response set compared to others with relatively higher standard deviations.

Regarding the strategic participation latent variable, the result shows an overall average mean of 4.02 demonstrating board involvement in strategic issues. In this latent variable, SerSp_1 has the highest mean value (4.12) followed by SerSp_7 (4.11) and lowest mean value (3.74) of item SerSp_6. The standard deviations range between 0.69 and 0.94 representing less diverse responses for each item. All in all, the items' mean values of more than 4 for the latent variable imply the following: the board understands the organization's operational and environmental contexts in long-term strategic planning process, and applies a strategic approach to decision making by considering facts, perspectives, and objectives. The board identifies an annual strategic direction within the framework of the long range planning and gives proper advice and directions on how to achieve goals by setting policies. The overall average score for the bard service role is 3.81 (76%), which is higher than the average.

The other main construct, control role, has three dimensions: behavioral, output and strategic control. Regarding the items under behavioral control latent variable, it is observed that BCont_5, which states that the board actively oversees the activities of its standing committees, was the highest rated item with a mean value of 3.99 followed by Bcont_4 (The board is actively involved in supervising and evaluating the performance of the President) with a mean value of 3.89. On the other hand, BCont_2, that states the board is actively involved in defining behavioral guidelines for itself and top level managers, has the lowest mean achievement of 3.51. The overall mean value of the behavioral control dimension was 3.74 denoting the extent of strength of the boards' role in controlling corporate behavior. The standard deviation ranges from 0.66 to 0.92 denoting less variability of responses from the means.

The output control latent variable's overall mean was 4.07, the highest rated item being OCont_4 (mean 4.45) followed by OCont_2 (mean 4.15) and the lowest rated item OCont_1 (mean 3.8) (description of items given in Table 6.22 above). The overall mean value of 4.07 means, among others, the board is regularly kept informed on the financial position of the bank and evaluates performance according to plans and budgets. The standard deviation ranges from 0.52 to 0.77 representing less diverse responses.

The strategic control latent variable has an overall mean of 4.12. Item SCont_3 has the highest mean achievement of 4.29 while item SCont_1 has the lowest mean value of 3.97 in the category. The lowest standard deviation is 0.69 and the highest 0.86 having less varied responses. The results suggest that management regularly reports to the board on key outcomes and targets that flow directly from the strategy; and the board critically reviews performance against strategic plan and it actively monitors and evaluates implementation of strategic decisions and main goals. The board control role construct has an overall mean achievement of 3.98 (78%), which is much higher than the average.

Table 6. 24: Descriptive statistics of second order constructs (Board structure, Board process, Board service role and Board Control role)

Main constructs	N	Minimum	Maximum	Mean	Std. Deviation
BStruct	104	2.22	5.00	4.14	.52
BProcess	104	2.00	4.76	3.73	.48
BServrole	105	1.82	5.00	3.81	.58
BControle	105	1.92	5.00	3.98	.57

Table 6.24 presents the overall mean performance of the main (second order) constructs on the basis of which the hypotheses are established. The results are above their average values with relatively smaller standard deviations denoting less diverse and dispersed responses. Following description of the first order and second order latent variables, below is presented an empirical assessment of the relationships between the latent variables as part of a preliminary investigation of the hypotheses of the research.

6.5 Bivariate Correlation Analysis of Latent Variables and Principal (Higher Order) Constructs

Bivariate analysis as statistical analysis assesses the empirical relationship between two variables. It is helpful in preliminary tests of hypothesis of associations. In this regard, bivariate correlation was conducted between the latent variables considering their composite index (mean) calculated using SPSS version 20. SPSS was also used to examine the relationships between the latent variables. The associations of the principal constructs were also examined taking into account the composite indexes of the latent variables forming each principal construct. The latter was used for the preliminary tests of the hypotheses before formally testing them using the PLS-PM. Bivariate analysis of the latent variables and principal (higher order) constructs are displayed in Tables 6.25, 6.26 and 6.27, respectively.

Table 6.25 of Pearson's correlation for the 14 latent variables, used in the measurement model of PLS, demonstrates that 86 out of the 91 (95%) correlations are significant, of which 80 are positively correlated and 6 negatively. The preliminary diagnostic process gives support to the hypothetical model. With regard to the bivariate analysis of the principal constructs that form the inner model, Table 6.26 shows that all the six correlations are significantly and positively correlated. This result agrees with the five hypotheses established in the research. The preliminary support of the bivariate correlation results is briefly presented below taking into account the hypothetical model developed in Chapter Three. The model assumes that the board structure as a principal (higher level) construct with three latent variables, namely, board composition, board independence, and board committees will directly influence the board process, board service and control roles; with the board process, board service role and control roles standing as principal constructs, each with its reflective latent variables. The model also shows that there is a relationship between the board process and board service and control roles. The tables below show the correlation coefficients of the latent variables of the conceptual model and the correlations between the principal latent constructs.

Table 6. 25: Pearson Correlations among the latent variables

		SComp	SBInd	SComm	PrCom	PrCon	PrCog	PrBrA	SerAd	SerNwR	SerNwI	SerSp	BCont	OCont	SCont
SComp (LV1)	Pearson Correlation	1													
	Sig. (2-tailed)														
	N	106													
SBInd	Pearson Correlation	.374**	1												
	Sig. (2-tailed)	.000													
	N	104	104												
SComm	Pearson Correlation	.340**	.298**	1											
	Sig. (2-tailed)	.000	.002												
	N	106	104	106											
PrCom	Pearson Correlation	.428**	.515**	.435**	1										
	Sig. (2-tailed)	.000	.000	.000											
	N	106	104	106	106										
PrCon	Pearson Correlation	-.284**	-.296**	.061	-.263**	1									
	Sig. (2-tailed)	.003	.002	.534	.007										
	N	105	103	105	105	105									
PrCog	Pearson Correlation	.457**	.476**	.502**	.704**	-.269**	1								
	Sig. (2-tailed)	.000	.000	.000	.000	.006									
	N	105	103	105	105	104	105								
PrBrA	Pearson Correlation	.519**	.456**	.465**	.632**	-.384**	.670**	1							
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000								
	N	106	104	106	106	105	105	106							
SerAd	Pearson Correlation	.538**	.371**	.398**	.519**	-.116	.562**	.584**	1						
	Sig. (2-tailed)	.000	.000	.000	.000	.239	.000	.000							
	N	105	103	105	105	104	104	105	105						
SerNwR	Pearson Correlation	.460**	.206*	.339**	.398**	-.007	.334**	.443**	.556**	1					
	Sig. (2-tailed)	.000	.040	.001	.000	.945	.001	.000	.000						
	N	101	100	101	101	100	100	101	100	101					
SerNwI	Pearson Correlation	.264**	.194*	.503**	.461**	-.004	.401**	.446**	.433**	.502**	1				
	Sig. (2-tailed)	.007	.049	.000	.000	.964	.000	.000	.000	.000					
	N	104	103	104	104	103	103	104	103	100	104				
SerSp	Pearson Correlation	.559**	.550**	.491**	.611**	-.286**	.690**	.763**	.734**	.602**	.549**	1			
	Sig. (2-tailed)	.000	.000	.000	.000	.004	.000	.000	.000	.000	.000				
	N	103	102	103	103	102	102	103	102	99	102	103			
BCont	Pearson Correlation	.547**	.507**	.532**	.635**	-.192	.624**	.663**	.672**	.535**	.559**	.777**	1		
	Sig. (2-tailed)	.000	.000	.000	.000	.051	.000	.000	.000	.000	.000	.000			
	N	105	104	105	105	104	104	105	104	101	104	103	105		
OCont	Pearson Correlation	.489**	.557**	.337**	.654**	-.310**	.556**	.634**	.586**	.524**	.314**	.701**	.711**	1	
	Sig. (2-tailed)	.000	.000	.000	.000	.001	.000	.000	.000	.000	.001	.000	.000		
	N	105	104	105	105	104	104	105	104	101	104	103	105	105	
SCont	Pearson Correlation	.529**	.539**	.366**	.591**	-.361**	.605**	.688**	.588**	.442**	.322**	.775**	.712**	.694**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000	.000	.000	.001	.000	.000	.000	
	N	106	104	106	106	105	105	106	105	101	104	103	105	105	106

**,*. Correlation is significant at the 0.01 and 0.05 level (2-tailed), respectively.

Table 6. 26: Pearson Correlations among the principal constructs

		BStruct	BProcess	BServrole	BControle
BStruct	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	104			
BProcess	Pearson Correlation	.679**	1		
	Sig. (2-tailed)	.000			
	N	102	104		
BServrole	Pearson Correlation	.679**	.740**	1	
	Sig. (2-tailed)	.000	.000		
	N	96	95	97	
BControle	Pearson Correlation	.737**	.746**	.819**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	104	103	97	105

**. Correlation is significant at the 0.01 level (2-tailed).

Table 6. 27: Pearson correlation coefficients of structural and process latent variables

Principal Construct	**Board process**				
Board structure	**LV**	**PrCom**	**PrCon**	**PrCog**	**PrBrA**
	SComp	.428**	-.284*	.457**	519**
	SBInd	.515**	-.296**	.476**	.456**
	SComm	.435**	.061	.502**	.465**

**,*. Correlation is significant at the 0.01 and 0.05 level (2-tailed), respectively

As shown in Table 6.27 above, the board structure's latent variables (Scomp, SBInd and Scomm) are significantly correlated with board process's latent variables (PrCom, PrCon, PrCog, and PrBrA) except for SComm and PrCon. The structural latent variables are positively correlated with commitment, cognitive conflict and boardroom activity latent variables; and negatively correlated with the process conflict latent variable. These values give preliminary evidence of the relationship between board structure and board process latent variables. The results show that board structure affects board process. That is, a properly structured board in terms of composition, independence, and active committee might also be active in the board process expressed in terms of commitment, critical debate, and good sprit in the boardroom.

Table 6. 28: Pearson's correlation coefficients of structural, service & control roles latent variables

Principal Construct	Board service role					Board control role		
Board structure	LV	SerAd	SerNwR	SerNwI	SerSp	BCont	OCont	Scont
	SComp	.538**	.460**	.264**	559**	.547**	.489**	.529**
	SBInd	.371**	.206*	.503**	.550**	.507**	.557**	.539**
	SComm	.398**	.339**	.503**	.491**	.532**	.337**	.366**

**. Correlation is significant at the 0.01 level (2-tailed)

The table above shows the extent of relationship between board structural latent variables and board service and control role latent variables. The correlation coefficients provide preliminary support of the significant and positive association between each of the structural latent variables (Scomp, SBInd and Scomm) and each of the service (SerAd, SerNwR, SerNwI and SerSp) and control role (BCont, OCont and SCont) latent variables. The significant positive correlation of the structural latent variables and the service and control latent variables may not be surprising as properly structured boards are expected to accomplish all service and control tasks effectively.

Table 6. 29: Pearson's correlation coefficients of process, service & control roles latent variable

Principal Construct	Board service role					Board control role		
Board Process	LV	SerAd	SerNwR	SerNwI	SerSp	BCont	OCont	Scont
	PrCom	.519**	.398**	.461**	.611**	.635**	.654**	.591**
	PrCon	-.116	-.007	-.004	-.286**	.624**	-.310**	-.361**
	PrCog	.562**	.334**	.401**	.690**	.624**	.556**	.605**
	PrBrA	.584**	.443**	.446**	.763**	.663**	.634**	.688**

**. Correlation is significant at the 0.01 (2-tailed)

Table 6.29 shows the relationship between the board process and board service and control roles. Except for the process conflict (PrCon) variable and three service role variables (SerAd, SerNwR & SeRNwI), the remaining variables show significant correlations. PrCon is significantly but negatively correlated with SerSp, OCont, and Scont but positively related with BCont. These associations seem logical because when the intensity of process conflict gets higher, it negatively affects (is detrimental to) the strategic participation, output and strategic control roles while positively influencing the behavioral control role. The remainders of the board process latent variables (PrCom, Prcog and PrBrA) are positively and significantly related to the service and control role latent variables, at the 0.01 significance level. This means that high level of commitment; cognitive conflict and good boardroom spirit probably allow boards to execute their service and control roles more effectively, in terms of advice provision, resource generation, image building, strategic participation, behavioral , output, and strategic control.

Turning to the principal (higher level) constructs, the same results have been obtained as above but in their aggregate forms. The summary table of the bivariate correlation between the constructs is presented below.

Table 6. 30: Pearson's correlation coefficients of board structure, board process, board service & control roles main constructs

Principal construct	Board Process (Bprocess)	Board service role (BServrole)	Board control role (BControle)
Board Structure (BStruct)	.679**	.679**	.737**
Board Process (Bprocess)	1	.740**	.746**
Board service role (BServrole)	.740**	1	.819**

**. Correlation is significant at the 0.01 level (2-tailed).

The correlation coefficients between the latent constructs are high, significant and positive, as expected, providing preliminary evidence for the hypothesized relationships. Examining the relationship from the table above, it is noted that board structure is positively and significantly related to board process, board service role and board control role. This result is consistent with the results given in Tables 6.27 and 6.28 above showing that a properly structured board can positively influence the board process, board service role and board control role. In turn, the board process with high coefficients is positively and significantly related to the board service role and control roles. That is, a board that is in the right board process is expected to accomplish both the board service and control roles rightfully. The correlation coefficient between board service and control roles is the highest value recorded in this study (.819**) demonstrating that a board that is active in performing the service tasks can also be active in performing all the control tasks.

Once the quality of the measurement model is assured and preliminary test of relationships performed, the next step of analysis would be estimation of the specified structural model and formal tests of the hypotheses using Smart PLS-PM. This is discussed in Chapter Eight.

6.6 Summary

This chapter presented the evaluation of the reliability and validity of the measurement model as a prerequisite to the assessment of the structural model, (testing hypotheses). That is, if the measurement model cannot pass tests of reliability and validity, it is not possible to assess the structural model or perform hypothesis testing. The measurement purification was done in two stages. Firstly, the factorial dimensionality of the indicator variables with respect to their latent variables was carried out through exploratory factor analysis using principal component analysis (PCA). Secondly, construct reliability and validity tests were performed using PLS outer (measurement) model evaluation on those items retained after EFA. The two processes led to the removal of a total of 20 items (14 items through EFA and 6 items by CFA). The PCA regrouped the indictor variables into several constructs. The processes ensured the reliability and validity of the measurement model, which serves as a basis for the measurement of the structural model presented in Chapter Eight. The profile of sample-1 respondents and descriptive statistics of those manifest and latent variables that passed the validation tests are also presented in this chapter. Before the structural model evaluation that tests the hypotheses established in Chapter Three, bivariate correlation analysis was carried out as a preliminary test of the appropriateness of the structural model relationships hypothesized.

Before presenting the structural model evaluation, the next chapter will examine the perceptions of both the governing bodies (Sample-1) and group of stakeholders (Sample-2), separately and in aggregate terms, regarding the current corporate governance systems and practices in Ethiopia. The analysis is believed to complement the structural model results.

Chapter 7 Perception Survey of Corporate Governance Practices: Analysis, Findings and Discussions

7.1 Introduction

Sections 6.3 and 6.4 of the previous chapter assessed the mean achievement of corporate governance constructs and their relationships as a preliminary test of the hypothesis established in Chapter Three. The results for almost all first and second order latent variables were above their average values, denoting quite adequate performance for the latent variables. As a preliminary evidence for the hypothesized relationships, the bivariate correlation analysis also reported high, significant and positive relationship between the constructs. The formal tests of the hypotheses are performed and presented in Chapter Eight.

Before presenting the structural model evaluation, this chapter examined how the governing bodies (Sample-1) and group of stakeholders (Sample-2) perceive corporate governance practices in Ethiopia. To the best of the researcher's knowledge, little or none is known about the opinions of boards and stakeholders in relation to the principles of good corporate governance, strategies and approaches to promote good governance, characteristics of the Ethiopian boards, key corporate governance issues and the like in the Ethiopian emerging market economy context. Two separate analyses were made deliberately, and finally aggregated, to give emphasis to the perceptions of the governing bodies and the stakeholders and empirically compare differences and address research questions five and six set in Chapter One section 1.5.

This chapter, therefore, empirically analyses the respondents' perceptions of the current practices of corporate governance. The analysis is conducted in relation to, among other things, the OECD framework, remunerations, characteristics of boards, approaches to promote corporate governance, strategic issues, board independence, board duty and governance issues. Moreover, comments, issues raised and recommendations made by stakeholders to improve corporate governance practices are examined and analyzed so as to identify any serious concerns. Finally, in order to enhance the results of the quantitative analysis and/or inform each other, the qualitative in-depth interview is analyzed for patterns in reference to specific corporate governance themes.

7.2 Survey of Governing bodies’ (Sample-1) Perception of Corporate Governance Practices

It is believed that every country has its own distinctive type of corporate governance that reflects its political, economic and regulatory setups. Regardless of the distinction, corporate governance principles have at their center stage something in common that deal with a system by which corporate forms of organizations are directed and controlled (OECD, 2004). This specifies the distribution of rights and responsibilities among the different actors in corporate forms of business that include, the shareholders, boards, employees, other stakeholders like creditors and the society at large. Corporate governance sets out rules, procedures and systems on the basis of which corporate affairs are handled fairly. Corporate governance spells out the structure through which company objectives are set, the means of achieving them, and monitoring their performances (ibid).

A corporation with good corporate governance is expected to demonstrate, among other things, protected shareholders’ rights, equitable treatment of shareholders, appreciation of stakeholders’ role, disclosure and transparency (Grove and Clouse, 2015), alignment of company and shareholders’ interests. Good corporate governance could mean ensuring fairness to all parties, maintaining transparency, planting accountability, instituting shareholder confidence, sustaining wealth maximization for owners and building good image for a company. It is for these benefits that corporate governance has received increased importance since the last decades especially after corporate scandals of big companies such as Enron and the financial crises of the recent times.

To this end, this study attempts to scan corporate governance practices in the emerging Ethiopian economy settings. OECD (Organization for Economic Cooperation and Development) is taken as a benchmark for assessment in this study because, so far, Ethiopia has no standardized code of corporate governance nor an institution responsible for crafting and enforcing the same.

To assess corporate governance practices, the five pillars of OECD principles of corporate governance are mainly taken into account. The OECD is an international body formed by 34 developed countries to produce a set of globally accepted principles of corporate governance. The OECD principles provide a framework for developing and establishing corporate governance systems and practices of a country in line with its own political, economic, institutional, legal and regulatory environment. It also serves as a framework for assessing a country's corporate governance practices. Some of the key elements of OECD's good corporate governance principles focus on the rights of shareholders, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency and the responsibilities of the board (OECD, 2004). To address the first two issues, Sample One respondents of only the private domain (85 respondents out of 106) were particularly asked to provide data on the corporate governance practices that specifically address the ownership and control structure of their banks, shareholders' rights and treatment of shareholders. These questions were specifically addressed to them because the questions do not apply to the public banks as they are fully owned and controlled by the government with high concentration of ownership.

Ownership and Control Structure of Private Banks

Corporate governance is affected by the relationships among the major actors in the governance system. These include controlling shareholders, management, creditors, employees, the government and other stakeholders (OECD, 2004). Ownership and control structure are among the variables that affect corporate governance behavior. Agency problem or corporate misbehavior is more manifested in a dispersed ownership structure. On the other hand, when ownership is highly concentrated, there is a danger of asset expropriation by controlling shareholders. In this regard, both ownership dispersion and concentration can become a concern for corporate forms of organizations (La Porta et al., 2002).

Though corporate governance is at its earliest stage of development in Ethiopia, the problems of ownership dispersion and concentration cannot be an exception to it. Regarding this issue, participants were requested to describe the ownership and control structure of the banks in which they serve. The frequency distribution shows that 47(54%) believe that the largest shareholders (each up to 5% of holdings) collectively and effectively control the bank with significant voting rights, whereas 37 (44%) believe that ownership is fairly diffused (see Appendix 7.1). The data indicates the presence of controlling shareholders and ownership concentration, allowing controlling shareholders to have more freedom and power to influence decisions to be along the lines of their interests.

However, the concentration of ownership is limited due to Banking and Insurance Proclamation No. 592/2008 of the Federal Government of Ethiopia that defines ownership of banks. The proclamation specifies limitation on the acquisition of shares stating that except the government of Ethiopia no party can hold more than 5% of a bank's total shares on its own or jointly. The purpose of this directive is to ensure fairness to all shareholders and safeguard the interests of the minority shareholders. Furthermore, concentration of ownership could mean giving few shareholders the ability to control the bank activities, which might jeopardize minority shareholders' rights, and result in loss of shareholders' confidence, lose of confidence in investors, and above all negative impact on compliance to best practices corporate governance.

The Rights and Equitable Treatment of Shareholders

Shareholders are the principal owners of corporate forms of organizations. Due to their large number, as owners, shareholders do not have the opportunity to manage and control the firms that they own. So, they hire management to run the firm with the objective to maximize shareholders' interests. This demonstrates that, for a large number of owners, management and control are distanced, resulting in the need for a board of directors, as an internal corporate mechanism with appropriate governance codes to protect shareholders' rights and ensure their equitable treatment.

The OECD (2004) states several characteristics of shareholders' rights and obligations as discussed earlier in Chapter Two section 2.8.2 and listed in Table 7.1 below. Respondents were asked to indicate the presence or absence of these features in practice. Table 7.1 gives a summary of responses from private bank respondents in relation to shareholders' rights and equitable treatment.

Table 7.1: The rights and equitable treatment of shareholders

Characteristics	**Yes**		**No**	
	#	**%**	**#**	**%**
Deviation from one-share one-vote rule	2	2	83	98
Voting by mail allowed	1	1	84	99
Voting by proxy allowed	70	82	15	18
Adequate time given for questions at shareholders meetings	73	86	12	14
Shareholders' priority subscription rights protected	82	97	2	2
Equitable treatment of shareholders practiced	66	78	19*	23
Candidates disclosed before shareholders' meetings	13	15	70	82
Large shareholders nominate candidates at the shareholders' meetings	54	64	29	34

*Not fully

It is noted from the above table that the principles of the rights and equitable treatment of shareholders appear to be in place as most of the respondents indicated the presence of most of the features such as shareholders' right to vote, participate and ask questions at AGM (Annual General Meeting), priority subscription right to additional share and equitable treatment of all shareholders. Specifically, the voting system in almost all private banks is based on one-share one vote rule (98%) which is in line with the Commercial Code of Ethiopia (Article number 407, 2, 1960). The 1960 Commercial Code of Ethiopia is still active and allows different rights to different classes of share such as the preferred right of subscription in the event of future issues, or rights of priority over profits, or assets or both. But, it states that all shares of the same class have the same par value and the same rights in proportion to the amount of capital represented and prohibits the issue of share with a preference as to voting rights (Articles 335 and 336). The recent Proclamation No. 592/2008 article number 10(1) of the Federal government of Ethiopia proclaims that banks shall issue only one class of shares which are of ordinary shares of the same value. Thus, there are no preferential shares with preferential rights to voting during the AGM.

One of the OECD principles of basic rights of shareholders is participating and voting at AGM either in person, by mail or by proxy. Of those surveyed, almost all confirmed that voting by mail has never been allowed and used by anyone of them (99%). A high percentage (82%) of those surveyed also stated that voting by proxy is allowed and practiced by shareholders. The Commercial Code article 398 (1960) allows shareholders to nominate one proxy (who produces a supporting legal document) to represent them in the AGM. In addition to participation and voting, shareholders' rights include asking questions in an AGM. Thus, 86% of the respondents mentioned that there is a participation opportunity and that adequate time is given for asking questions during AGM. Based on the above table, almost all (97%) stated that shareholders' priority subscription rights in the issuance of additional shares are well protected.

The OECD code of corporate governance emphasizes the equitable treatment of all shareholders and 78% of the respondents admitted that equitable treatment does exist across the board, including the minority shareholders. Disclosure of candidates before shareholder meetings is not a common practice according to 82% of the respondents. A good proportion of the respondents (64%) also stated that big shareholders are given the chance to nominate candidates at the shareholders' meetings.

Shareholders have not only rights but also obligations that are quite important for successful corporate governance practices. These obligations revolve around knowing, demanding and exercise their rights. Below the summary of responses (see Table 7.2) shows that 18% and 53% of the respondents believe that all know and the majority of the shareholders know their rights and obligations, respectively, while 29%% of the respondents believe that only few of the shareholders know their rights and obligations. This implies that further effort is needed to clearly establish, among the shareholders, that their interests could be protected and enhanced not only through the board of directors but also through their own active participation. In terms of the degree of exercise of their rights, 84% of the respondents are convinced that shareholders who know their rights do freely exercise them in AGM and other situations.

Table 7.2: Shareholders' rights and obligations

Characteristics	**Yes**		**Majority know**		**Only few know**	
	#	**%**		**%**	**#**	**%**
Shareholders know their rights and obligations	15	18	45	53	25	29
Those who know their rights freely exercise them in AGM in matters such as voting and profit sharing	**Yes**		**No**		**Sometimes**	
	#	**%**		**%**	**#**	**%**
	71	84	3	3	11	13

In a nutshell, the above analysis appears to indicate that there is a sound governance practice considering the reported presence of some features and the scores on some of corporate governance parameters such as: the shareholders' rights to vote, participate and ask questions at AGM, priority subscription right to additional shares and equitable treatment of all shareholders.

Disclosure and Transparency

Transparency in information disclosure applies both to the private and public sector banks as disclosure and transparency in information enables stakeholders to have a good understanding of a company and helps in developing trust and good image. Disclosure and transparency in information is critical in corporate governance as it serves as a tool to disseminate information to all stakeholders concerning the company at large. OECD (2004) and the Cadbury report (1992) recognize disclosure and transparency as an important component of any corporate governance system.

The OECD (2004) principles on disclosure and transparency urge corporations to disclose material information on a timely and accurate basis. These include the financial situation, operating performance, annual audit, and governance structure and policy of the company. Banking Business Proclamation No. 592/2008 of the Federal Democratic Republic of Ethiopian also requires all commercial banks to disclose material information on issues mentioned above. With regard to this, respondents were asked whether they believe their banks are transparent and disclose material information on the issues listed in the table below.

Table 7. 3: Disclosure and transparency of private and public banks

Characteristics	Yes		No	
	#	%	#	%
Governance structures	98	93	8	7
Explicit corporate governance rules	78	74	27	26
Vision, missions, and values	105	99	1	1
Financial performances	106	100		
Audited annual reports	106	100		
Resume or background of directors	70	66	36	34
Members of board sub-committees	66	62	40	38

Table 7.3 above summarizes the responses to survey questions regarding the type of information that they disclose and the means of disclosing them. Accordingly, almost 100% of the respondents confirmed that the banks they govern comply with the transparency of information disclosure principles and comply with the Banking Business Proclamation No. 592/2008 on matters related to financial performance, audited annual reports, vision mission, values and corporate structures. More than two thirds of respondents also stated that they disclose information on corporate governance rules and background of directors.

Table 7.4 below reveals that the vast majority of the respondents (95%) confirm that their banks employ both annual reports and reports to regulatory agencies, to disseminate material facts.

Table 7. 4: Disclosure of material information

Means of disclosure	#	%
Annual reports	101	95
Reports to regulatory agency	103	97
Web pages	40	38
Brochures	35	33
Meetings	42	40

Annual reports to shareholders and regulatory agencies are mandatory requirements by law. Thus, the efforts of banks in promoting transparency and disclosure of material information should be judged by the additional voluntary efforts they exert such as provision of information on web pages, through brochures and during meetings. The responses of the respondents in this regard do not paint a positive picture as only 38% of the respondents stated that their banks post relevant material information on their web pages while, 33% and 40% of the respondents revealed that their banks employ brochures and meetings , respectively, to disseminate material facts.

Role of Stakeholders

OECD (2004:45) recognizes the importance of stakeholders and emphasizes that any governance framework should acknowledge "… the rights of stakeholders established by law or through mutual agreements and encourage active cooperation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises". It further states that stakeholders' relationships that include employees, creditors, suppliers and investors are important for building sustainable enterprises and bringing about mutual development by fostering teamwork.

Therefore, corporations should recognize the contributions of stakeholders in promoting good governance for the long term success of the corporation and always take into account their interests in taking decisions and actions. Such interests of the corporation are served by recognizing the interests of stakeholders and the society at large. Of course, sound corporate governance is the outcome of the combined efforts of various interest groups and stakeholders. In Ethiopia, different stakeholders have been engaged in various activities such as revising commercial codes, enacting rules, monitoring and enforcing directives and regulations (AACCSA, 2009) to promote sound corporate governance. For the purpose of understanding their perceptions, respondents were requested to rank the relative importance of stakeholders in improving corporate governance in Ethiopia, in general, and the banking sector in particular. Table 7.5 summarizes the responses.

Table 7. 5: Summary of perception of relative importance of stakeholders' role in improving corporate governance

Characteristics	Levels												
	1		2		3		4		5		6		Missing
	#	%	#	%	#	%	#	%	#	%	#	%	#
Media	9	8	10	9	11	10	18	17	25	24	19	18	14
Chamber of commerce	2	2	6	6	15	15	24	23	26	25	20	19	13
Professional society	7	7	17	16	34	32	19	18	11	10	9	9	8
Financial supervisory agencies	68	64	22	21	9	9	-	-	1	1	2	2	4
The judiciary	7	7	15	14	17	16	14	13	1	11	27	26	12
Non executive board of directors	18	17	23	22	9	9	10	9	11	10	23	22	12
Others, Bankers association	4	4											

Except the financial supervisory agency, which is rated as relatively most important (level 1) by 64 % of the respondents, the rest of the stakeholders scored less than 20%. The majority of the respondents believe that the financial regulatory and supervisory agencies, as the most important stakeholders, can play a key role in promoting and improving corporate governance in the country, particularly, in the banking industry. It is not surprising to observe the importance attached as the financial supervisory agencies are the only institutions that are endowed with the power to monitor, regulate and supervise the financial institutions in the country. An empirical study by Mullineux (2006) and Arun and Turner (2004) on the corporate governance of banks suggests that there needs to be a prudent regulatory system for banks in order to enhance good corporate governance. On the basis of the perception survey, it is observed that the other entities, which are outside(non-executive) board of directors, professional societies, chamber of commerce, the media and the judiciary were rated 2nd, 3rd, 4th, and 5th in terms of their importance in improving corporate governance practices. The non-executive board of directors is second in importance, which agrees with the literature which recommends the significant presence of non-executive boards (OECD, 2004) as internal corporate governance mechanisms to minimize the agency costs. The judiciary and the media are believed to promote good governance. However, the respondents rated them as least important in this regard. This might indicate that the respondents do not have much confidence in the capacity of these institutions in promoting good corporate governance practices in Ethiopia.

Controlling the undue influence of the largest shareholders is another important role of stakeholders. In this regard, respondents were asked to rank the relative importance of the different stakeholders in controlling the abusive behavior of controlling owners in the Ethiopian context. A summary of the respondents' views is given below.

Table 7.6: Summary of perceived relative importance of stakeholders' role in preventing influence of controlling owners

Characteristics	Levels												
	1		2		3		4		5		6		Missing
	#	%	#	%	#	%	#	%	#	%	#	%	#
minority shareholders	7	7	10	9	19	18	22	21	25	24	8	8	15
Institutional investors	11	10	11	10	19	18	28	26	16	15	8	8	13
Outside (non-executive) board of directors	12	11	18	17	25	24	18	17	14	13	8	8	11
Financial supervisory agencies	52	49	31	29	7	7	2	2	1	1	4	4	9
Labor unions or employees	2	2	9	9	5	5	19	18	52	49	1	1	18
The legal system	25	24	23	22	13	12	15	14	11	10	8	8	11

Table 7.6 presents respondents' rating of the relative importance of six categories of stakeholders in thwarting the undue powers of controlling/large owners to pursue their private interests. Financial supervisory agencies are rated as the most important stakeholders in this regard. This perceived importance is not due to extra efforts exerted by the regulatory and supervisory agencies but on account of the legal power vested in them (by the Licensing and Supervision of Banking Business proclamation number 84/1994). Corporate governance is relatively new to the country and at a nascent stage and the National Bank of Ethiopia (NBE) is the only enforcing institution that oversees how well good governance is practiced.

According to the Table the legal system, non-executive board of directors and institutional investors, which received scores of 22% (level 2), 24% (level 3) and 26% (level 4), respectively, are also considered important entities in preventing the influence of controlling owners, while minority shareholders' and the labor unions' roles are indicated least important by the respondents. The roles of institutional investors, minority shareholders and the labor unions need further enhancement for them to be considered as key players in this regard.

Respondents were also requested to indicate whether they think institutional shareholders are in a stronger position to influence the board than other types of shareholders (minority and controlling shareholders), to act in the best interests of the owners. The majority (54, 51%) do and quite a substantial number (45, 43%) do not feel that institutional shareholders have the power to act more influentially in this manner.

Better corporate governance can be achieved by different strategies that may include, among others, having active shareholders, enacting specific rules, and introducing standards and codes. However, their relative contribution in bringing about better corporate governance would depend upon the specific environment in which they operate. The relative effectiveness of the tasks in promoting better corporate governance in Ethiopia is an issue to be addressed. To this effect, respondents were asked to rank the relative effectiveness of the seven tasks listed below in bringing better corporate governance in Ethiopia, in general, and the banking sector in particular. A summary of the analysis is presented below.

Table 7.7: Summary of relative effectiveness of tasks for better corporate governance

Characteristics	**Levels**														
	1		2		3		4		5		6		7		Missing
	#	%	#	%	#	%	#	%	#	%	#	%		%	#
Internal CG mechanism for better CG	45	43	17	16	15	14	5	5	6	6	3	3	7	7	8
external CG mechanism for better CG	16	15	19	18	15	14	21	20	11	10	8	8	6	6	10
Enhancing the standards of accounting, audit and disclosure	10	9	17	16	21	19	22	21	12	11	5	5	10	9	10
Introducing code of corporate governance	29	28	24	23	23	22	8	8	7	7	5	5	1	1	9
Conducting and publicizing corporate governance ratings of banks	5	5	8	8	10	9	13	12	24	23	16	15	19	18	11
Tightly controlling some types of related-party transactions	2	2	10	9	11	10	8	8	21	20	28	26	13	12	13
Reducing ownership concentration	8	8	11	10	4	4	10	10	18	17	18	17	22	21	15

From Table 7.7, it can be observed that the task or approach of ‘making internal corporate governance mechanisms work better, such as ensuring active shareholder participation and enhancing the role of the boards in executing their roles properly’, is perceived to be a very effective approach to bring better corporate governance as indicated by 43% of the respondents. The ‘introduction of a code of corporate governance' stood second in importance as a strategy for better governance receiving support from 28% the respondents. Similarly, 'making the external governance mechanism work effectively' is rated as the third effective approach in achieving better corporate governance. 'Enhancing standards of accounting, audit and disclosure' are also considered as effective mechanisms for better corporate governance while the rest of the approaches are not well considered important by the respondents as effective approaches for better corporate governance.

Responsibilities of Boards

The fifth pillar of the OECD principles of corporate governance addresses the issue of board responsibilities that include assurance of strategic guidance of the company, effective monitoring of management and accountability to the company and the shareholders. It specifically states that boards have the responsibility to act on informed basis, in good faith, with due care and in the best interest of the company and the shareholders. The board has also the responsibility to take into account the interests of stakeholders in its decisions and actions. More generally board members should be able to commit themselves effectively to the responsibilities entrusted to them.

Board members of private and public banks were requested to rate the extent to which they carry out the responsibilities entrusted to them in light of the principles outlined above. The interrogative item was rated on a five point agree/disagree scale. A summary of responses is given below.

Table 7. 8: Board members' self-assessment of role performance

Board responsibilities	**At least agree***	**%**	**Mean**
As a member of the board of directors, I was adequately informed and knowledgeable about my functions and responsibilities (BrdR_1).	86	89	4.2
As a member of the board of directors, I used to feel responsible and devote sufficient time to carry out my responsibilities (BrdR_2).	93	96	4.3
As a member of the board of directors, I consider fiduciary and stewardship responsibilities in discussions and decision-making (BrdR_3).	89	92	4.3
As a member of the board of directors, I was responsible and take into account stakeholder interests in decisions and actions (BrdR_4).	89	92	4.4
As a member of the board, I was willing to be accountable and responsible for situations that may cost me to the extent of relinquishing my position (BrdR_5).	91	94	4.5
Over all		**93**	**4.3**

*Note: Measured on likert scale; strongly agree and agree aggregated as at least agree

The mean value (4.3 out of 5) of board members' self assessment of their performance in carrying out their responsibilities in the effort of ensuring sound corporate governance is remarkable as shown in Table 7.8. On average 93% of the respondents agreed that they carry out their responsibilities properly. This set of responses was triangulated using assessments from the various stakeholders who agreed that boards play their active role in ensuring effective corporate governance practices as extensively discussed in Chapter Seven, section 7.3 on the board duties.

An independent samples t-test was also performed which showed that there were no significant differences between the private and public bank boards in carrying out their respective responsibilities at the 1% significance level except for variable BrdR_1 which revealed that private bank board members are not adequately informed and knowledgeable about their functions and responsibilities compared to their public bank counter parts (see Table 7.10).

Table 7.9: Mean scores of private and public boards self-assessment of the performance of their responsibilities

Board responsibilities	Ownership	N	Mean	Std. Deviation	Std. Error Mean
BrdR_1	Private	78	4.0641	.58863	.06665
	Public	19	4.5263	.51299	.11769
BrdR_2	Private	78	4.2692	.55063	.06235
	Public	19	4.5263	.51299	.11769
BrdR_3	Private	78	4.2564	.69199	.07835
	Public	19	4.5789	.60698	.13925
BrdR_4	Private	78	4.3718	.68583	.07765
	Public	19	4.5263	.61178	.14035
BrdR_5	Private	78	4.4359	.61559	.06970
	Public	19	4.6316	.59726	.13702

Table 7.10: Independent samples test for the difference between private and public board responsibilities

Board responsibilities	Levene's Test for Equality of Variances		t-test for Equality of Means				
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
BrdR_1	1.26	.27	-3.14	95	.002	-.462	.147
BrdR_2	.21	.65	-1.85	95	.068	-.257	.139
BrdR_3	.05	.83	-1.86	95	.066	-.323	.173
BrdR_4	.34	.56	-.90	95	.371	-.155	.172
BrdR_5	.88	.35	-1.25	95	.215	-.196	.156

- Equal variances assumed

Boards' Power, Access to Information, and Remunerations

Boards of directors are vested with the power to hire CEO and remove a poorly performing CEO. The Ethiopian Commercial Code of 1960 proclaims that board of directors may be removed at any time but by a general meeting. Proclamation No. 592/2008 article number 14 specifies that both removal and appointment of directors by the general meeting need the approval of the National Bank of Ethiopia. Boards also need to have access to accurate, relevant and timely information so that they can make informed decisions and fulfill their responsibilities accordingly (OECD, 2004). Regarding remunerations, Article 353 of the 1960 Commercial Code of Ethiopia stipulates that directors may receive a fixed annual remuneration that is determined by shareholders general meeting. However, the amount of the share in the net profits may not exceed 10%. Proclamation No. 592/2008 article number 14(e) empowers the National Bank of Ethiopia to fix the remuneration of Directors. Thus Directive No. SBB/49/2011 of the Bank has decreed that a board of director's annual compensation shall not exceed 50, 000 birr. It has also decreed that no employee of the bank may sit on the board of any bank effective January 15, 2011. Regarding the above issues board members in the study were requested to reflect their views. A summary of the responses is presented in Appendix 7.2 and discussed below.

One of the principles of OECD (2004) relates to a formal and transparent board nomination and election process which requires an active role of shareholders in the nomination and election processes. In this regard the board is expected to play a key role in ensuring that the nominations and election process are done in a transparent manner and in accordance with proper criteria under Directive No. SBB/54/2012 of the National Bank of Ethiopia. Since ownership is highly dispersed, boards and controlling owners may have influence on the selection and removal of boards and a poorly performing CEO/ President.

In this regard, respondents were given the chance to identify the parties that have the strongest influence in the process. The majority of the respondents (54% each) stated that the boards of directors and the controlling owners with some input from the board have the strongest influence in the selection and removal of non-executive boards while 21% of the respondents believe that the NBE has equally strong influence. They were also asked to identify the documents that they strictly observe or adhere to in the appointment of boards and almost all (103, 97%) replied that they consult the directives issued by the National Bank of Ethiopia (for more details see Appendix 7.3).

In reference to power in the removal of a poorly performing bank president and selection of a new one, 91% and 26% of the respondents, respectively, believe that the boards of directors and controlling owners with some inputs from the board are the most decisive. Given the powers of the boards and their key role in identifying potential value adding board members and presidents with the appropriate knowledge, ability and experience, the responses of the study subjects are not at all surprising.

Attempt was also made to obtain views from the respondents in regard to whether boards have access to information from diverse sources to help them make informed and value adding decisions. As shown in Appendix 7.2, 37% and 46% % respectively of the respondents agree that they often and sometimes obtain information through meetings with manager of the company. Only 15% of respondents stated that access to business records and books of accounts is somehow limited and while the majority (77%) said there are no restrictions at all to these documents.

As stated above, remuneration of the board of directors is fixed to a maximum of 50,000 Birr per individual member per year, regardless of the level of profitability of the bank, by Directive No. SBB/49/2011. Remuneration of boards and executives must be aligned with the longer term interests of the company and its shareholders. Shareholders do not have the right to determine the remuneration of the boards due the above stated directives though the Commercial Code of Ethiopia Art. 353 (1) (1960:76) plainly puts it as "Directors may receive a fixed annual remuneration, the amount of which shall be determined by a general meeting and charged against general expenses." On this issue, board members were asked whether the current fixed rate is sufficient to attract, retain and motivate board members; and quite a large number 94 (89%) replied in the negative. The same group was also asked about current remuneration for the senior management and the majority 69 (65%) replied that the remuneration is enough. Slightly more than half- 55 (52%) believe that the remuneration is not linked to their performances.

General Corporate Governance Practices

The following section examines the current corporate governance practices prevailing in the banks in light of board members, board meetings, attendance rate, board size, board committees, and characteristics of Ethiopian boards and governance approach fit to the Ethiopian situation (see Appendix 7.3 for summary table). Evaluation of the current practice of corporate governance is essential in order to know its status and take appropriate action. In this respect, it is important to know how the governing bodies of the banks perceive the current status of corporate governance practices prevailing in their banks. Thus, the private and public banks top leadership respondents were asked to rate the status of their banks corporate governance compared with other banks in Ethiopia. The majority, 38 (36%) and 30 (28%) rated their governance as 'much better 'and 'slightly better' than that of other banks, respectively. The majority of the respondents, that is, 50 (54%) and 35 (33%) also said compared to the previous years their corporate governance practice was 'very good' and 'good', respectively. Evaluation of board members, in light of individual and group experience, effectiveness and approach to run the bank, was also carried out and the vast majority 87 (83%) rated it as at least good.

Board meetings are important for board functioning since they serve as key platforms for the directors as well as senior management groups to exchange relevant information on companywide issues such as performance, strategies, plans, and policies. Though it is difficult to determine an optimal frequency of board meetings as this depends on the specific situation of companies, it is nonetheless essential for boards to meet at a specific time interval to accomplish their board function. Frequent meetings may allow for boards to do their jobs on time and may also result in better follow up and communication between management and boards. However, this might also distract the board from concentrating on strategic issues and the management from its day to day operations. Therefore, it is important to take in to account the advantages, disadvantages and a bank's situation in determining the frequency of board meetings.

Boards of directors constitute a strategic decision organ that directs and controls corporate forms of organizations. In the Ethiopian situation, members of the board are non-executives who work on part-time basis. Directive No. SBB/49/2011 of the National Bank of Ethiopia strictly prohibits an executive or any employee of a bank from sitting on the board effective 15th January 2011. But a senior management group can participate in board meetings in regard to specific agenda items relating to the concerned bank but with no voting rights. In the Ethiopian situation there is no CEO duality because of Proclamation No. 592/2008 Art. 15 (4) that prohibits an employee of a bank from serving, at same the time, as a chairperson of the board of directors or a board of directors of other bank.

To ensure sound decisions by the board, members should attend board meetings and contribute through their expertise and judgments. While all board members are expected to attend board meeting regularly, it is understandable that some may be unable to attend some meetings due to unforeseen circumstances. In the Ethiopian situation, no decision may be taken unless the majority of the board of directors is present i.e., a decision is made by an absolute majority (Commercial Code of Ethiopia Art. 358, 1960). No attendance, one way or another, could be deterrent to timely decision. Hence to enhance good governance, members should commit themselves to meet a minimum acceptable rate of attendance as set by the entire board.

In reference to the above issues, the survey results show that 43 (41%) of respondent boards of the banks confirmed that they met every two weeks specially when the bank was in its early stage of establishment and 42 (40%) replied that they meet every month. In general, the board of directors meets at least twelve times a year. The board members' average attendance rate per year according to 66 (62%) and 34 (32%) of the respondents were 90-100% and 75-89%, respectively. Only 6 (6%) respondents replied that their attendance rate was 60-74%. A recent study by Pamburai et al. (2015) on the relationship between the frequency of board meetings and firm performance in accounting terms shows negative and significant relationships. That is, boards that hold meetings less frequently are likely to perform better than those who hold meetings more frequently.

The size of the board may also have some impact on the practice of corporate governance as large boards can be dysfunctional (Yermack, 1996; Eisenberg, 1998). The Commercial Code of Ethiopia Art. 347(2) (1960) fixes the minimum and maximum number of board members to be three and twelve, respectively. Respondents were asked whether the current size of the board of which they are a member is too large, too small or ideal and the significant majority of respondents 85 (80%), replied that it is ideal. Only 14 (13%) and 7 (7%) consider it to be too large and too small, respectively. Those that felt it is too large 14 (13%) and too small 7 (7%) were requested to propose the ideal size and 15 (14%) and 5 (5%) respectively proposed 9 and 7. From the annual reports of the banks, the smallest size is 7 board members and the largest size 12 with an average board size of 10. All the board sizes comply with the requirement set by the Commercial Code of Ethiopia (Ethiopia, 1960).

The OECD (2004) emphasizes the importance of board committees as they are the means to strengthen the board and thereby improve its work. The presence of a board committee enables among other things, (1) to handle in a more efficient way various issues that require expert opinion and propose recommendations to the board; (2) enhance objectivity and independence of the board in key decision areas as remuneration, nomination, and control activities. However, when various board committees are established the OECD recommends that their mandate, composition and working procedures should be well defined and disclosed by the board. Among the board committees recommended by OECD are the audit, nomination and remuneration committees. Accordingly, respondents were asked about the existence of these committees in the banks that they direct and control and 96 (91%) and 86 (81%), respectively mentioned nomination and remuneration committees do not exist in vast majority of the banks. But all the 106 respondents (100%) reported that they work with audit committee. (See Appendix 7.3).

Roles that Characterize the Ethiopian Board of Directors

Boards of directors, who are at the apex of the corporate form of organization, direct and control corporate affairs. As governing bodies, they are expected to execute the strategic, service and control tasks. Accordingly, boards may be characterized by the roles that they play more. In their strategic role, boards initiate and involve in different phases of strategic decision making. In playing their service role, boards mentor and support top management whereas monitoring financial performance, top management behavior, and the strategic decision making process are control roles of boards. In light of the above issues, respondents were requested to characterize the Ethiopian board of directors in terms of the roles they play. 85 (80%), 67 (63%) and 41 (39%) of the respondents characterize the Ethiopian board of directors respectively as control, strategic and service oriented. This shows that the vast majority of the respondents believe that the Ethiopian board of directors are mainly control oriented followed by strategic and to a lesser extent service oriented (see Appendix 7.3).

Approaches to Promote Good Corporate Governance Practices in Ethiopia

The three generally accepted approaches to promote good corporate governance practice are the prescriptive, non-prescriptive, and mixed approaches

(Conyon, 2006). According to Conyon's (2006) study of corporate governance, the Singapore Corporate Governance Committee considered three of the above alternative approaches to promote good corporate governance and maximize shareholders' value. In greater detail, these approaches are: (1) a prescriptive approach which would require firms to adopt and adhere to specific corporate governance practices by regulation; (2) a non-prescriptive approach that allows firms to determine their own corporate governance practices; and (3) a mixed (balanced) approach that specifies basic corporate governance framework by regulation that allows firms to develop more detailed practices of their own but subject to appropriate disclosure. The balanced approach adopted in the UK and Canadian markets and tested in Singapore (Conyon, 2006) is found out to be the best approach for improving corporate governance. This approach is a mix of the other two approaches reflecting the characteristics of both. The mixed approach allows organizational flexibility in implementing good corporate governance within the general framework of corporate governance practices..

Currently there is no report about the approach that Ethiopia follows as the phenomenon is recent, and as there is no stock market, nor a code of best practices, nor an institution that is responsible for corporate governance practices. To address the absence of researched opinion on the subject, respondents were asked to select what they consider to be the best approach to promote good corporate governance in the Ethiopian banks. A summary of their views is presented in Appendix 7.3.

The majority of the respondents (86, 81%) believe that the approach that would work better to promote good governance practices in the Ethiopian banks is the mixed approach. Fewer respondents i.e., 15 (14%) and (5, 5%) preferred the prescriptive and the non-prescriptive approaches, respectively. The preference of the respondents is believed to be based on the existing reality and future trends. There cannot be one approach that can apply universally to all situations. The best approach should take into account the social, economic, political and legal environments of a country as well as the particular organizational environment.

7.3 Survey of Stakeholders' (Sample-2) Perception of Corporate Governance practices

Stakeholders are those parties who have different interests in a firm. These include: shareholders, creditors, suppliers, employees, regulatory agencies, legislators, investors and labor unions (Davies, 1999). In Chapter Seven section 7.2 which surveyed the perception of corporate governance practices of sample-1 respondents, who are governing bodies of the banks, revealed that corporate governance practices in terms of the OECD principles appear to be generally good. However, apart from the practices in light of OECD principles, the analysis also shows the presence of ownership concentrations, controlling shareholders and lack of corporate governance codes. This simply suggests that different stakeholder groups might have lack of confidence in the current corporate governance practices in the Ethiopian banks. This section, therefore, examines how the different stakeholders perceive the current corporate governance practices in light of the five pillars of the OECD framework and other issues. To the best of the researcher's knowledge little is known about local corporate governance practices and this is study might be the first attempt to empirically investigate the perception of the various stakeholders of the Ethiopian banks regarding issues related to the current corporate governance practices. The study examines the perceptions of both internal (shareholders and employees) and external (parliamentarians, supervisory and regulatory agencies) stakeholders who are expected to play an active role in enhancing corporate governance practices in the emerging Ethiopian economy context. The results of this analysis are also compared and aggregated with the perceptions of the governing bodies (sample-1). Two separate analyses have been made with the intent of giving emphasis to the perceptions of the governing bodies and the stakeholders and empirically compare differences and address research questions five and six.

First, characteristics of respondents are presented and examined; second, stakeholders' perceptions of current practices are presented and investigated in reference to the OECD framework , remunerations, characteristics of boards, approach to promote corporate governance, corporate performance, strategic issues, board independence, board duty and governance issues. Finally, comments, issues raised and recommendations made by stakeholders to improve corporate governance practices are examined and analyzed so as to identify any substantial concerns. As stated in Chapter Four section 4.5.2, 401 questionnaires were distributed to the stakeholders (sample-2) in person. Of these 311 questionnaires were properly filled and returned resulting in a significant 78% completion rate (see Table 4.3). Of the 311 questionnaires returned, 193 (62%) and 118 (38%) were from the private and public sector domains respectively. The relatively small number of respondents in the public domain is due to the limited number of public banks, which are only three. The breakdown of sample-2 respondents is presented in Table 7.11 below.

Table 7.11: Ownership type and proportion of questionnaires returned by category of stakeholder respondents

Ownership & Stakeholder type	Category	Count	%	Valid %	Cumulative %
Ownership type	Private	193	62.1	62.1	62.1
	Public	118	37.9	37.9	100
	Total	**311**	**100.0**	**100.0**	
Stakeholder type	-Shareholders	79	25.4	25.4	25.4
	-Member of Parliament	51	16.4	16.4	41.8
	-Private bank employee	114	36.7	36.7	78.5
	-Public bank employee	59	19.0	19.0	97.5
	-Supervisory & regulatory agencies	8	2.5	2.5	100.0
	Total	**311**	**100.0**	**100.0**	

The questionnaires were administered to five categories of stakeholders of the private and public bank domains. Shareholders and private bank employees are considered as stakeholders of the private banks while parliamentarians and public banks as stakeholders of public banks. The supervisory and regulatory agency serves as a stakeholder for both. Questions on shareholders right and equitable treatment of shareholders are not addressed to the public domain stakeholders as these questions are not relevant to them. The rest of the questions are common to all categories of respondents. Table 7.12 below presents biographical data encompassing gender, age, work experience, and level of education of stakeholder respondents.

Table 7.12: Profile of stakeholder respondents

Demographic Variables	Category	Count	%	Valid %	Cumulative %
	Female	48	15.6	15.6	15.6
	Male	259	83.36	84.4	98.7
Gender	**Total**	**307**		**100.0**	
	Missing	**4**	**1.3**		**100.0**
	Total	**311**			
	18-29	24	7.7	7.7	7.7
	30-39	105	33.8	41.5	41.5
Age	40-49	120	38.6	38.6	80.1
	50-59	45	14.5	14.5	94.5
	>60	17	5.5	5.5	100.0
	Total	**311**	**100.0**	**100.0**	
	1-2	7	2.3	8.9	8.9
	3-5	26	32.9	32.9	41.8
	4-6	25	31.6	31.6	73.4
Year as shareholder*	11-20	6	7.6	7.6	81.0
	Since establishment	15	19.0	19.0	100.0
	Total*	**79**		**100.0**	
	1-5	18	10.1	10.5	10.5
	6-10	32	18.0	18.6	29.1
	11-15	45	25.3	55.2	55.2
Work experience **	16-20	32	18.0	73.8	73.8
	>20	45	25.3	26.2	100.0
	Total	**172**		**100.0**	
	Missing	6	3.3		
	Total**	**178**	**100.0**		
	Certificate	1	0.3	0.3	0.3
	Diploma	13	4.2	4.2	4.6
	Bachelor's Degree	147	47.3	48.0	52.6
Level of education	Master's Degree	134	43.1	43.8	96.4
	Doctoral Degree	11	3.5	3.6	100.0
	Total	**306**	**99.1**	**100.0**	
	Missing	5	1.6		
	Total	**311**	**100.0**		
	Managerial	127	71.3	70.2	70.2
	Professional	35	19.7	12.8	83.0
	Administrative	1	0.6	4.3	87.3
	Other/ Vice CEO	2	1.1	2.0	89.3
Position in the bank**	**Total**	**165**	**92.7**	**100.0**	
	Missing	13	7.3		
	Total**	**178**	**100.0**		

* Applies only to shareholders; ** Applies only to bank employees

Referring to the above table, the sample selected is not balanced in terms of gender with a disproportionately big percentage i.e. 84% male respondents. The sample is male dominated indicating that the perception results are not free from gender bias. In regard to age, 92% reported to be more than 29 years of age implying that the respondents are matured and are expected to feel responsible in answering the questions. Of all the stakeholders, 78 (25%) of the respondents were shareholders and more than 90% of them were shareholders for more than three years indicating that they have a retrospective grasp of corporate governance issues in their respective banks. The work experience variable refers only to the private and public bank employees and from Table 7.12, it is noted that more than 89% of the employees have work experience of more than five years; 72% of them hold managerial positions and 13 % are professional workers. These figures indicate that the respondents have sufficient exposure and understanding to assess their corporate governance environment and express their perceptions accordingly.

Of the 311 stakeholders who returned the questionnaires, the majority of them (72%) are involved, directly or indirectly, in decision making, policy development and implementation, and formulating and monitoring corporate governance practices. Thus, the educational attainment of the majority of the stakeholders is expected to be high i.e., at least a basic degree.

As shown in Table 7.12 above, 95 % of the respondents possess at least a bachelor’s degree and more than 47% have a minimum qualification of a master’s degree, indicating that almost all respondents have the capacity to understand and make an independent judgment of corporate governance practices addressed in this study. Given this high educational level of the respondents, the study is expected to have a high quality data and credibility. In a nutshell, given the overall results of the demographic factors, the responses obtained from the different categories of respondents are expected to be representative of corporate governance issues that enable to answer specifically the stakeholders’ perception of the practices of corporate governance (research question five).

Ownership and Control Structure of Private Banks

As explained in Chapter Seven section 7.2, ownership and control structure are among the variables that affect corporate governance behavior. The agency problem or corporate misbehaving is more manifested in a dispersed ownership structure. On the other hand, when ownership is highly concentrated, there is a danger of asset expropriation by controlling shareholders. It is also logically clear that shareholding creates an interest in the firm’s performance and corporate governance practices. In this regard, shareholders who are owners of the banks were asked to describe the ownership and control structure of the banks which they own. The frequency distribution shows that 66 (89%) of the respondents believe that the largest shareholders (each with up to 5% of holdings) effectively control the bank with substantial voting rights, whereas 8 (11%) of them believe that ownership is fairly diffused with no controlling shareholders (see Appendix 7.1b). Taking together samples one and two, it is interesting to note that 113 (72%) believe that the largest shareholders (each with up to 5% of holdings) effectively control the banks indicating the presence of controlling shareholders and ownership concentration, allowing controlling shareholders to have significant freedom and subsequently to influence decisions to their advantages (see Appendix 7.1c).

The Rights and Equitable Treatment of Shareholders

The principles of the rights and equitable treatment of shareholders address several issues as shown in Table 7.13 (for more details consult Chapter Seven section 7.2). Shareholders as stakeholders were asked to indicate the presence or absence of the below listed rights and freedom in practice. Table 7.13 gives a summary result of shareholders' perception of rights and equitable treatment.

Table 7.13: The rights and equitable treatment of shareholders

Characteristics	**Yes**		**No**	
	#	**%**	**#**	**%**
Deviation from one-share one-vote rule	8	10	71	90
Voting by mail allowed	1	1	78	99
Voting by proxy allowed	50	64	28	36
Adequate time given for questions at shareholders meetings	53	71	22	29
Shareholders' priority subscription rights protected	71	92	6	8
Equitable treatment of shareholders practiced	41	55	34*	45
Candidates disclosed before shareholders' meetings	9	12	67	88
Large shareholders nominate candidates at the shareholders' meetings	61	79	16	21

*Not fully

Table 7.14: Shareholders rights and obligations

Characteristics	**Yes**		**Majority know**		**Only few know**	
	#	**%**		**%**	**#**	**%**
Shareholders know their rights and obligations	41	52	33	42	5	6
Those who know their rights freely exercise them in AGM in matters such as voting and profit sharing	**Yes**		**No**		**Sometimes**	
	#	**%**		**%**	**#**	**%**
	33	60	3	5	21	37

From the shareholders responses in the above tables, it is noted that, most of the features of rights and equitable treatment of shareholders are present and exercised. That is, there is no deviation from one-share one-vote system as reported by almost all respondents (71,90%); voting by proxy is allowed as revealed by 50 (64%) of the respondents; shareholders' priority subscription rights are protected as

71 (92%) of the respondents disclosed; the practice of equitable treatment of shareholder exists as 41 (55%) of the respondents indicated; candidates are not disclosed before shareholders meetings according to 67 (88%) of the respondents; large shareholders nominate candidates as 61 (79%) of the respondents mentioned and all the shareholders and majority of them know their rights and obligations, according to 41 (52%) and 33 (42%) of shareholder respondents respectively. In terms of the degree of exercise of their rights, 60% of the respondents believe that those who know their rights do freely exercise them in AGM and other situations. The results obtained from the shareholders are consistent with sample one (governing bodies) findings as presented in section 7.2 Table 7.1, Table 7.2, and Appendix 7.4.

Disclosure and Transparency

Table 7.15: Disclosure and transparency of private and public banks

Characteristics	Yes		No	
	#	%	#	%
Governance structures	256	85	47	15
Explicit corporate governance rules	190	63	110	37
Vision, missions, and values	293	95	14	5
financial performances	284	93	21	7
Audited annual reports	279	92	25	8
Resume or background of directors	169	55	136	45
Members of board sub committees	190	63	112	37

With regard to disclosure and transparency of material facts, the survey shows that 85%, 95%, 93% and 92 % of the stakeholders respectively stated that their banks disclosed governance structure, vision, financial performances, and audited annual reports, respectively. Regarding the other disclosure and transparency variable, more than 55% of the respondents revealed that relevant issues are made transparent and disclosed accordingly. The results obtained from the stakeholders are very much consistent with the data obtained from the governing bodies (sample one). Taking together the views of samples one and two, the disclosure and transparency items were rated most highly implying that the practices are certainly present and in line with the OECD framework of corporate governance (see aggregate values in Appendix 7.5). Transparency is considered as one criterion of good corporate governance (Said et al., 2015; OECD, 2004). The study of Adegbite (2015) on good corporate governance in Nigeria shows that timely, comprehensive and transparent disclosure on important issues improves the quality of corporate governance. Gupta and Sharma (2014) also suggest that transparency and openness as the outcome of corporate governance enable a firm to maximize its long term value. Relevantly Friedman and Friedman (2010) consider transparency, responsibility, accountability and ethics as important elements for a free market economy to function efficiently.

Respondents were also asked to indicate the means of disclosing information and they reported that their banks employee a combination of annual reports (288,93%), reports to regulatory agencies (220,71%), meetings (210,68%), bank's web pages (205,66%), and brochures (138,44%) respectively in disseminating information. This result is consistent with the responses from sample one (governing bodies) respondents that the banks mainly use annual reports and reports to regulatory agencies as a major out let in disseminating information followed by meetings, bank's web pages, and brochures.

Role of Stakeholders

As has been stated in Chapter Seven section 7.2, sound corporate governance is the result of the combined efforts of various interest groups and stakeholders. Corporate governance has also received due attention over the last decades as being important in building confidence in various groups of stakeholders (Dalwai et al., 2015). For the purpose of understanding the perceptions of various stakeholders, respondents were requested to rank the relative importance of various stakeholders listed below in improving corporate governance in Ethiopia, in general, and the banking sector in particular. Table 7.16 summarizes the results of the analysis.

Table 7.16: Summary of importance of stakeholder in improving corporate governance

Stakeholders	**Levels**												
	1		2		3		4		5		6		Missing
	#	%	#	%	#	%	#	%	#	%	#	%	#
Media	54	18	30	10	50	17	53	18	63	21	49	16	12
Chamber of commerce	10	3	41	13	68	22	72	23	64	21	41	13	15
Professional society	33	11	67	22	66	21	72	23	35	11	20	6	18
Financial supervisory agencies	157	51	78	25	39	13	18	6	8	3	4	1	7
The judiciary	28	10	39	13	52	18	47	16	69	24	58	20	18
Non executive board of directors	56	20	58	20	35	12	20	7	34	12	84	29	24
Others, Bankers association	15	5	3	1							1		

From table 7.16, 235 (76%) of the respondents indicated that the financial supervisory agencies are the most important stakeholders (rated as level 1 & 2) believed to improve corporate governance practices. The rest of the stakeholders i.e., chamber of commerce, professional society, the judiciary, and non-executive board of directors are rated as levels 3, 4, 5 and 6, respectively. These results are consistent with the results of sample one (governing bodies) as 64% of the respondents believe that the financial supervisory agencies play a significant role in promoting good corporate governance practices in the Ethiopian banking industry. The aggregate of sample one and two analyses (see Appendix 7.6a) also shows the same result that financial supervisory agencies play a crucial role in improving corporate governance practices as perceived by 324 (80%) of the respondents followed by non-executive board of directors (107, 28%), professional society (100, 26%) and chamber of commerce (92, 24%). The studies made by Mullineux (2006), Arun and Turner (2004) show that good corporate governance of banks requires a good prudential regulation and a regulatory organ. Consistent with the above, Mande et al.'s (2013) study which used structural equation modeling to relate enforcement and board performance in the Nigerian regulatory enforcement agencies, revealed that strengthening the regulatory framework and capacity of the regulatory agency reduces conflict of interest and contributes to effective corporate governance.

To check for differences in opinion between the different groups of the respondents, a Kruskal-Wallis test at the 1% level was run. The test revealed no significant difference in the opinions in regard to the relative importance of the media, chamber of commerce, professional societies and the judiciary in improving corporate governance. However, statistically significant differences in opinions are observed, among the groups, in respect of two of the variables namely the financial supervisory agencies and the non executive board of directors (details are given in Appendices 7.6b, 7.6c, 7.6d & 7.6e). The Kruskal-Wallis Post Hoc Pairwise Comparison test shows that member of parliaments' opinion about the financial supervisory agency, as relatively most important stakeholder (level 1) in improving corporate governance, significantly differs from the opinions of private bank employees, public bank workers and the governing bodies at the 1% level. The majority of members of parliament did not rank the financial and supervisory agencies as relatively most important (level 1) stakeholders. With regard to the non-executive board of directors in advancing corporate governance, a statistically significant difference is observed between the opinions of the shareholders and the opinions of the private and public bank employees. The majority of the shareholders consider the non-executive board of directors as the least important stakeholders in improving corporate governance.

The role of stakeholders in controlling the disproportionate power of largest shareholders cannot be discounted. In this regard, the group of respondents was asked to rank the relative importance of the different stakeholders in controlling the undue behavior of controlling owners in the Ethiopian banking context. A summary of the views is presented in Table 7.17 below.

Table 7.17: Summary of relative importance of stakeholders in preventing the influence of controlling owners

Characteristics	**Levels**												
	1		2		3		4		5		6		Missing
	#	%	#	%	#	%	#	%	#	%	#	%	#
Minority shareholders	27	9	24	8	48	16	54	18	80	27	63	21	15
Institutional investors	19	7	37	13	64	22	82	28	65	22	27	9	17
Outside (non-executive) board of directors	30	10	58	20	70	24	59	20	46	16	34	11	14
Financial supervisory agencies	154	51	80	26	30	10	23	8	8	3	8	3	8
Labor unions or employees	13	5	27	9	42	15	41	14	39	14	125	44	24
The legal system	81	27	88	29	56	19	21	7	38	13	17	6	10

The table shows that 154 (51%) of the respondents are of the opinion that financial supervisory agencies have a major role in containing the influence of controlling owners. This view is in line with the opinions of sample one respondents that the financial supervisory agencies have bigger powers in controlling the improper behaviors of controlling owners as explained in section 7.2 of this chapter. The other controlling mechanisms such as the legal system, non-executive board of directors and institutional investors are also considered as important stakeholders in playing a key role in playing down the influence of controlling owners with scores of 88% (level 2), 24% (level 3) and 28% (level 4), respectively. Minority shareholders' and the labor unions' roles are indicated as least important by the respondents. The results are wholly consistent with the views of sample one respondents. Therefore, the combined results of sample one and two in this pattern as given in Appendix 7.7a are not at all surprising.

From Appendix 7.7a, It is observed that 205 (52%), 111(28%), 95 (24%) and 110 (28%) of the respondent group ranked the financial supervisory agencies, the legal system, non-executive board of directors and institutional investors as levels 1, 2, 3 and 4, respectively, in terms of their importance in preventing the behaviors of controlling owners. To find out whether there are significant differences in opinions of the different groups of respondents, the Kruskal-Wallis test was used. The result shows no significant differences at the 1% level except for the minority shareholders, financial supervisory agency and labor unions variables as shown in Appendices 7.7b and 7.7c. The Post Hoc test demonstrated that shareholders have statistically significant differences of opinion from members of parliament, public employees, and the supervisory and regulatory agencies on the role of the minority shareholders in controlling the influence of the largest shareholders. The majority of shareholders ranked this item as more important than the stakeholders' groups specified above. On the same issue, the governing bodies' opinion also differs from that of the public bank employees, that is, the governing bodies ranked them as more important than the public bank employees. With regard to the regulatory agency as the most important tool in controlling the undue powers of the largest shareholders, the Post Hoc test shows a statistically significant difference in the opinions of the members of parliament from the private bank employees and the governing bodies. Members' of parliament rating of the financial supervisory and regulatory agencies as relatively most important stakeholders in preventing the undue influence of the controlling owners is lower than the two stakeholders'. There is also a statistically significant difference between the members of parliament on the one hand and shareholders and the governing bodies on the other in ranking the labour union as an important stakeholder.

The group of stakeholders was also asked to rate the relative effectiveness of tasks or strategies for improved corporate governance. The respondents identified internal corporate governance mechanisms 117 (39%); introducing codes 97 (33%); enhancing the standards of accounting, audit and disclosure 69 (23%); external corporate governance mechanisms 59 (20%) respectively as effective strategies that can bring about better practices (Table 7.18). Put according to their relative importance, it is not surprising to note that the aggregates of sample one and two have the same view that 162 (41%), 126 (32%), 86 (22%) and 74 (19%) of the respondents do believe that internal corporate governance mechanisms, introducing codes, enhancing the standards of accounting, audit and disclosure, and external corporate governance mechanisms respectively as effective tools to ensure better corporate governance practices (see Appendix 7.8a for details). The responses were checked for significant differences in opinion between the groups of respondents using the Kruskal-Wallis test at the 1% level and the results show that no significant difference exists in relation to five of the seven task variables identified as effective strategies for better corporate governance. The two areas of significant differences in responses relate to the variables of enhancing the standards of accounting, audit and disclosure; and reducing ownership concentration as effective strategies (see Appendix 7.8b). These differences in opinion are between the members of parliament and three categories of stakeholders, the private bank employees, the governing bodies and the shareholders. The members' of parliament ranking of the former variable is higher than the latter variable compared with the ranking of the three stakeholders.

Table 7.18: Summary of relative effectiveness of tasks for better corporate governance

Characteristics	Levels														
	1		2		3		4		5		6		7		Missing
	#	%	#	%	#	%	#	%	#	%	#	%		%	#
Internal CG mechanism for better CG	117	39	65	22	42	14	32	11	23	8	6	2	13	4	13
external CG mechanism for better CG	39	13	59	20	59	20	59	20	40	14	30	10	10	3	15
Enhancing the standards of accounting, audit and disclosure	36	12	69	23	54	18	49	17	40	14	22	8	25	9	16
Introducing code of corporate governance	97	33	58	20	53	18	40	14	29	10	13	4	6	2	14
Conducting and publicizing corporate governance ratings of banks	21	7	39	13	39	13	57	19	66	22	33	11	39	13	17
Tightly controlling some types of related-party transactions	13	5	26	9	23	8	26	9	44	15	99	34	58	20	22
Reducing ownership concentration	28	10	13	5	27	9	22	87	31	11	61	21	104	36	25

Appraisal of the boards in terms of individual and group experience, effectiveness and approach is important in order to know their current status so that appropriate action can be take in due time. In this regard, the group of stakeholders was asked how they perceive their boards individual and group experience, effectiveness and approach in running their respective banks. From Table 7.19, the respondents overall evaluation in general is positive with167 (59%) rating of at least good and 92 (31%) satisfactory. Comparing this with evaluation of sample one (governing bodies) with the vast majority 87 (83%) rating it as at least good, it is observed that stakeholders evaluation is slightly lower implying that the issue deserves attention to uplift the confidence of the stakeholders. Combining sample one and sample two, the majority of the respondents (264, 66%) are of the opinion that boards are good enough in terms of experience, effectiveness and approach to run the banks (see Appendix 7.9). A Kruskal-Wallis test for the combined samples shows no significant difference in opinion among the different groups of respondents at the 1 % level (see Appendix 7.9c).

Table 7. 19: Perception of stakeholders regarding board characteristics and approaches to corporate governance

<table>
<tr><th>Characteristics</th><th>Very good</th><th>Good</th><th>Satisfactory</th><th>Poor</th><th>Very poor</th><th>Mis.</th></tr>
<tr><td>Evaluation of board in light of individual and group experience, effectiveness, approach to run the bank</td><td>62(20%)</td><td>115(39%)</td><td>92(31%)</td><td>22(7%)</td><td>8 (3%)</td><td>12</td></tr>
<tr><td colspan="7"></td></tr>
<tr><td rowspan="3">Board roles that mainly characterize the Ethiopian board of directors*</td><td colspan="2">Control role</td><td colspan="2">Service role</td><td colspan="2">Strategic role</td></tr>
<tr><td>Yes</td><td>No</td><td>Yes</td><td>No</td><td>Yes</td><td>No</td></tr>
<tr><td>248(81%)</td><td>60(19%)</td><td>83(27%)</td><td>224(73%)</td><td>139(45%)</td><td>169 (55%)</td></tr>
<tr><td rowspan="3">Approach that would work better to promote good corporate governance practices in the Ethiopian banks</td><td colspan="2">Prescriptive</td><td colspan="2">Non-prescriptive</td><td colspan="2">Mixed</td></tr>
<tr><td>#</td><td>%</td><td>#</td><td>%</td><td>#</td><td>%</td></tr>
<tr><td>51</td><td>17</td><td>21</td><td>7</td><td>230</td><td>76</td></tr>
</table>

* More than one item chosen

The role that boards are expected to play and approaches to corporate governance were outlined in section 7.2 of this chapter. In light of the normative desiderata, the groups of stakeholders were requested to reflect their views on the characteristics of the Ethiopian boards and approaches that would work better to promote corporate governance in the Ethiopian banking industry. Table 7.19 indicates that 248 (81%), 83 (27%) and 139 (45%) of the respondents characterize the Ethiopian boards of directors respectively as control, strategic and service oriented. The vast majority of the respondents categorize the Ethiopian boards of directors as mainly control oriented and to a less degree strategic and to a much smaller extent service oriented. These perceptions are consistent with the views of sample one (governing bodies). Taking the overall views of both samples, it can be noted that 333 (80%), 124 (30%) and 206 (50%) of the respondents respectively of the categories characterize the boards in the same way as above (see Appendix 7.9a).

The group of stakeholders was also requested to name the preferred governance approach to help promote good practices, and a significantly large number (230, 76%), suggested that the mixed approach is the ideal strategy to good corporate governance. While a few respondents 51(17%) and 21(7%) proposed the prescriptive and non-prescriptive approaches respectively as the preferred approaches. These views are consistent with those of sample one. The same is also true when sample one and two are analyzed together. Their aggregate data show the majority 316(78%) of the respondents considered the mixed (balanced) approach as the best tool in promoting good corporate governance followed by 66(16%) and 26(6%) of the respondents who suggested prescriptive and non-prescriptive approaches, respectively (see Appendix 7.9a).

Regarding the remuneration of boards, the various groups of respondents were asked to comment on the payments made to members of boards of directors and senior management of the banks. The majority of the respondents 177(60%) believe that the current fixed rate is not sufficient enough to draw, keep and stimulate board members while roughly the same number of respondents 182(61%) believe that the payment made to senior management group is enough. The respondents were also asked whether the payment for senior management is linked to their performance and the majority of the respondents 162 (55%) believe that it is not as shown in Table 7.20 below. These results are consistent with those of the findings from sample one. From Appendix 7.9b, it is also noted that 271(68%) from sample one and two believe that the remuneration for boards is not enough while 251(62%) believe senior management groups are sufficiently compensated. From the same group of respondents, 217 (54%) are of the opinion that the remuneration made to senior management groups is not tied to their performances.

Table 7. 20: Stakeholders' perception of remuneration

	Yes		No		Missing	
Remuneration sufficient enough to attract, retain, and motivate:	#	%	#	%	#	%
Board members	116	40	177	60	17	5
Qualified senior management	182	61	117	39	12	4
Remuneration of senior management is linked to performance	134	45	162	55	15	5

Extending the above discussions, this part examines another seven components of corporate governance: general corporate governance practices, board-management relations, corporate performance, strategic issues, board independence, board duty and corporate governance issues. As stated in chapter four section 4.5.3, the study used questionnaire with a 5- point likert scale to collect primary date from the group of stakeholders (Sample-2). The average scores of the items forming the constructs are taken together with percentages for each item in the analysis. For the purpose of analysis strongly disagree and disagree are combined and treated as disagree while strongly agree and agree are pooled and treated as agree. Two open ended questions were also asked regarding major corporate governance issues faced by the Ethiopian banks and recommendations that may improve corporate governance practices. Below are details of the findings from the analysis.

To understand the overall importance of corporate governance practices in the Ethiopian banking industry, the groups of respondents were asked to indicate the extent of their agreement on the items designed to measure the benefits from improved practices. The summarized results are presented in Table 7.21 below. The general corporate governance practices have resulted in an overall average score of 3.8 representing 76%. Some of the results imply that boards of directors play a crucial role in bringing about good governance by carrying out their pivotal roles of directing, governing and controlling the activities of the bank; boards of directors as corporate governance mechanism are important instruments to maximize shareholders wealth and current corporate governance practices in the banks are much better compared with those of the previous years with 81%, 88%, 56% of agreement, respectively. The percentage of disagreement is low for all the items ranging from as low as 2% to 18%. Thus respondents studied appreciate the implications of good corporate governance practice and believe that the current corporate governance practices are better than the practices in the previous years. Furthermore, the majority believe that improved corporate governance results in more benefits to the banks.

Table 7. 21: Implications of corporate governance

Extent of agreement*	**1**	**2**	**3**	**4**	**5**	**N**	**Mean**
General corporate governance	**# (%)**	**# (%)**	**# (%)**	**# (%)**	**# (%)**		
Boards of directors play crucial role in bringing about good governance by carrying out their pivotal role of directing, governing and controlling activities of the bank (CGGpra_1).	7 (2)	22(7)	30(10)	148(48)	103(33)	311	4.0
Boards of directors as corporate governance mechanism are important instruments to maximize shareholders wealth (CGGpra_2).	6(2)	12(4)	21(7)	158(51)	114(37)	311	4.2
Better corporate governance increases market value of shares (CGGpra_3).	4(1)	3(1)	17(6)	121(39)	165(53)	310	4.4
Better corporate governance reduces political or regulatory intervention (CGGpra_4).	11(4)	37(12)	52(17)	128(41)	82(27)	310	3.8
Boards are true representative of shareholders who strive to defend their interests	8(3)	48(15)	86(28)	125(40)	44(14)	311	3.5

(CGGpra_5).							
Current corporate governance practices in my bank are much better compared with those of the previous years (CGGpra_6).	9(3)	20(6)	107(34)	132(42)	43(14)	311	3.6
Corporate governance in my bank is much better compared with other banks in Ethiopia (CGGpra_7).	11(4)	41(13)	143(46)	82(27)	33(11)	310	3.3
Compared with other banks, our board members are competent, skillful, experienced, and educated with high level of integrity to discharge their duty (CGGpra_8).	11(4)	44(14)	119(39)	104(34)	28(9)	306	3.3
Overall mean							**3.8**
* (1) Strongly disagree , (2) Disagree, (3) Neutral, (4), Agree , and (5) Strongly agree							

Both Kruskal-Wallis and One-Way ANOVA tests, at the 1% level, showed no significant differences in opinions between the groups of stakeholders except for three of the items (CGGpra_2, CGGpra_4 and CGGpra_7) (see Appendix 7.10a). The Post Hoc analysis revealed differences of opinions in regard to item CGGpra_2 between private bank employees and members of parliament; and items CGGpra_4 and CGGpra_7 between the members of parliament and the two stakeholders, the private and public bank employees. The mean rank of members of parliament is lower than the identified stakeholders for the variables.

As has been repeatedly stated corporate governance is a system of structures and processes for the purpose of directing and controlling corporate forms of organizations (OECD, 2004). One of the systems is to have a board of directors that direct and control corporate affairs. Boards work closely with management that accomplishes operations of firms. Boards of directors rely on the top management for reliable and timely information for strategic and policy initiative, controls and handling challenges. Top management also depends on the board of directors for wisdom and strategic direction. It is expected that boards and top management work as a team and cohesive group to achieve a common goal of maximizing shareholder value (Erakovic and Goel, 2004). To this end, the groups of stakeholders were asked to express the extent of their agreement in regard to whether or not boards and top management in their banks establish and maintain smooth and productive working relationships. A summary of the results is presented in Table 7.22 below.

Table 7. 22: Stakeholders' perceptions of board- management relationships

Extent of agreement*	**1**	**2**	**3**	**4**	**5**	**N**	**Mean**
Board – management relationship	**# (%)**	**# (%)**	**# (%)**	**# (%)**	**# (%)**		
I believe that, in my bank, there is a sound relationship between the board and top management (BrdMR1.1)	5(2)	25(8)	54(17)	159(51)	67(22)	310	3.8
There is a smooth relationship between the board and the President of the bank (BrdMR1.2)	2(1)	16(5)	61(20)	158(51)	71(23)	308	3.9
Overall mean							**3.9**
* (1) Strongly disagree , (2) Disagree, (3) Neutral, (4), Agree , and (5) Strongly agree							

The overall mean score of 3.9 or 78% indicates the vast majority of stakeholders perceive that there prevails a sound relationship between the board and top management as well as between the board and the presidents of the banks. Examining the levels of agreement, it is noted that 73% and 74% respectively believe that there is smooth relationships with the top management and specifically with the presidents. The levels of disagreements are so low representing 10% and 6%, respectively. However, using both Kruskal-Wallis and One-Way ANOVA, a significant difference in opinion between the stakeholders is observed on the second item BrdMR1.2. The test shows that the opinions of members of parliament differ from the private and public bank employees at a 1% level (see Appendices 7.10a & 7.10b). The parliamentarian gave slightly lower evaluation score than the two.

The OECD (2004) advocates for board independence in order to foster objectivity in decision processes on a number of corporate issues. Board independence is directly linked with the composition and structure of the board. Board independence is ensured if a sufficient number of board members are independent of management and if the roles of the chief executive officer (CEO) and chairman of the board are separated (OCED, 2004; Cadbury, 1992). According to the OECD principles of corporate governance, the separation of the two posts is considered as good practice helping to achieve an appropriate balance of power and objectivity in decision processes. In the Ethiopian situation it is not possible for an employee of a bank to sit on the board of directors in line with Directive No. SBB/49/2011 of the National Bank of Ethiopia, which has entered into force as of January, 2011. Consequently there is no such structure as executive board of directors for the banking sector, be it private or public. Banking Business Proclamation No. 592/2008 of the Federal Government of Ethiopia also prohibits an employee of a bank from serving as a chairperson of the board of directors of that bank or a director of any other bank. According to this proclamation, there is no CEO duality phenomenon in the Ethiopian case. Given the above background, the various groups of stakeholders were requested to express their views on the independence of boards. A summary of the results of the analysis is given in Table 7.23.

Table 7. 23: Stakeholders' perceptions of board independence

Extent of agreement*	1	2	3	4	5	N	Mean
Board Independence	**# (%)**	**# (%)**	**# (%)**	**# (%)**	**# (%)**		
The board of directors of the bank are independent from the President of the bank (BrdInd_1)	8(3)	33(11)	73(23)	131(42)	64(21)	309	3.7
The board of directors of the bank are independent from the board chair person (BrdInd_2)	9(3)	63(20)	125(41)	89(29)	23(7)	309	3.2
The board of directors of the bank are independent from the controlling shareholders (BrdInd_3)	10(4)	52(21)	104(33)	57(18)	23(7)	246^	3.1
						Overall mean	**3.3**

* (1) Strongly disagree , (2) Disagree, (3) Neutral, (4), Agree , and (5) Strongly agree
^ N smaller than others as this addresses only private banks

The overall average score of board independence is 3.3 or 66%, which is well above the average of 2.5 or 50%. The examination of individual items demonstrates that 63% of the respondents at least agree that boards of directors are independent from the presidents of the respective banks. However, independence of the board of directors from the chairperson has received an agreement rate of 36%, which is relatively low. A low level of agreement, 25%, is also observed in investigating whether the boards of directors are independent from the controlling shareholders. These results indicate that the boards are not free from the influence of the chairpersons as well as the controlling shareholders making their independence questionable. As regards their independence from the presidents (CEOs), their independence is maintained as the presidents in the Ethiopian case do not play a double role of being a chairperson of the board and president of a bank both at one time. Triangulating the information from governing bodies (Sample-1), it is noted that the board of directors is not free from the influence of the controlling shareholders as the latter has influence on the selection of boards. A significant difference of opinion exists on the two variables (BrdInd_1 and BrdInd_2) between the groups of respondents as exhibited in Appendix 7.10a. The Post hoc test for example shows a difference of opinion between shareholders and public bank employees and the governing bodies; between private bank employees with members of parliament; between public bank employees and governing bodies; between the governing bodies and all except the public bank employees in regard to BrdInd_1 item. In relation to item BrdInd_2, the difference in opinion is: between shareholders and public bank employees and the governing bodies; between private bank employees and members of parliament and the governing bodies; between members of parliament and private bank employees; and finally between, the governing bodies and all the five categories of stakeholders. In all cases, the governing bodies' evaluation of independence is the highest of all. Taking only the stakeholders' group, the difference of opinions on the two variables is only between the members of parliament and the two stakeholders, the private and public bank employees.

As stated in Chapter Two section 2.7.2, the roles of directors can be defined in terms of a set of duties that are charged to them, which include the fiduciary duty (duty of trust) and the duty of supervision. Regarding these functions, the group of stakeholder respondents is of the view that boards discharge their assigned duties adequately, as demonstrated in the overall average score of 3.6 or 72% achievement on the items measuring board duties. The summarized results of the analysis are given in Table 7.24.

Table 7. 24: Stakeholders perception of board duty

Extent of agreement*	**1**	**2**	**3**	**4**	**5**		
Board duty	**# (%)**	**# (%)**	**# (%)**	**# (%)**	**# (%)**	**N**	**Mean**
The board of directors in my bank act honestly, carefully, and reasonably in executing their duties (BrdDty_1)	9(3)	22(7)	88(28)	148(48)	44(14)	311	3.6
In my judgment, the board's involvement in the oversight and monitoring of a company's financial performance, its top management and its strategic processes and outcomes meet shareholders' expectations (BrdDty_2)	2(1)	39(13)	82(27)	159(52)	26(8)	308	3.6
The board of directors in my bank is not perfunctory/ rubber stamp: the chairperson does not dominate the board meeting, and different views of directors are welcome (BrdDty_3)	4(1)	35(11)	115(37)	127(41)	28(9)	309	3.5
The board of directors plays an important role in selecting, monitoring, and replacing the President of the bank (BrdDty_4)	4(1)	34(11)	64(21)	150(49)	55(18)	307	3.9
The board of directors effectively oversees potential conflicts of interest including related-party transactions (BrdDty_5)	5(2)	30(10)	141(46)	115(38)	16(5)	307	3.3
The board is active in ensuring proper disclosure and actively communicate with shareholders and stakeholders (BrdDty_6)	2(2)	39(13)	106(35)	134(44)	22(7)	307	3.4
In general, the board of directors is active in ensuring the effectiveness of various governance practices (BrdDty_7)	5(2)	33(11)	82(27)	159(52)	28(9)	307	3.6
						Overall mean	**3.6**
* (1) Strongly disagree , (2) Disagree, (3) Neutral, (4), Agree , and (5) Strongly agree							

Stakeholders' views on board duties show that the majority believe that boards of directors: (1) act honestly, carefully, and reasonably; (2) involve in the oversight and monitoring of a company's financial performance, its top management and its strategic processes; (3) play an important role in selecting, monitoring, and replacing the President of the banks; (4) ensure different views of directors are welcome in board meetings; (5) ensure proper disclosure and active communication with shareholders and stakeholders. Fewer (43%) believe that the board of directors effectively oversees potential conflicts of interest including related-party transactions. However, the level of disagreements regarding all the variables measuring board duty is relatively low ranging from 10% to 15%. The general assessment of the group of stakeholders in respect of the role of the boards in ensuring the effectiveness of various governance practices is positive as expressed by the majority (61%). Kruskal- Wallis and the One-Way ANOVA tests for significant differences of opinion show that a difference exists only in one of the variables, BrdDty_3, specifically between the shareholders and the private bank employees at the 5% level; however, at the 1% level, the Post hoc analysis shows no significant difference between the stakeholders.

Boards of directors have a major role of setting the big picture. They establish the road map/direction and goals and monitor their progress towards achieving them on behalf of the share owners. They are strategic thinkers and do not involve in routine matters. The overall average score of 3.6 or 72%, which is well above average, shows respondents' opinions on the strategic issues are upbeat, indicating a general perception that boards are strategic oriented, involved in formulating strategies for achieving goals. Specifics are given in Table 7.25 and Appendix 7.10a.

Table 7. 25: Stakeholders' perceptions of strategic issues

Extent of agreement*	**1**	**2**	**3**	**4**	**5**	**N**	**Mean**
Strategic issue	**# (%)**	**# (%)**	**# (%)**	**# (%)**	**# (%)**		
The board is actively involved in formulating long-term strategies for attaining future goals and reviews it as deemed necessary (StrIss_1)	2(1)	31(10)	59(19)	162(52)	56(18)	310	3.8
The board is more involved in strategic matters than routine matters (StrIss_2)	5(2)	43(14)	74(24)	140(45)	48(16)	310	3.6
The board identifies actions to seize opportunities that will contribute to the bank's strategic priorities (StrIss_3)	3(1)	35(11)	85(27)	155(50)	32(10)	310	3.6
The board identifies annual strategic direction within the framework of the long range planning (StrIss_4)	4(1)	22(7)	78(25)	164(53)	43(13.8)	311	3.7
The board demonstrates awareness of emerging/ environmental trends affecting the bank and reflect them in discussion and decision-making (StrIss_5)	3(1)	38(12)	102(33)	136(44)	29(9)	308	3.5
						Overall mean	**3.6**
* (1) Strongly disagree , (2) Disagree, (3) Neutral, (4), Agree , and (5) Strongly agree							

The results of the analysis from Table 7.25 show that the majority of the respondents (53% to 70%) believe that boards are actively involved in formulating strategies, do not involve in routines, identify actions to seize opportunities, and demonstrate awareness of emerging trends in discussions and decisions. The opposite view is expressed by a much smaller figure of 8% to 16% of the respondents. The Kruskal-Wallis or the One-Way ANOVA tests show a significant difference in opinion on only one of the variables, StrIss_2, between the members of parliament and private bank employees at the 5% level. Thus the assessment of the members of parliament is far more generous than the private bank employees'. However, the Post Hoc test at 1% level shows no significant difference in opinion between the stakeholders.

Stakeholders' perception of corporate performance as a function of corporate governance practices shows that the majority are satisfied with the performances of the banks (66%) and this is due to the perceived relentless group effort by the board, executives and employees (73%). The majority of the stakeholders (57%) believe that the profitability of the banks is due not only the efforts of the executive body and employees but also the boards. This view is consistent with the above in that the vast majority of the stakeholders (79%) have the conviction that banks, besides making profit for shareholders, have the goal of maximizing the well-being of various stakeholders, such as employees and customers. Detailed analysis of results is given in Table 7.26.

Table 7. 26: Perception of stakeholders regarding corporate performance

Extent of agreement*	**1**	**2**	**3**	**4**	**5**	**N**	**Mean**
Corporate performance	**# (%)**	**# (%)**	**# (%)**	**# (%)**	**# (%)**		
I am satisfied with the performance of the bank and the amount of profit declared every year (CorPrf_1)	11(4)	49(16)	44(14)	157(51)	46(15)	307	3.6
The bank is profitable every year due to persistent effort by the **board, executive body** and **employees** (CorPrf_2)	6(2)	24(8)	54(17)	164(53)	62(20)	310	3.8
The bank is profitable every year due to persistent effort **only** by **executive body** and **employees** (CorPrf_3)	17(6)	158(51)	55(20)	63(21)	15(5)	308	2.7
Many of the issues that the board deals with add value to the shareholders (CorPrf_4)	2(1)	28(9)	94(31)	159(52)	24(8)	307	3.6
I can sense the effectiveness of the boards and clearly see their wealth maximization efforts (CorPrf_5)	5(2)	40(13)	114(37)	137(44)	13(4)	309	3.4
My bank, besides making profit for shareholders, has the goal of attaining the well-being of various stakeholders, such as employees and customers (CorPrf_6)	7(2)	19(6)	40(13)	197(64)	46(15)	309	3.8
						Overall mean	**3.5**
* (1) Strongly disagree , (2) Disagree, (3) Neutral, (4), Agree , and (5) Strongly agree							

The above responses were tested for any significant differences between the opinions of the groups of stakeholders. As shown in Appendices 7.10a and 7.10b, a significant difference between the members of parliament and other two stakeholders' groups, the private and public bank employees is noticed only in regard to one of the variables, CorPrf_2. The mean rank of the parliamentarians is lower implying their belief that the profitably of banks is due to the group effort is not as strong as the employees'. Furthermore, regarding the same variable, a significant difference is observed between the supervisory and regulatory agencies and the public bank employees. The former's mean rank is smaller than the latter, which may suggest that public bank employees have stronger belief than the supervisory and regulatory agencies that the profitability of banks is due to persistent effort by the board, the executive body and employees.

The groups of stakeholders were requested to identify major corporate governance issues prevailing in their respective banks. The perception of the majority of the stakeholders' shows that the identified issues such as: lack of integrity and ethics among board members and top management, and conflict of interest are identified as major corporate governance issues expressed in an agreement level of 47% and 42%, respectively. Insider trading, lack of proper balance between the executive and non-executive boards, an ineffective connectivity between board and management are not major issues as shown in the smaller disagreement level of 37%, 40% and 48%, respectively (see Table 7.27). The overall average score for corporate governance issues main construct is 3.0 or 60% which is above average.

Table 7. 27: Perception of stakeholders about corporate governance issues

Extent of agreement*	**1**	**2**	**3**	**4**	**5**	**N**	**Mean**
Corporate governance issues	**# (%)**	**# (%)**	**# (%)**	**# (%)**	**# (%)**		
Lack of integrity and ethics among boards is a major issue (CGIssu_1)	16(5)	61(20)	87(28)	102(33)	43(14)	309	3.1
Lack of integrity and ethics among top management is a major issue (CGIssu_2)	14(5)	63(21)	85(28)	100(32)	46(15)	308	3.3
Insider trading[6] is a major issue (CGIssu_3)	34(11)	78(26)	144(48)	36(12)	7(2)	299	2.7
Conflict of interest of board of directors is a major issue (CGIssu_4)	24(8)	51(16)	100(33)	89(29)	41(13)	305	3.0
Lack of proper balance between executive and non executive members in the board is a major issue (CGIssu_5)	35(12)	83(28)	106(36)	58(20)	14(9)	296	2.8
Ineffective connectivity between board and management is a major issue (CGIssu_6)	30(9)	102(39)	87(29)	65(22)	18(6)	302	2.8
Overall mean							**3.0**
* (1) Strongly disagree , (2) Disagree, (3) Neutral, (4), Agree , and (5) Strongly agree							

The above items were checked using both the Kruskal-Wallis and One-Way ANOVA to see if there were significant differences of opinions among the group of

[6] When share prices are artificially controlled for personal gain

stakeholders. The tests show a statistically significant difference, at the 1% level, among the groups of stakeholders. Based on the Post Hoc test of pair comparison, the opinion of members of parliament is significantly different from the opinions of the shareholders, and the private and public bank employees in regard to the first four items (CGIssu_1, CGIssu_2, CGIssu_3, and CGIssu_4). The parliamentarians perceive the four corporate governance items as major concerns in the banks as shown in the highest mean ranks values of their responses. Regarding the fifth and sixth items (CGIssu_5 and CGIssu_6), there is a significant difference of opinion between the members of parliament and the private and public bank employees. The majority of the former consider the two issues as serious concerns; however, the majority of the private bank employees do not consider them as such.

7.4 Key Corporate Governance Issues/Problems

In addition to the opinion survey questions administered to the governing bodies (Sample-1) and the stakeholders (Sample-2), the questionnaires also included two open ended questions. The two open ended questions focused on identifying major corporate governance issues and possible recommendations to improve corporate governance practices in the banking sector. The first question asked respondents to give opinion on major corporate governance problems facing the Ethiopian banks. A total of 241respondents (63 governing bodies and 178 stakeholders) expressed their perceptions. In a related way the second question, requested respondents to forward comments and recommendations to improve corporate governance practices. A total of 106 respondents (26 governing bodies and 80 stakeholders) answered the question. The two questions were analyzed so as to identify dominant themes to the respondents. The analysis of the comments generated by the first question indicated the following key issues as important to the respondents.

(1) Lack of relevant knowledge, limited experience, and insufficient understanding (awareness) of corporate governance characterize boards and key stakeholders,
(2) Lack of integrity, conflict of interest and corruption of board members,
(3) Limited capacity of the regulatory body (National Bank of Ethiopia) and undue intervention by the same,
(4) Influence of large shareholders/ownership concentration,

(5) Lack of a proper national code of corporate governance practices or comprehensive regulation,

(6) Lack of transparency,

(7) Lack of awareness of roles and responsibilities in board of directors,

(8) Interference of board of directors in managerial and operational activities undermining the autonomy of managers,

(9) Poor remuneration scheme for boards that affected their commitment to play their role, and

(10) Lack of proper mechanism of nomination and selection of board of directors.

The following are detailed analyses and comments made by the respondents on the identified themes.

Among the ten themes identified, lack of relevant knowledge, limited experience and understanding (awareness) of corporate governance by board of directors, regulatory agencies and other stakeholders is outlined as the most significant concern by 41% (98 of 241) of the respondents especially the stakeholders that included shareholders, parliamentarians, and employees of private and public banks. Some of the most emphasized issues were: boards' inadequate knowledge of governance, lack of skilled and experienced board members as Ethiopia is new to corporate governance systems; board members' lack of sufficient awareness of roles and responsibilities; inadequate understanding of what corporate governance is all about and the benefits in the practice. Listed below are some of the remarkable comments made by the respondents on the specified theme.

- Relationship based membership on the board with inadequate knowledge of the banking sector involving some board members who are unclear about their duties and responsibilities.
- Lack of training of board members on basic principles of corporate governance and general banking systems; and lack of awareness of shareholders and boards regarding their responsibilities and duties.
- Composition and balance of the board in terms of knowledge, qualification and commitment is poor and no regular meetings are held to ensure control.
- Ethiopian banks are run by traditional bankers with insufficient exposure to the international best practices in the management system and sticking to their tools to maintain the status quo in older banks.

- Bottlenecks to corporate governance are diversified interests, capacity differences, lack of awareness of the essence of corporate governance among boards, and outdated technology.
- Board members are co-opted from all walks of life without undergoing basic professional training for their roles.
- Most influential shareholders are not aware of the sensitive nature of the banking industry and the contagious effect of its problems, lack of knowledgeable personnel both at board and senior management level, limited corporate culture and limited capacity at the regulatory level.

Lack of integrity, and conflict of interest and corruption are other concerns raised by 50(21%) of the respondents. In relation to these issues, the following are some of the problems particularly noted by the respondents: selfish motives, nepotism, lack of integrity, lack of commitment and good governance, unethical behavior, corrupt practices and disregard of rules and procedures, and favoritism dominate the institutions. The following are some of the expressed concerns worth noting.

- Deteriorating integrity of the board of directors.
- Nepotism in granting loans, in employment and renting offices for branches.
- Interest of individuals dominating the board role and above all conflict of interest between boards and management.
- Rent seeking behavior in both management and boards.
- Board of directors and top management abuse their power to their own advantage and also favor their relatives.
- Directors in some banks are engaged in maximizing the interests of the influential shareholders, demonstrating conflict of interest.

Capacity issues and interferences of the regulatory body (National Bank of Ethiopia) are marked as significant by 51(21%) of respondents. Too much interference from the National Bank of Ethiopia, stringent regulations by NBE, government interference and imposed policies for purchase of bonds, weak institutional capacity of NBE, unpredictable policy changes by the NBE, and unfair and discriminatory treatment against private banks by the NBE are among the problems greatly emphasized by the respondents. Research (Kiyota et al., 2008) using the financial liberalization index shows that Ethiopia is the lowest in Sub-

Saharan Africa (scoring 20 out of 100, 100 being the most liberalized) indicating that the sector is highly regulated by the government. The following are some of the important comments made by the respondents regarding the capacity issue and excessive interference of the NBE.

- Unfair treatment by NBE over all banks other than Commercial Bank of Ethiopia which is governmental bank.
- Excessive control of the NBE on private banks. Though control by the NBE is desirable, the tight grip on private banks has rendered them unable to act according to their charter.
- NBE has no enough capacity to regulate private banks and promote governance practices.
- Change of NBE policies and guidelines which favor only public banks.
- NBE does not study the volatile nature of the banking industry and revise the policies and directives in good time as per the changing market situation, but acts reactively.
- Some policies of NBE such as fixing remunerations and excluding executive directors from board membership cause problems in some governance areas.
- NBE fails to focus on building capacity on corporate governance but put in place stringent directives and demands more responsibility from boards and senior management.

Forty five (19%) respondents pointed out that, Influence of large shareholders/ownership concentration is a corporate governance problem in the Ethiopian banks. Major shareholders self-interestedly manipulate the board; major decisions are made by big shareholders, who also unduly intervene in bank operations. They also influence on the nomination of directors by major shareholders and exercise excessive power control. These were some of the prominent comments of the respondents. Respondents' other important views include the following.

- The majority of shares are owned by party affiliated corporations resulting in minority shareholders' interests being sidelined.
- Vested interests of large shareholders which affect the stability of the banks and result in inappropriate allocation of resources like loan dispersal.
- Invisible hands of influence by major shareholders.
- Involvement of major shareholders in the operations of the bank.

- Tendency of major shareholders to manipulate decisions to their own business advantage.
- Ownership concentrated in few hands, hence major shareholder influence in self-seeking nomination and selection.

Lack of a proper code of corporate governance practices or a comprehensive regulation was underlined as a significant issue by 33(14%) of the respondents. The most repeatedly made comments in line with this issue include: the absence of a workable legal corporate governance framework, lack of a code of corporate governance, lack of code of conduct, lack of corporate social responsibility and business ethics and failure to comply with regulatory issues. Apart from these, the following are some of the more specific comments of the respondents.

- Lack of appropriate guidelines by the governing bodies and the banks themselves.
- Rules and regulations set by government must be uniformly applicable to all banks to ensure fair competition.
- Organic corporate governance policies/instruments from within the banks are not being introduced. This is the responsibility of the regulatory body (NBE).
- Lack of comprehensive corporate governance regulations and failure to understand even the existing scant governance regulation.
- Absence of good corporate citizenship, ethical behavior and sound corporate governance as well as weak and ineffective corporate governance mechanisms.

Lack of transparency has also been identified by 30(13%) respondents as a corporate governance problem in the Ethiopian banks. The most frequently mentioned issues include: lack of transparency and accountability, lack of open communication and participatory approach, unawareness of the importance of transparency and disclosure, and ownership concentration hampering the level of transparency. On this issue of transparency, some of the most prominent comments are listed below.

- The management team is usually formed by a group of handpicked individuals and it is difficult to control their performance objectively as their cohesiveness hinders transparency of the management system.
- Some important information such as strategic plan, AGM, board meetings minutes are not shared with shareholders.

- Lack of transparency of decisions is especially common whenever there is a shortage of critical resources like foreign currency permissions for customers.

Lack of awareness of roles and responsibilities among members of the board of directors was identified as one of the significant concerns by 24(10%) respondents. No clear separation of roles between management and boards, lack of commitment, roles of boards not being clearly defined, lack of team spirit, lack of accountability, boards being not participatory, and board and management being not interactive are some of the recurring remarks made by respondents. Respondents' opinion on the problem is further reflected by the following specific comments.

- No clear demarcation of boards and management tasks.
- Members of boards of directors of public banks are government officials and do not have sufficient time to execute their roles as board.
- Lack of strategic focus of boards, more focus on trivial and routine matters.
- No adequate information of roles and responsibilities of boards.
- Duties and responsibilities not clearly stated. Scope of board in management duties is fuzzy.
- Lack of commitment by some directors and failure to deliberate sufficiently and timely on some critical matters that demand serious attention of the boards.
- Some directors are not clear about their roles due to their poor background in leadership.

Just like some big share owners, interference of members of the board of directors in management duties and operations is as a significant problem in the Ethiopian banks as mentioned by 18(8%) of the respondents. Most of the comments on this issue come from the board of directors. Eroding management freedom, poor attention to strategic issues but undue focus on management concerns; unclear demarcation between top management and boards, and board interference in routine duties are the most emphasized issues. Some of the specific significant comments on the problem outlined include:

- Influence of board of directors on decision practices especially on loan and foreign currency permits which is purely operational and the domain of management.
- Boards in the Ethiopian banks apart from their strategic decision making role and oversight functions interfere in tasks that should have been left to management.

- Neglect of oversight roles and policy issues but much involvement in operation.
- Failure to determine and focus on what constitutes corporate governance and as a result involve in undue operational matters.

The inadequacy of remuneration of board of directors has been marked as one important problem of corporate governance in the Ethiopian banks. In this regard 17(7%) of the respondents mentioned poor compensation as significant problem. The most noteworthy comments on this issue include:

- The boards of directors are not fully motivated to utilize their potential, knowledge and experience to address strategic issues because of low benefit arrangements.
- The remuneration of boards is not enough and thus experienced and senior people are not motivated to become board members.
- The remuneration problem has resulted in professional ethics being undermined and poor quality service and lack of transparency becoming serious issues.
- The agency problem has emerged due to weak compensation to board of directors.

The last corporate governance problem highlighted by 17(7%) of the respondents was the lack of a proper mechanism of nomination and selection of members of the board of directors. The following are some of the comments made by respondents on the issue.

- Ganging up in both the nomination and selection of board members and not allowing new members to join them.
- Board as well as management nomination are not based on merit but relationships of different forms such as tribal, religious and old school boy network.
- Not giving much importance to education and leadership experience in selection.
- In most of the banks, board membership is based on relationship to the controlling shareholders instead of competence and professionalism, leading boards to be at the service of the controlling shareholders.
- Nomination and election of boards is just made randomly. There is no recognized nomination body to make nominations based on set criteria.

In a nut shell, the stakeholders' perceptions as captured in the main themes specified above are considered to be the major corporate governance problems faced by the Ethiopian banks. The identified themes and issues are systematic reflections of the views based on respondents' knowledge and experiences.

7.5 Corporate Governance Practices in the Ethiopian Banks: the way forward

The second open ended question asked respondents to suggest ways and means that they think will improve corporate governance practices in the Ethiopian banks. Recommendations from a total of 106 (26 governing bodies and 80 stakeholders) were collected and analytically considered in terms of their worth and relevance. The following are the major recommendations that the respondents believe may help address one or more of the problems identified in the Ethiopian banking business corporate governance.

(1) There should be national codes of best practices.

(2) Regular capacity building systems for regulatory agencies and board members need to be in place.

(3) Board nominations should be standardized.

(4) More transparency and disclosure are needed.

(5) Awareness of corporate governance in general and the boards' roles and responsibilities in particular should be created.

(6) Performance related remuneration schemes for board members need to be introduced.

(7) Board members and major shareholders must maintain the required distance form managerial and operational activities.

Further analysis of the findings and the particularly important recommendations of the respondents on each theme is presented below.

Most of the respondents placed great emphasis on the need for instituting a framework for codes of best practices of corporate governance and code of ethics and an institution responsible for the set of reforms suggested. In particular, 31(29%) respondents suggested the formulation of codes of best practices applicable to the financial institutions. It seems that there is a consensus on the strong need for the codes among the different groups of stakeholders and the governing bodies as all have made similar recommendations on the issue. The following are some of the prominent recommendations made.

- Instituting strong codes of governance will improve corporate governance practices and draw in board members with appropriate skills, experience, and independent boards.
- The old commercial law should be revised in line with the current socio-economic and political settings. The revised code has to clearly define the powers and responsibilities of boards, executives, and shareholders.
- Corporate governance practices could improve if codes of governance and ethics are introduced, monitored and evaluated periodically. Governance practices should be linked to risk management and compliance activities. Periodic evaluation and communication with all parties could improve corporate governance practices.
- There is no stock market to control the market and people buy shares without any legal protection. Government should interfere by setting rules and regulations to protect investors and increase their confidence.
- A stock market must be introduced so as to create an institution that serves as an umbrella responsible for crafting the voluntary codes of corporate governance.
- As corporate governance is new phenomenon, education and ethics can be powerful instruments to improve the practice. There is a need to build an institution for good governance at a national level.
- In Ethiopia there is no one institution responsible for developing and overseeing corporate practices. The current law, which is in effect aimed to regulate corporate structure is, the 1960 Commercial Code that was intended to serve simple corporate entities of the time. Corporate governance is new to our country and some people consider it as corporate management. But it is much broader and includes fair, efficient and transparent administration. So the Commercial Code needs to be revised to accommodate the current developments and a specific corporate governance code has to be issued by responsible entity.
- To add value to the banks, promote ethical and responsible decision making, and encourage professionalism; there should be a corporate governance committee to regularly assess the skills and experiences of the board.

Developing the capacity of the regulatory body and the board of directors was suggested by 28(26%) respondents as a means to improve corporate governance in the Ethiopian banks. Strengthening the capacity of the regulatory body, making available training for the boards of directors after their election and periodically; and minimizing excessive interference of the regulatory body were the strong recommendations made by both stakeholders and governing bodies. The importance of educating the members of the regulatory body and boards to help in promoting better corporate governance practices is indicated in the following specific recommendations made by the respondents.

- NBE should train its employees in a better way so that they can understand what corporate governance is all about and what constitutes the modern banking system.
- The Government should consider fundamental structural change of NBE with enhanced capacity in order to help it properly oversee the private banks.
- The NBE is the apex of banks whose role is to control, regulate and stabilize the monetary system in the national interest, but this does not imply it should monopolize every activity of the banks. Freedom should be given to every bank so that they can exercise their duties freely.
- The heavy handed regulations of the NBE need to be repealed and the bank should work on building its own institutional capacity and that of the board of directors.
- Policy issues by the NBE should be based on a study and not imposed as this may result in owners' loss of confidence and violation of their rights causing undue frustration.
- Building the institutional capacity of the regulatory organs such as the NBE, public financial supervisory agency, and the federal ethics body will contribute much to the enforcement of the existing corporate governance related laws and help introduce new laws pertinent to the current situation.
- Both the board of directors and top management should be given training and experience sharing opportunities to widen their knowledge and abilities in decision making. The NBE should work out the minimum responsibilities of the boards. It should also give orientation and induction courses to newly appointed board members.

Standardizing board nomination in terms of professional qualification, competence and experience was another suggestion made by 24(23%) respondents as important means to help improve corporate governance practices in the Ethiopian banks. It was also strongly recommended that: nomination be strictly on merit basis, NBE revise its directives on board membership eligibility, nominees have related qualification and exposure to the banking industry, clear criteria on nomination and selection of boards be set and the need for a nomination committee be addressed. The following are some of the suggestions that highlight the respondents' recommendations.

- Individuals should have basic knowledge of the financial sector to be elected as board members and the criteria set by the NBE be revised in view of pertinent developments on the ground.
- Banks should establish key board committees including those of audit, remuneration, and nomination in a transparent manner. The nomination committee is particularly important for a formal and transparent procedure for the appointment of new directors.
- The qualification and competence of the board of directors and executive management needs to be standardized.
- The Commercial Code especially the section addressing the appointment of boards, and the criteria for appointment needs to be strengthened and made clear.
- In practice, most of the board of directors and executive management are nominated and appointed with the influence of large shareholders. As a result, nepotism and vested interest are clear dangers to all banks in Ethiopia. All the time, minor shareholders are ceremonial in all AGMs. Elections need the blessing of major shareholder. Therefore the need for nomination committee to have a balanced board is abundantly clear.
- There should be a nomination standing committee which will assess the candidates before AGM and present them for election. The current traditional system of board nomination greatly affects the banks negatively.

To improve corporate governance in the Ethiopian banks, respondents have also emphasized on introducing more transparency and disclosure practices. Thus 20(19%) of the respondents underlined the particular importance of the relevant reform. Among the more common recommendation are: the need for proper disclosure of information to shareholders, enhancing the level of transparency, the need for transparent and open communication between board and senior management and employees. The other specific suggestions forwarded by the respondents are listed below.

- Transparency and disclosure are of paramount importance to promote sound corporate governance and build trust.
- Enhance transparency and accountability so as to build trust among stakeholders towards corporate organizations.
- Effective reporting and disclosure of financial and operational performances are crucially important.
- There has to be open and effective communication between boards and senior management and employees to foster goal congruence.

Another recommendation made by 13(12%) respondents relates to the need for more awareness creation on corporate governance, roles and responsibilities of boards to improve corporate governance practices. Respondents felt that boards and the various stakeholders appreciate the importance of corporate governance in the modern world. Boards also need to internalize the roles that they play and the specific responsibilities that they are expected to accomplish. For all this to be possible through awareness creation, involving all concerned parties is imperative. The following are some of the relevant recommendations made by the respondents. These include the need for:

- Internalizing the very essence of corporate governance and serving mentality on the part of directors.
- Boards to develop their own policy and procedure manual that clearly stipulates their role and responsibilities.
- Enhancing corporate behavior by creating awareness across the board.
- Developing values and beliefs in the worker to improve corporate governance.
- Board to think strategically and keep in mind that they are acting on behalf of the shareholders, which simply means change of attitude is necessary.
- The concept of corporate governance needs more awareness creation among board members, and more training is necessary in this regard.
- Setting clear roles and responsibilities for the board of directors and management ensuring no overlap occurs.

An improved remuneration scheme as one mechanism to improve corporate governance was suggested by 12(11%) respondents. The respondents believe that the current fixed payment set by the NBE fails to attract and maintain experienced and qualified persons to serve as board members. The following are highlight of the recommendations made.

- Remuneration for the board of directors is not enough and experienced and senior people are not motivated to become board members.
- There should be a strong legal framework, better remunerations, freedom from high government interference to attract honest and vigilant board members.
- Remuneration needs to be aligned with performance so that competition is enhanced and responsibility and accountability instituted.

The last recommendation made to improve corporate governance is to prevent interference from major shareholders and board of directors outside their domain. This was suggested by 11(10%) respondents. This subject of freedom was identified in the previous section as one of the problems hampering good governance. On this issue, some of respondents made the following specific recommendations.

- The shadow board (big shareholders) is governing the banks; therefore, fair representation of minority shareholders in the boards is essential; also limiting the number of seats of major shareholders on the board may help minimize the degree of influence.
- Relationship with customers should be left to the staff and any interference by the board should be discouraged.
- A person who is not economically independent can never be professionally independent and putting economically less secure person on the board will not help in improving corporate governance. Most members of boards of directors join in primarily for economic reasons and tend to listen when the influential shareholders come up with unreasonable requests.
- There should be distinction of authority and responsibility between the board and management. The Board should not be allowed to interfere in management activities.
- The board of directors should refrain from operational activities. More specifically the board must limit itself to setting policies, strategies, board goals and approving annual plan and critically monitoring performances of the management against agreed parameters. Only then can the board achieve a strong level of

independence to hold the management accountable if there is any failure or success. But if directors engage in operations, corporate governance will be compromised since directors may make mistakes due to their lack of experience or other reasons. In such cases, they cannot question management as this would make them accountable for their own mistakes.

In summary, the respondents believe that the Ethiopian banking business corporate governance can be improved if the above recommendations are well addressed. The different groups of stakeholders and the governing bodies of the banks collectively agree that in order to improve corporate governance in the Ethiopian banks, there is no way other than adhering to good corporate governance practices. According to the respondents, good corporate governance practices include, to mention some, instituting a framework for codes of corporate governance, establishing an institution responsible for corporate governance, creating awareness of the importance of corporate governance among concerned parties, strengthening the capacity of the regulatory body, and reducing ownership concentration to minimize the influence of large shareholders.

7.6 Analysis of Qualitative Data

As mentioned in Chapter Four, this study used the interview method to collect the primary data to gain an understanding of the practical aspect of corporate governance practices in the banking industry. The qualitative method was used in order to provide sufficient details about the study situation (Yin, 2003; Leedy and Ormrod, 2010). The interview method as a qualitative approach is important as it encourages interviewees to discuss issues important to them and enables to explore issues interactively with the researcher directing the discussion (Clark, 1998). The results obtained from the interview analysis are used to answer research questions not addressed by the quantitative analysis and to triangulate and validate the findings.

In this study, semi-structured interviews were conducted with different groups of key informants that included board chairpersons/members, board secretaries, bank presidents/CEOs and shareholders of sampled banks. Different groups of interview participants were selected with the objective of obtaining a variety of views from a relatively small group of respondents, preventing heavy dependency on a single informant and triangulating the information from different sources so as to enhance validity. The interviewees for this exploratory research were purposively selected to include those that have at least served two years in their capacity as board chairpersons/ member, secretaries and presidents/CEOs and shareholders.

An interview guide questions was used (see Appendix 4.2d) when conducting the interview. It was not possible to audio tape the interviews as the participants did not feel comfortable and were unwilling to be quoted. Therefore, relevant key issues, problems, strong comments, current issues and recommendations were noted down and care was taken not to lose the flow of the conversation in all the interviews. Interview questions were designed to focus respondents' reply to the researcher's specific areas of interest. But there were some concerns which were raised by the respondents themselves, unasked by the researcher. These included: low remuneration, interference of board in operations, inadequate capacity of NBE, need for nomination committee, and loss of trust/confidence in boards.

The interview questions mainly focused on obtaining information on boards' commitment to good corporate governance practices, their role in assurance of sound stewardship, and board structure and functioning of the board of directors. Ten interviews were conducted and each interview lasted for about 45 to 60 minutes. At the start of the interview, the aim of the research was fully explained to the participants and it was also confirmed that the interview was highly confidential. Below in Table 7.28 is presented the profile of the interviewees.

Table 7. 28: Profile of interviewee

Code	Ownership type	Respondent category
1	Private bank	Board secretary
2	Private bank	Board secretary
3	Private bank	Shareholder and employee
4	Public bank	Board secretary
5	Public bank	Board member
6	Private bank	Board chairperson
7	Private bank	Board chairperson
8	Private bank	Board member
9	Private bank	President
10	Public bank	Former board member

Upon completion of the interviews, each interview was given a code as shown in Table 7.28 above. The interviews were sorted, transcribed, categorized and analyzed accordingly. In the analysis, key issues were analyzes for patterns, common ideas and differences in opinions so as to make comparisons among the interviews. Based on the semi-structured interviews conducted, six basic themes or categories emerged as listed below.

1. The issue of commitment to good corporate governance
2. Board compensation
3. Board composition and nomination
4. Conflict of interest and malpractices
5. Role of the regulatory agencies and code of best practices
6. Other general concerns

Commitment to Good Corporate Governance

As has been emphasized in this study, corporate governance is important for corporate forms of organizations because it deals with establishing a system by which companies are directed and controlled (OCED, 2004). A system refers to the structures and processes on the basis of which decisions are made. It is a tool to safeguard the interests of shareholders and build investor confidence (Afolabi & Dare, 2015). In short, good governance helps to realize shareholders' and stakeholders' right, equitable treatment of shareholders, transparency and discloser, and a responsible board (OECD, 2004). To reap the benefits of good governance, there has to be commitment to it by developing and implementing relevant codes and policies. In this respect, respondents were asked to express the extent of their commitment to promote good corporate governance by crafting a sound charter according to the country's legislation, with provisions on matters such as shareholder rights, transparency and disclosure, and role and distribution of power between board and management. All the interviewees were in agreement that in order to enhance the current weak status of corporate governance practices in the country, it is mandatory to have a memorandum and articles of association approved by the National Bank of Ethiopian, the regulatory body of the financial institutions. Having a memorandum and articles of association is a precondition for licensing in the banking business as proclaimed by the Banking Business Proclamation No. 592/2008. The respondents mentioned that binding items such as business objectives, voting rights of shareholders, powers and roles of boards and management, appointment of directors, power of the general meetings of shareholders, and conflict of interest and transferability of share are covered in the documents. Some of the respondents believe that having a colorful document that covers fundamental corporate governance issues is not a guarantee to good corporate governance; instead its proper implementation is what matters more. The majority agree that, since the last few years commitment to good governance has been eroded from time to time, especially in the private banks.

One of the private bank respondents' noteworthy opinion in his words is that: "There has been a demonstrated lack of commitment and seriousness in the board of directors especially after the remuneration for the directors was fixed by the directives of National Bank of Ethiopia. Such lack of motivation in the boards is noted when documents and other materials are sent to them for review. It is a common phenomenon to see board members appear for a meeting or committee assignments without reading materials sent well ahead of meetings. This problem has been manifested since annual board membership remuneration was fixed to be no more than Birr 50, 000 on January 15, 2011. Earlier, the situation was totally different. Then you could see documents labeled with red marks almost by all and meetings were accompanied by hot discussions signifying that the materials were well reviewed. Furthermore, low attendance rates in board meetings, dissatisfaction and lack of a sense of belonging were observed subsequent to the coming into force of the bank's directive fixing the remuneration. These problems were not as such rampant before the year 2011 when remunerations were based up on banks' annual performance. Prior to this period, actually there was strong fight to have a sit on the board because the board fees were attractive enough."

The public bank respondents do not really accept the 'lack of commitment' and frustration resulting from fixed annual remuneration. They argue that, sitting on the board in the public banks is an assignment and not a matter of being elected. Individuals are assigned to serve as board members in order to accomplish the objectives of the government, which are about developmental and commercial commitment. The respondents believe that the remuneration issue, which was fixed in 2011, is not a pleasant one and might demotivate members to some extent but cannot be echoed as a major issue because board membership in public banks is considered as a part of larger assignments or extension of official assignment.

Board Compensation

The issue of remuneration of board members was addressed in chapter seven sections 7.2 and 7.3 in the survey analysis of the governing bodies and stakeholders' perceptions. The results of both analyses showed that remuneration of the board members is insufficient and does not reflect well enough the importance of the duties and responsibilities entrusted to them. Similar perceptions were reflected in the interview involving both the private and public bank respondents. All those interviewed have the conviction that board remuneration is inadequate and this has a negative repercussion on the boards' commitment to and performance of key roles. All believe that the level of remuneration should reflect the level of duties and responsibilities that boards shoulder.

The following are some of the opinions of the interviewees: “Limiting remuneration is a source of frustration to board members because the service that we deliver and the burden of responsibilities are not reflected in the pay. This has also led to corruption involving some of the board members who have resorted to aligning themselves with the management in unlawfully arranging loans and foreign currency permits to customers. Lack of commitment has also been observed since the time the annual board remunerations were fixed.” Another interviewee from the private bank domain also supports the opinion given above by stating the following, “There is no question about the board payment fixed by the NBE in 2011 being insufficient; however, in spite of the small payment, there is still a fight to have a sit on the board. This may suggest that the suspicion that there might be indirect benefits linked to some malpractices like facilitation of loans in collaboration with management is credible.”

Public bank respondents share the views expressed about the inadequacy of the incentive mechanisms but do not consider it a major issue given the purpose of the assignment as a board member. Put in his words: “Limiting board payment emanates from the government's ideology of developmental state or philosophy of protecting owners when malpractices, and fights for a sit on the board and misbehaving are observed in some of the private banks. This is not considered a big problem in the public banks because the assignment is considered as an extension of official responsibility.”

Some of the respondents from both the private and public bank domains believe that if someone shows an interest to serve willingly as a board member, whether assigned or elected, the boards' role should not be affected by the level of compensation. However, since the banks are profit oriented and to attract professional members, board remuneration should be commensurate with the assigned roles and responsibilities. The interview results are consistent with the survey results. A study conducted by Lee and Isa (2015) shows the determinant role of director's remunerations on performance. Their findings show positive association between a director's remuneration and performance in the banking sector in Malaysia. The findings clearly imply that high quality directors are attracted by reasonable remuneration, which in turn has a positive influence on performance.

Board Composition and Nomination

In corporate forms of organizations, the thousands of shareholders cannot direct and control the company that they own, thus, this role has to be delegated to another organ, the board of directors, who act on their behalf. The board of directors is, therefore, one of the alternative corporate governance control mechanisms that limit the agency problems between management and shareholders. The agency problem (theory) is based on the notion of separation of ownership and control that potentially leads to self serving behavior by those in control (managers) (Hermalin & Weisbach, 1991; Dalton et al., 1998, Fama & Jensen, 1983). And one of the reasons why boards of directors are needed is to play a vital role of monitoring the self-seeking behavior of management that benefits itself but not the company owners. The way boards are nominated has implication for board composition. Board composition, which refers to boards' demographic, human capital, and social capital composition (Johnson et al., 2013) is one of the important ingredients in the ability of the board to influence performance. In this respect, interviewees were asked to express their views on how the composition of the board is determined and whether the current structure of boards in terms of diversity, mix of skills and experience works well and in favor of sound board processes.

Most of the respondents acknowledged the role that the composition of the boards plays in the boardroom activity and in executing boards' strategic, service and control functions. They all believe in the importance of a nomination committee in bringing about the right blend of board members. The majority of the respondents do not have a problem with the educational qualification of the board members but the problem observed in most of the boards is lack of enough knowledge of the business and relevant experience. Further, at present professional and experienced people show less interest to serve as board members because they weigh their time allocation against the meager board remuneration. The following are some of the board composition issues described by the private bank respondents in their own words: "As I observe in most of the private banks, composition of board members is based on the blessing of the influential shareholders and finally by popular election of the shareholders. To me, the composition of boards' members should be based more on knowledge to the business. I also observe domination by board chair, which might signal a potential danger to the interests of the shareholders."

One of the private bank respondents describes the problem associated with board composition as follows: "In the bank where I serve as a board member, most members are representatives of organizations and reside in a regional city which is far from the head office located in Addis. These people, most of the time, do not show up at board meetings and one person serves many committees. Some of the subcommittees are underrepresented. This has become a hurdle to the board to accomplish its tasks properly. The other thing worth mentioning is the capacity of the persons to serve as board members. Most of us do not have relevant knowledge about the sector and we are too reserved to speak our minds as the chairperson and some members are politicians. The bank should not be politically charged and its primary objective must be maximizing the wealth of shareholders though the major shareholders are institutional shareholders. There are groupings in the board and sometimes decisions are made by such groups. We do not even collect the board fee as this has been decided to be waived by the board."

The literature on board composition is fundamentally in favor of large proportions of outside directors, as grounded in the agency theory. The understanding is that the non-executive directors are true stewards that benefit the firms as a result of their independence from the firm's management (Dalton et al., 1998; OECD, 2004; Andres, 2005). This does not discount the benefits of having inside directors, but the stronger argument is for a majority of outside directors.

In the Ethiopian context, any employee of a bank is prohibited from sitting on the board of any bank (National Bank of Ethiopia, SBB/49/2011, 2011). However, the interviewees do not vividly see the problem of including a limited number of executives or employees, who are knowledgeable about the sector, to serve as board members so that boards can make informed decisions. The respondents acknowledge the importance of having a majority of non-executives on the board and do not consider including very limited executives to the board as a serious problem. A review of the relevant research by Hermalin and Weisbach (1991) shows that, there are situations where outside directors do better in safeguarding the interests of shareholders than insiders; and there are other board tasks better accomplished by inside directors than outsiders (Andres, 2005).

In line with the above argument, the following are opinions forwarded by one of the private bank respondents: “Another point worth mentioning is, the exclusion of an insider from board membership, which was not the case before the Banking Business Proclamation was enacted. In the Ethiopian banks, be it private or public, there are no executives or employees’ representatives represented on the board. I feel that exclusion is not right because executive directors can bring important input or information to the board which the non executives cannot secure easily. The only thing to fight the agency problem, in case it happens, is to balance between the non-executive and executive board members and make executive boards non-voting and sometimes exclude them from some board meetings that concern them.” One of the public bank respondents also shares the above opinion: “There is no exception for the regulation issued by the NBE, which also applies to the public banks. There are no executive board members which, of course, would have been an added advantage if a limited number were included to serve the board as resource persons.”

Interviewees from the private domain heavily stressed the problems associated with the nomination and selection of board members and question the manner in which it is practiced. They believe in the establishment and importance of a nomination committee to make a conscious decision in bringing about the right blend of board members. The current practice is that nomination and selection is done by the mass of shareholders during the annual general meetings. Some of the criticisms by the respondents are: “The way boards of directors are nominated is mostly orchestrated and influenced by large shareholders. It has been observed that those elected in this way are there to run the interests of a few individuals but not the mass of shareholders.” “The role of influential shareholders in board nomination and selection is significant. There is lobbying of the influential shareholders by the board in the nomination of new directors and removals of others before their terms expire.”

Respondents from the public domain do appreciate the nomination problems encountered by their private bank counter parts but they do not observe such problems in the public domain as nomination and selection are performed by the government. Rather they capitalize on the importance of assigning or appointing boards to the public banks by the government. One of the public bank respondents said the following: “It has to be clear that assignment of boards to the public banks is based on considerations of experience and backgrounds from the various sectors that include agriculture, industry, finance, trade and the like so as to meet/ address the developmental agendas in these sectors. There is an advantage in the diversity of the board composition such as easy access to the government and high facilitation as members are representatives of the government. The board chairperson or president of the bank can easily access and discuss even with regional presidents in the country about loans and if loans are not returned as promised, their budget allocation by the government might be questioned. The chairpersons of the public banks have the strongest influence and play a big role in every aspect as they are big government officials. If the chairperson is strong or weak, the outcome depends on the attributes of the chairperson. Due to the nature of composition of the public banks, bank presidents do not challenge the board even if their territory is trespassed. There is also a tendency for some board members to serve as rubber-stamp of the chairperson.”

In line with the above, another public bank respondent added the following: “Boards that are appointed by the government are resourceful and useful in networking as they bring skills and experience related to the organization or ministries that they lead. Decisions are almost unanimous as they have common interests, which are essentially developmental and commercial.”

To recap the above responses, there is a consensus in regard to the need for a majority body of non-executives board of directors, in the boardroom, as inferred from both the private and public bank respondents. Respondents from both domains agreed that the non-executive directors are independent of the organization with independent viewpoints and can bring in outside experience and networking to the banks. The nonexecutive directors may lack knowledge and understanding of complexities of the business and may face difficulty in executing their strategic, service and control roles. Blending a limited number of executive directors with a majority of non-executive directors in the boardroom may help substantially resolve the problem. The executive directors are believed to be rich in inside experience. In this connection, a recent study made by Semenova and Savchenko (2015) who used the 2010 bank-level data from 112 countries show that combining CEO and chair of board of directors’ positions and a high number of executive directors on the board would reduces banks’ profitability. In considering the mix of the board of directors, nomination and selection should be based on merit that includes relevant knowledge, experience, skill and networking. Whether private or public (election or appointment), a conscious choice that takes into account merits of the candidates be given prime importance and be done professionally by a nomination committee. The interview results are consistent with the survey findings (sections 7.4 and 7.5 of this chapter) and complement each other in the sense that there is lack of a proper mechanism of nomination and selection of board of directors.

Conflict of Interest and Malpractices

The comments on malpractices of board of directors followed the discussions of board remunerations and nomination process. Respondents believe that the problem is not as such rampant and out of control and they felt that it has very much to do with the remuneration and nomination of boards. One of the private bank respondents has described the status of malpractices in the following way. “Conflict of interest and fighting among board members are recent phenomenon observed in some private banks and most people believe that the enactment of the Banking Business Proclamation No. 592/2008 and the subsequent directives were responses to limit the conflict of interests and misbehaving of boards of directors.”

Another respondent forwarded opinion linking it with board payments as stated under the board remuneration section of the interview analysis. He said, “…in spite of the small payment, there is still a fight to have a sit on the board. This may suggest that the suspicion that there might be indirect benefits linked with some malpractices like facilitation of loans in collaboration with management is credible. The boardroom atmosphere is not noble as expected as some members have different motives, which may not include safeguarding the interests of shareholders”

The public board respondents are of the opinion that conflict of interest and corruption are not serious problems in the public banks because boards are assigned in order to advance primarily the developmental agenda of the state. One of the public bank respondents gave the following comments. “The primary purpose of appointment of the board members is to advance the goal of the government so conflict of interest is almost nonexistent, while may be prevalent in the private banks. Decisions are almost unanimous as board members have common interests, which are developmental and commercial.”

Another respondent from the same sector said the following: “Of course the remuneration amount compared to the previous times is not that big, which might demotivate members. When it comes to the public banks no conflict of interest has been observed as a result of insufficient incentives. This is because board members are public officials and /or policy makers assigned to perform dual roles of developmental and commercial character. Board membership is considered a part of their assignment in their capacity as government officials. Board members are also assigned in order to align the banks' strategy with the overall strategy of the country pertaining to investment, manufacturing, trade and the like."

Role of the Regulatory Agencies and Code of Best Practices

The National Bank of Ethiopia (NBE) is the central bank of the country which was initially established in 1963 and underwent several reforms until it was reorganized in 1994 under the market-based economic policy; it was entrusted with the responsibility of ensuring monetary stability, a sound financial system and such other credit and exchange conditions as are conducive for the balanced growth of the country's economy (www.nbe.gov.et). To accomplish such important objectives of the NBE, it is essential that sound corporate governance practices are in place in the banking sector. Dermine (2013) in his study of bank corporate governance highlights the importance of bank supervision and concludes that bank governance should concern not only the board of directors but also the governance of banking supervision with clear accountability principles and with the objective of a sound banking system. It is, therefore, important that the regulatory organs ensure that banks have sound governance structures in place.

To this end, NBE is vested with powers to licensing banking business; to set the criteria for eligibility for membership on a board of directors and senior management, to approve the election of board of directors and appointment of chief executive or senior executive officers; to remove the board of directors and chief executive or senior executive officers; to determine the maximum remuneration of members of board of directors; to regulate and protect the rights of shareholders and limit the acquisition of shares; to regulate transactions that could give rise to possible conflicts of interest; to ensure that banks disclose material information such as financial statements and other reports to the public; and to inspect any bank periodically or at any time so that banks comply with the regulations issued by the governing bank (www.nbe.gov.et). To date Ethiopia has no capital market and any institution responsible for crafting the voluntary code of best practices of corporate governance. Shares have been sold freely to the public in the absence of a stock market and a strong regulatory framework.

In reference to the role of the NBE to regulate and supervise the banking business and the importance of codes of best practices in fostering good corporate governance, respondents have the following opinions. One of the interviewees challenges the capacity and commitment of the NBE in ensuring good corporate governance. The respondent said: “I appreciate the importance of the regulatory body (the NBE) in the Ethiopian situation where there are no stock markets, where shares are freely sold to people without any control, where there is lack of codes of corporate governance. I do not think the NBE has the institutional capacity to craft the codes of practices, if it had, it would have done it long ago when corporate forms of organizations come into picture. In my view, its capacity is to issue strong regulations that are not of much benefit to the private banks. I do not think the directives that it issues are based on a study. It did not even take the initiative to train the board of directors to assure good governance prevails.”

Two respondents also commented on the NBE’s effort in ensuring good corporate governance. The first respondent expressed the view that “NBE as a regulatory organ does not make strict control and provide training or create awareness on corporate governance. It should have been this organ that takes the initiative for the development of codes of corporate governance. It is really very unfortunate to observe that there are some board members who do not really know about or have very limited knowledge of corporate governance.” The second respondent added the following comment, “NBE has failed to give trainings on basic corporate governance principles to the current and new board members.”

Comments about board members regarding the interest they demonstrate to learn about corporate governance principles were not positive. One respondent said that, “The board members have clear lack of interest to know about sound corporate governance, the Commercial Code of Ethiopia, the banking business proclamation and the directives of the NBE.” Another respondent commented on the nomination process and the consequences for sound corporate governance as follows: “The corporate governance situation in Ethiopia is worrisome as it is new and most of us have limited knowledge and we do not really know its very essence. The way boards of directors are elected is on a lobby basis. It is not merit based and if some intervention is not made in good time the consequences can be disastrous with shareholders losing confidence and trust in corporate forms of organizations. The NBE, the regulatory body, has to revise the current board nomination criteria and more clearly formulate a new set by consulting the experiences of other countries and based on local studies. I also propose that those elected must have a reasonable investment (shareholdings) so that they have a sense of belonging and feel like they are governing their individual business. That should be the way board members should be elected." The interview findings are consistent with the survey results (sections 7.4 and 7.5) about the institutional capacity of the NBE and interest of boards in promoting good governance.

Other General Concerns

Respondents expressed concern regarding the low level of motivation of boards to understand the following issues: banking business, role and responsibilities of boards, principles of good governance and the rules and regulations issued by the NBE. They believe that knowing the basic things about the above issues is at least a good start in promoting good practices. One respondent mentioned the limited knowledge of board members on the industry as follows, "In some instances, the management controls the board as the board lacks basic knowledge of the banking industry. The board of directors becomes a board of management and the situation is just like 'the tail wags the dog'." The importance of awareness creation and training to a board of directors was raised several times by the interviewees as important for boards to ably and diligently carry out their duties. Some aired the following views,

- There is also lack of alignment between rights and duties of boards. A significant number of members hardly know their duties, which explains why boards interfere in operations which is totally out of their scope.
- Boards intentionally appoint weak management in order to manipulate it easily and interfere in management duties. This has been observed in at least one of the private banks which I am working in.
- The board room atmosphere is not as expected because members have different motives, and are not necessarily there to safeguard the interests of shareholders. This emanates largely from lack of awareness about board duties and commitment to good practices. Such problems can be resolved if periodic training is given to boards by the concerned bodies and banks take the initiative to

develop a code of best practices until a responsible organ is established for this purpose.

Interestingly enough one respondent from the private bank domain, who was an actor in the regulatory organ, commented on how board members are appointed in the public domain and the predictability of their tenure. The respondent said, “With regard to the tenure of board members in case of public banks, it is highly unpredictable as the members are appointees of the government and most of them have the rank of director or state minister or minister in their parent ministerial offices or are management members of the privatization and government developmental enterprises control agency. They stay on as board members as long as they hold their vital positions where they are employed. The moment they are removed from their former positions they will quit as board members. So my understanding is that there is a problem of predictability of public board terms which might have an impact on the performance and extent of commitment of the members.”

7.7 Summary

This chapter empirically examined the corporate governance practice perceptions of the governing bodies (Sample-1) and various stakeholder groups (Sample-2) from the banking sector in Ethiopia. The study employed questionnaire survey involving 106 governing bodies and 311 stakeholders. The aspects of corporate governance that were examined include: the principles of good corporate governance (OECD), strategies and approaches to promote good governance, characteristics of the Ethiopian boards, key corporate governance issues and related concerns in regard to the emerging Ethiopian market economy setting. The two groups of samples were analyzed separately and ultimately merged to enable overall evaluations. Separate analyses were made to understand the perceptions of the various stakeholder groups and answer research questions five and six. Moreover, major corporate governance problems and recommendations to improve corporate governance practices were analyzed. Finally, in order to enhance the results of the quantitative analysis and/ or help bi-directionally inform the two differing datasets, the qualitative in-depth interview was analyzed for patterns emerged forming five specific corporate governance themes. In this section a summary of the combined results of sample-1 and 2 is presented.

The results of the analysis show that ownership is relatively concentrated in the hands of the largest shareholders (each possessing up to 5% of holdings) effectively controlling the bank with substantial voting rights. This perception of concentration is shared between the respondents of the private bank governing bodies and the shareholders. However, the examination of the exercise of the basic principles of the rights and equitable treatment of shareholders; transparency and disclosure appear to be in good status as presented in Appendices 7.4 and 7.5. The findings reveal that the financial supervisory agency is perceived to be the most important stakeholder with a key role in promoting and improving corporate governance, the other stakeholders including professional societies, the chamber of commerce, the judiciary and non-executive boards are considered to have little importance.

The respondents' evaluations of the relative importance of stakeholders in abating the influence of controlling owners shows that the majority of the subjects believe the financial supervisory agencies is relatively the most important in controlling the undue influence of controlling owners followed by the legal system and non-executive boards of directors. However, the respondents' belief in institutional investors, labour unions and minority shareholders as important stakeholders in controlling the undue influence of large shareholders is relatively weak.

The examination of the relative effectiveness of tasks or strategies that would bring good corporate governance reveals that the majority of the respondents are of the view that internal corporate governance mechanisms, introducing codes, enhancing the standards of accounting and auditing, and external corporate governance mechanisms are important tasks in this regard.

The perception of the respondents regarding the boards' individual and group experience, effectiveness and approach in running their respective banks shows that the vast majority of the respondents rated them as at least good (good and very good). It is also found that the vast majority of the respondents characterize the Ethiopian board of directors as control oriented 333 (80%), followed by strategic 206 (50%) and service 124 (30%) oriented.

With regard to the preferred governance approach to promote good corporate governance practices in Ethiopia, the vast majority of the respondents (78%) proposed a mixed approach. More than two-thirds of both the governing bodies and stakeholder respondents believe that the remunerations for the board is not enough while 62% have the conviction that the compensations for the senior management group are sufficient even though they are not linked to their performances.

The governing bodies were given the chance to compare the corporate governance practices of their bank with the practices in other banks and with those of the previous years. The majority indicated that the practices in their banks was 'much better' (36%) and 'slightly better' (28%) than other banks. Similarly 54% and 33% felt that corporate governance performance was 'much better' and 'better' respectively compared to earlier years. The group of stakeholders also agrees that current corporate governance practices are much better compared with those of the previous years. All the board's respondents confirmed that they work with the audit committee but there are no nomination and remuneration committees to work with.

Examining the relationship between the board and top management and more specifically with the president, the vast majority of stakeholders seem to feel that there is a smooth relationship between the board and top management as well as between the board and the presidents of the banks. The investigation of board independence from the chairperson and the larger shareholders shows that the board members are not free from the influence of both.

Regarding board duties, the majority of stakeholders believe that boards of directors discharge their duties adequately and are satisfied with the performances of the banks owing to the joint group effort by the board, executives and employees. They further indicated that their banks besides generating profit for shareholders have the goal of assuring the well-being of various stakeholders.

Respondents also identified major corporate governance issues/ problems prevailing in their banks and these were categorized into ten themes which include: lack of relevant knowledge, limited experience, understanding (awareness) of corporate governance by boards and key stakeholders; lack of integrity, conflict of interest and corruption of board members; limited capacity of the regulatory body (National Bank of Ethiopia) and undue intervention by the same; influence of large shareholders/ownership concentration; lack of proper national code of corporate governance practices or comprehensive regulation; lack of transparency; boards' lack of awareness of roles and responsibilities; interference of board of directors in managerial and operational activities that undermine the autonomy of managers; and poor remuneration scheme for boards that affected their commitment to play their role; and lack of proper mechanism of nomination and selection of board of directors.

Furthermore, respondents forwarded recommendations to address one or more of the issues identified above. The recommendations were synthesized to form the following set of themes:

- a national codes of best practices has to be in place
- regular capacity building systems for regulatory agencies and board members should be introduced;
- board nominations should be standardized;
- there should be more transparency and disclosure;
- awareness on corporate governance in general and the board roles and responsibilities in particular needs to be created;
- performance related remuneration schemes for board members should be introduced; and
- follow up should be made to ensure board members and major shareholders keep the required distance form managerial and operational activities.

Finally, in order to capture corporate governance issues that were not covered by the quantitative analysis, semi-structured interview was employed. The findings of the interview were transcribed, categorized, summarized and presented in the above section. The results from the interview are integrated and triangulated with the quantitative results. The interview findings indicated a number of concerns and these were categorized under five main themes the included: the issue of commitment to good corporate governance; board compensation; board composition and nomination; conflict of interest and malpractices; and the role of the regulatory agencies and code of best practices. Of the above, lack of commitment demonstrated by the board of directors and the regulatory organ in advancing good corporate governance, the issue of insufficient compensation, the need for a nomination committee to have a proper blend of board composition, and the capacity problem of the NBE were raised and emphasized as major concerns by the respondents.

In the following chapters, formal tests of hypothesis are performed and then the descriptive findings together with the interview results are triangulated and integrated for further analysis so as to make conclusions and research implications.

Chapter 8 Research Findings and Discussion

8.1 Introduction

In this chapter, the intention is to make an evaluation of the structural model as well as present and discuss the major findings of the study in association with the hypotheses established in Chapter Three. The hypotheses are tested through the PLS structural model evaluation technique that examines relationships between the latent constructs. First, an overview of the inner model and PLS bootstrapping procedure will be briefly presented. Next, the bootstrapping process is used to measure the significance of the values of the outer model and inner model path coefficients (validity and quality of structural model). Then, the results of the structural model obtained through the bootstrapping process of the SmartPLS are analysed to answer the research questions. Finally, the results are revisited and discussed in light of the corporate governance theoretical perspectives and prior empirical evidence and also triangulated using qualitative results in order to give meanings to the findings.

8.2 PLS Structural Model Evaluation and Hypothesis Testing

PLS-SEM is used when the goal is predicting and explaining variance of target constructs. PLS employs path models which are diagrams used to visually display the hypotheses and variable relationships. A PLS path model is composed of two elements: the structural model (also called the inner model) and the measurement mode (also referred to as the outer models). The structural model represents the constructs and also displays the relationships (paths) between the constructs. The measurement model displays the relationships between the constructs and the indicator variables. When latent variables (constructs) serve only as independent variables, they are called exogenous latent variables. These are the constructs that predict or explain other constructs in the model. When the constructs serve only as dependent variables in at least one casual relationship, they are called endogenous latent variables. These are the constructs that are being explained in the model (Hair et al., 2014a & b; Gotz et al., 2010).

Partial least squares analysis tool is used to obtain results for both the measurement (outer) model and structural (inner) models. First the outer model has to be assessed for reliability and validity before the inner model is tested. That is, the measurement model has to be tested to see how well the indicator variables of theoretical constructs relate to one another as well as how well their variances are captured by the latent variables. This is done by PLS-CFA tests that provide evidence of construct validity. According to Hair et al. (2014a: 641), “CFA alone is limited in its ability to examine the nature of relationships between constructs beyond simple correlations. Thus, a measurement theory is often a means to the end of examining relationships between constructs, not an end in itself”. It means, CFA ensures only the quality of measurement model in terms of validity but does not determine the nature and extent of relationships between latent variables; however, its outputs are used as inputs in performing the structural model evaluation. To this end, the inner (structural) model is considered to measure the nature and magnitude of relationships among the constructs.

The PLS method, which is a variance based approach, does not have an overall goodness of fit measure unlike the covariance based approach. This is due to the fact that PLS is based on the assumption of distribution-free variance. However, the quality (overall goodness) of the structural model can be determined using non-parametrical tests such as the endogenous variables' determination coefficient (R^2), and direction and significance of path coefficients (Hair et al., 2014a & b; Sanchez, 2013; Gotz et al., 2010). The coefficient of determination (R^2), a normalized term that can assume values between 0 and 1, is the level or share of the latent construct's explained variance. There is no generalizable value about the acceptable threshold values of R^2, however, to achieve a higher level of variance explained by the exogenous variable, a larger R^2 is recommended (Gotz et al., 2010). Hair et al. (2014b) and Wong (2013) consider the magnitude of the R^2 as a criterion to determine the predictive relevance of an exogenous variable and describe R^2 values of 0.25, 0.50, and 0.75 as weak, moderate, and substantial explanatory powers, respectively.

In a PLS structural model, the path coefficient represents a directional relationship between constructs and the coefficients are similar to the standardized beta coefficients (values between -1 and +1) in a regression relationship (Hair et al., 2104b; Gotz et al., 2010). A general rule of thumb is that, structural path coefficients with standardized values above 0.20 are significant and indicate the extent of influence of the independent variable up on the dependent variable and also determine the strength of predictability of the independent variable (Hair et al., 2014b). However, the significance (goodness) of the path coefficients estimated in the measurement model of the PLS has to be tested by the empirical t-values for their goodness. The standard error and t-values are obtained by means of the bootstrapping process of the PLS. Bootstrapping is a resampling iterative procedure used to generate the t-values. The number of bootstrap samples should be high to avoid bias and Hair et al. (2014b) recommend using 5000 bootstrap subsamples though this number requires more computer time to run. Path coefficients with empirical t-values greater than the critical t-value are statistically significant showing the hypothesized direction and support the proposed causal relationship. On the contrary, path coefficients with smaller t-values are statistically insignificant. Insignificant paths and/or those that show signs contrary to the hypothesized direction do not support a hypothesis (Gotz et al., 2010).

As has been indicated above, both the outer and inner models results can be obtained and presented simultaneously; however, in this study both are presented separately only for convenience purposes. That is, a measurement model was presented in Chapter Six followed by descriptive statistics of validated constructs and the bivariate correlation analysis as preliminary hypotheses test and support for the structural model.

The following procedure suggested by Hair et al. (2014b:169) is adopted in assessing the structural model.

Step 1. Assess structural model for collinearity issues.

Step 2. Assess the significance and relevance of the structural model relationships.

Step 3. Assess the level of R^2.

Step 4. Assess the effect sizes f^2.

Step 5. Assess the predictive relevance Q^2 and the q^2 effect sizes.

Before assessing the quality of the structural model in light of the key criteria set (significance of path coefficients, level of R^2, effect size f^2 and predictive relevance Q^2), Hair et al. (2014b) and Wong (2013), advise that the structural model be checked for collinearity problems. Therefore, one of the considerations in the PLS-SEM is multicollinearity assessment of the inner model and this is also a concern for this study as the first order model has seven exogenous variables. This test helps to check for potential collinearity problem so early decision can be made to eliminate, or merge variables into a single construct, or develop a higher order construct (Hair et al., 2014b; Wong, 2013). To perform a collinearity test for this study, the latent variables score of the SmartPLS output was imported and used as input for SPSS version 20 to get the tolerance or Variance Inflation Factor (VIF) values. To avoid the collinearity problem, a tolerance level of higher than 0.20 or VIF of 5 or lower should be obtained in the test (Hair et al., 2014b). The hypotheses for this study are anchored (based) at a second order level, so collinearity problem may not be a serious concern. However, to support it statistically, collinearity assessments of the exogenous latent variables are performed both for the first and second order models. The following sets of exogenous variables (predictors) were assessed for collinearity in the first and second order models: SBInd, SComm, SComp, PrCog, PrBrA, PrCom, PrCon, BStruct and BProcess. Table 8.1 presents tolerance and VIF values of SPSS output. The full report of the collinearity diagnostics is given in Appendix 8.1.

Table 8. 1: **Collinearity Assessments (Tolerance and VIF values of SPSS output)**

First order exogenous latent variables	Collinearity Statistics		Second order exogenous constructs	Collinearity Statistics	
	Tolerance	VIF		Tolerance	VIF
SBInd (Board Independence)	.634	1.576	BStruct (Board structure)	.475	2.105
SComm (Board committee)	.633	1.581	BProcess (Board Process)	.475	2.105
SComp (Board composition)	.654	1.529			
PrCog (Cognitive conflict)	.386	2.587			
PrBrA Boardroom activity)	.389	2.567			
PrCom (board commitment)	.396	2.525			
PrCon (process conflict)	.813	1.230			

a. Dependent Variable: Serole or Controle

Looking at Table 8.1, it is noted that all of the first order and second order exogenous latent variables' tolerance values and VIFs are higher than 0.20 and lower than 5, respectively. Therefore, there is no collinearity problem among the predictor variables both at the first and second order structural model of this study. Thus, the study can continue by examining the significance of the path coefficients, the R^2 of the endogenous latent variables and their associated effect sizes, the predictive relevance of exogenous variable together with their effect sizes in order to evaluate or determine the quality of the structural model.

In this section, the structural model outcomes for the first order and second order are presented. First, significance of values of the outer loadings is considered before moving to the second order model. The figures below give a graphical representation of the full model on the basis of which the structural model results are reported.

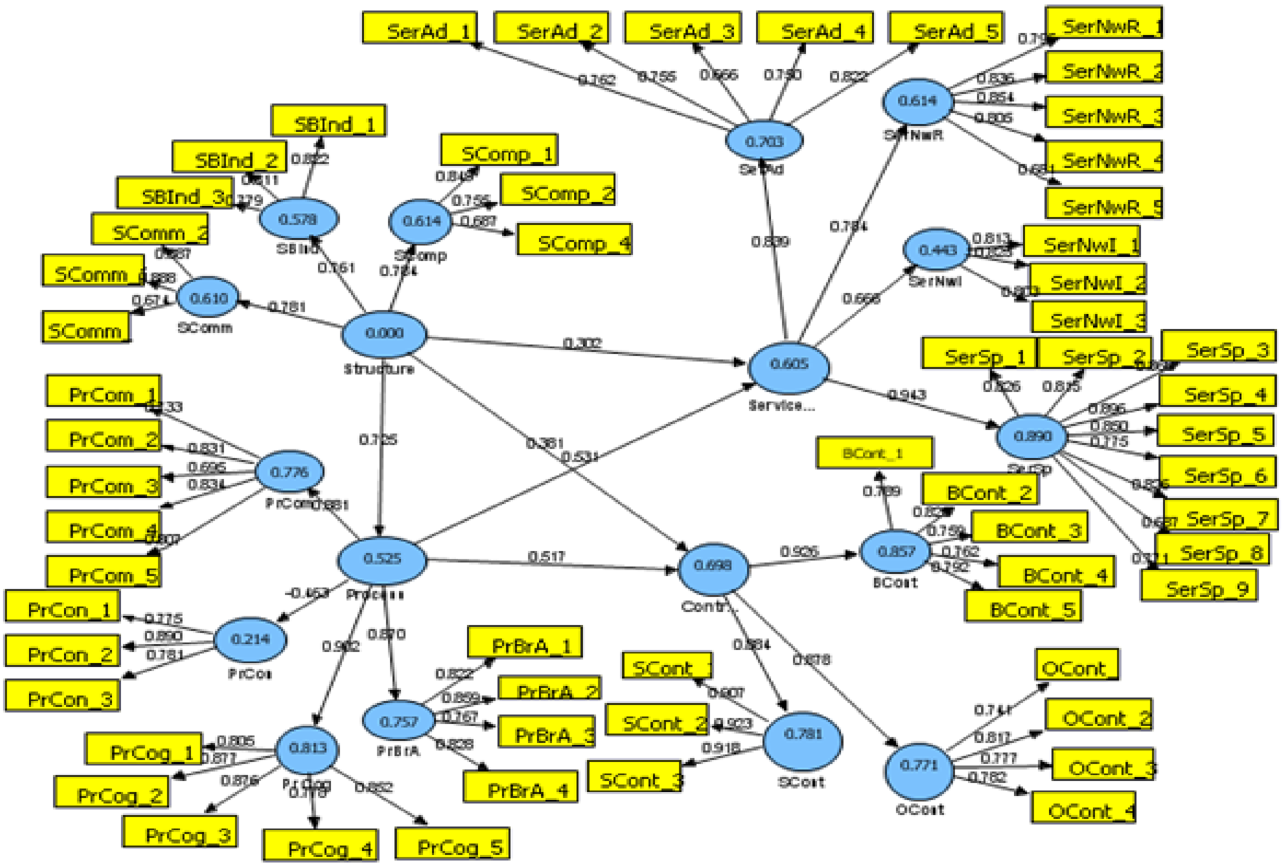

Figure 8.1: Full PLS- PM with path coefficients

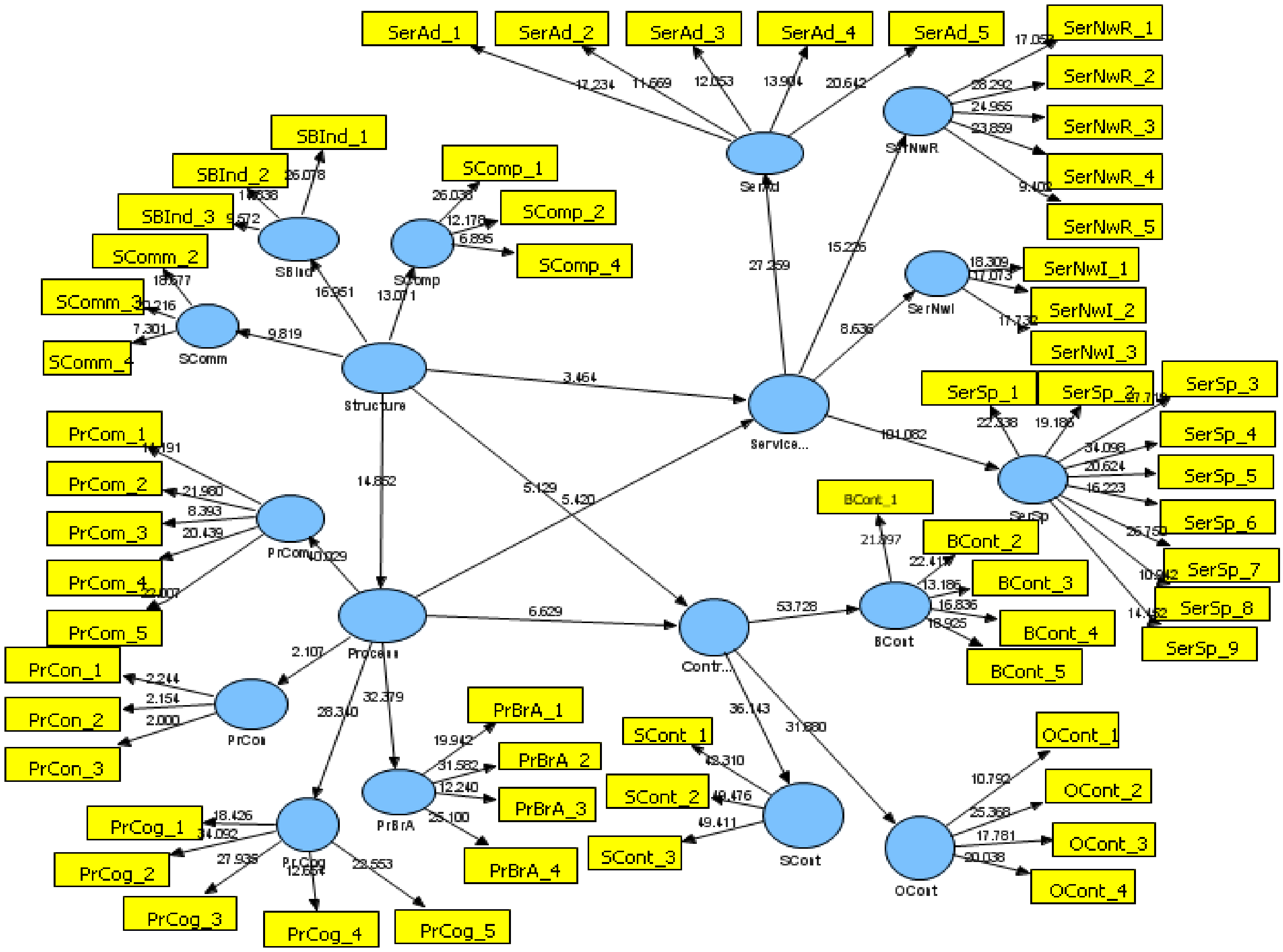

Figure 8.2: Full PLS- PM with bootstrap results

A review of the t-statistics from the above diagram shows that all the reflective indicators loadings (outer model) are highly significant at the 5%. The t-statistic of the outer model, which is presented above in the diagram, is also given in a tabular form in Appendix 8.2.

From the above diagram it is also observed that all the path coefficients in the inner model are statistically highly significant at the 5% level. The path coefficients denote the direction as well as the strength of the relationships between the latent variables. As this is the focus of this chapter, further details of the path coefficients in terms of their mean, standard deviations and t-values of the first and second order full model are presented in Table 8.2 below.

Table 8. 2: Path coefficients of the first and second order full model (Mean, STDEV, T-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)
Control role -> BCont	0.926	0.926	0.017	0.017	53.73
Control role -> OCont	0.878	0.880	0.028	0.028	31.88
Control role -> SCont	0.884	0.883	0.024	0.024	36.14
Process -> Control role	0.517	0.507	0.078	0.078	6.63
Process -> Pr Cog	0.902	0.901	0.032	0.032	28.34
Process -> PrBrA	0.870	0.871	0.027	0.027	32.38
Process -> PrCom	0.881	0.883	0.022	0.022	40.03
Process -> PrCon	-0.463	-0.426	0.219	0.219	2.11
Process -> Service role	0.531	0.521	0.098	0.098	5.42
Service role -> SerAd	0.839	0.843	0.031	0.031	27.26
Service role -> SerNwI	0.666	0.665	0.077	0.077	8.64
Service role -> SerNwR	0.784	0.784	0.052	0.052	15.23
Service role -> SerSp	0.943	0.943	0.009	0.009	101.08
Structure -> Control role	0.381	0.388	0.074	0.074	5.13
Structure -> Process	0.725	0.739	0.049	0.049	14.85
Structure -> SBInd	0.761	0.768	0.045	0.045	16.95
Structure -> SComm	0.781	0.785	0.080	0.080	9.82
Structure -> SComp	0.784	0.791	0.060	0.060	13.07
Structure -> Service role	0.301	0.309	0.087	0.087	3.46

So far the information needed to evaluate the PLS-SEM model that includes outer model loadings, construct reliability and validity, and significance of inner path coefficients were examined and the result is meaningful models. All R^2 values are also higher than 0.52. This implies that the estimated model fits the survey data well with R^2 values of 0.53, 0.61, and 0.70 for board process, board service role, and board control role, respectively. The results are very good (Chin, 1998) and support the validity of the structural model. Furthermore, these R^2 values of the endogenous variables show good predictive power of the exogenous variables.

However, this good fit of model alone is not sufficient unless examination of the individual structural parameter estimates against the established hypotheses is carried out. This takes us to testing the research's hypothesis considering the PLS inner (structural) model results.

8.3 Hypotheses Testing of Second Order Model Based on PLS Structural Results

The second order structural model which, addresses the research's major hypotheses, is considered in the hypotheses testing process. Table 8.3 is an extraction of second order inner model results from Table 8.2 above.

Table 8. 3: The second order (structural) model results (Mean, STDEV, T-Values)

Path From -> to	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)	P-value
Structure ->Service role	0.301	0.309	0.087	0.087	3.46	0.0*
Structure -> Control role	0.381	0.388	0.074	0.074	5.13	0.0*
Structure -> Process	0.725	0.739	0.049	0.049	14.85	0.0*
Process -> Control role	0.517	0.507	0.078	0.078	6.63	0.0*
Process -> Service role	0.531	0.521	0.098	0.098	5.42	0.0*

*Significant at p<0.01 (one-tailed). Values calculated using bootstrapping method with 5,000 bootstrap samples.

Table 8.3 reveals that all the five theorized structural paths and estimated coefficients are significant at 1% and also in the predicted directions, providing further support for the validity and acceptability of the structural model. Furthermore, as can be seen from Table 8.3 that hypotheses H1a to H3 are all strongly supported ($p<0.01$) by the empirical outputs (coefficients of the predictive paths) of the structural model. Earlier the study determined the predictive relevance of the model by looking only at the magnitude of the R-square and now the study will reconfirm the predictive relevance of the theoretical/structural path model by applying the blindfolding procedure of the SmartPLS technique. The blindfolding procedure calculates Q^2 (predictive relevance), where $Q^2 > 0$ indicates the model has predictive relevance and $Q^2 < 0$ represents lack of predictive relevance of the exogenous construct on the specified endogenous construct (Hair et al., 2014b; Chin, 2010). A relative measure of predictive relevance (Q^2) values of 0.02, 0.15, and 0.35 respectively, indicate that an exogenous construct has a small, medium, or large predictive relevance for an endogenous latent variable (Hair et al., 2014b; Wong, 2013; Chin, 2010). A cross-validated redundancy Q^2 is recommended if prediction is made by latent variables that predict the endogenous constructs and a blindfolding procedure is performed for one reflective target construct at a time. Now getting back to this particular study, the analysis for the predictive relevance is done by running the blindfolding algorithm first with the board service role construct, followed by the board control role construct and finally with the board process construct. Table 8.4 presents the summary of blindfolding results for the specified constructs; full results are provided in Appendix 8.3. From Appendix 8.3, it can be noted that the predictive relevance of most of the first order exogenous latent variables is high ranging from 0.24 to 0.59 except for Prcon which is 0.13.

Table 8. 4: Summary of blindfolding (Cross-validated Redundancy, Q^2) results for the second order endogenous constructs

Endogenous Construct	SSO	SSE	Q^2 = 1-SSE/SSO
Board Service role	2332.00	1685.95	0.28
Board control role	1378.00	858.80	0.38
Board process	1802.00	1380.73	0.23

SSE= Sum of squared observations; SSE= Sum of squared prediction errors

All Q^2 results, in the above table, are considerably high and above zero providing further evidence that the model has, in general, a good predictive relevance to the endogenous latent variables. However, it is necessary to assess the effect sizes of the predictive relevance of the exogenous variables on the endogenous latent variables. The Q^2 effect sizes are calculated manually by applying the following formula:

Effect size: $Q^2 = Q^2_{included} - Q^2_{excluded} / 1 - Q^2_{included}$

Where 'Q^2 $i_{ncluded}$' represents the predictive relevance when the exogenous variable is included in the model, and 'Q^2 $_{excluded}$' refers to the predictive relevance when the exogenous variable is excluded from the model. The following effect sizes: Q^2 values are used for assessment to determine a constructs' relationship to an endogenous construct in the structural model: 0.02 to 0.15 small, 0.16 to 0.35 medium, or greater than 0.35 large effect sizes (Hair et al., 2014b; Wong, 2013; Chin, 2010).

Table 8. 5: Determination of effect sizes

Direct Path **From exogenous -> To endogenous**	Q^2included (with exogenous)	Q^2excluded(without exogenous)	Effect size (Q^2)
Structure ->Service role	0.28	0.26	0.03
Structure -> Control role	0.38	0.34	0.07
Structure -> Process	0.23	0.45	0.29
Process -> Control role	0.28	0.22	0.08
Process -> Service role	0.38	0.31	0.11

The Q^2 effect sizes range from 0.03 to 0.29 reflecting a relatively small impact on the endogenous variables. For example, the Q^2 effect size of board structure on board service role is 0.03 which implies that the relationship between board structure and board service role is relatively small. The board process has the highest relevance in explaining both the board service and board control role constructs in the structural mode. In general, all the Q^2s together with their effect sizes confirm that the model has achieved a good predictive relevance for the endogenous variables. With this general statement, the study precedes to the examination of each of the hypothesis. The following diagram represents the second order constructs on the basis of which the hypothesis are established followed by Table 8.6 which summarizes the models' results for the hypothesised relationships.

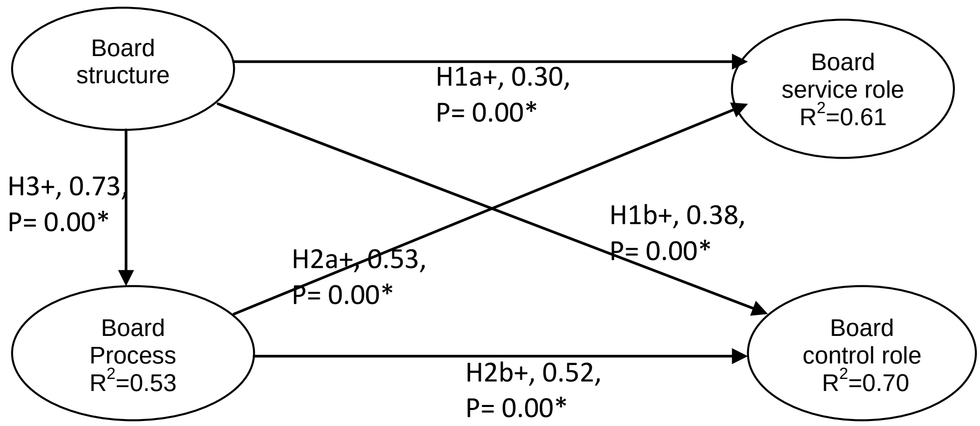

Figure 8.3: Second order PLS structural model results extracted from Figures 8.1 and 8.2

Table 8. 6: Summary of hypotheses testing results

Direct Path From -> To	Path coefficient	T Statistics	P-value	Direction of hypothesis	Hypothesis supported or not
Structure ->Service role	0.301	3.46	0.0*	H1a+	Supported
Structure -> Control role	0.381	5.13	0.0*	H1b+	Supported
Structure -> Process	0.725	14.85	0.0*	H3+	Supported
Process -> Control role	0.517	6.63	0.0*	H2a+	Supported
Process -> Service role	0.531	5.42	0.0*	H2b+	Supported
Indirect path (Total Effects) From -> To					
Structure -> Service role	0.687	17.94	0.0*	H4a+	Supported
Structure -> Control role	0.756	12.6	0.0*	H4b+	Supported

* Significant at p<0.01 (one-tailed). Significance levels computed with 5000 bootstrap samples.

8.3.1 Hypotheses H1a to H3

Hypothesis H1a examines if there is a positive and significant relationship between board structure construct and board service role construct. Table 8.6 of the PLS result reveals that H1a is supported. That is, a well structured board directly, significantly and positively influences board service performances. Thus, it can be concluded that board structure is a good predictor of board service performances.

With regard to H1b which investigates whether board structure is directly and positively related to board control role, the PLS output shows that it directly and positively influences the board control role. This gives support to H1b confirming that board structure is a good predictor of board control performances. That is, the board structure significantly contributes to explaining the board control performances.

Considering H3 hypothesizing a direct and positive relationships between board structure and board process, the PLS output in Table 8.6 reveals that there is a direct, strong and positive relationship (with a predictive path coefficient of 0.725) between the two latent variables proving strong support to H3. This is in line with the literature which demonstrates that a properly structured board with the right blend will have positive impact on the board's decision making activities.

H2a and H2b are concerned with the direct relationship between board process and board service role; and board process and board control role, respectively. Table 8.6 of the PLS results reveals that board process is directly and positively related to the board service performances. The same holds true for H2b that board process directly influences the board control performances. Thus, both H2a and H2b are supported by the PLS results.

8.3.2 The Mediation Effect of the Board Process

H4a and H4b test the mediation effect of board process on board service and control performances, respectively. Both test the indirect relationship of the board structure to board service and control roles mediated through the board process. Specifically, H4a theorizes that a properly structured board is indirectly positively related to the board service performance mediated through the board process; and H4b hypothesizes that a properly structured board is indirectly positively related to the board control performance mediated through the board process. Table 8.6 of the PLS output shows that board structure indirectly positively and significantly influences both the service and control roles. Hence, both H4a and H4b are strongly supported. That is, the mediating hypothesis involving the board process latent variable is supported. To further confirm the extent of influence (substantial or not) of the exogenous variable (board structure) up on the endogenous variables (board service and control roles), it is necessary to work out the change in the determination coefficient with and without the mediator variable as given in Table 8.7 below. Once the mediating effects are established, to determine whether a mediator latent variable has a substantial influence on the dependent latent variable, it is necessary to determine the 'effect size, f^2. This is calculated by estimating the structural model twice, once with and once without the independent latent variable. Then, the f^2

values are used to determine the effect size (strength) of the mediating variable's weak, moderate or substantial influence on the particular latent endogenous variable. The following effect size categories, f^2, values are used for assessment: 0.02 to 0.15 weak, 0.16 to 0.35 moderate and greater than 0.35 strong (Cohen, 1988; Chin, 1998; Gotz et al., 2010).

Effect size: $f^2 = R^2_{included} - R^2_{excluded} / 1 - R^2_{included}$

Where 'R^2 $i_{ncluded}$' represents the overall variance explained by the mediated model that includes the board process variable, and 'R^2 $_{excluded}$' refers to the overall variance explained by the model without the board process variable. The R^2s of the endogenous variables of board service and control roles of the mediated model are 0.61 and 0.70 which are rather high. Figures 8.4 and 8.5 show the non-mediated models.

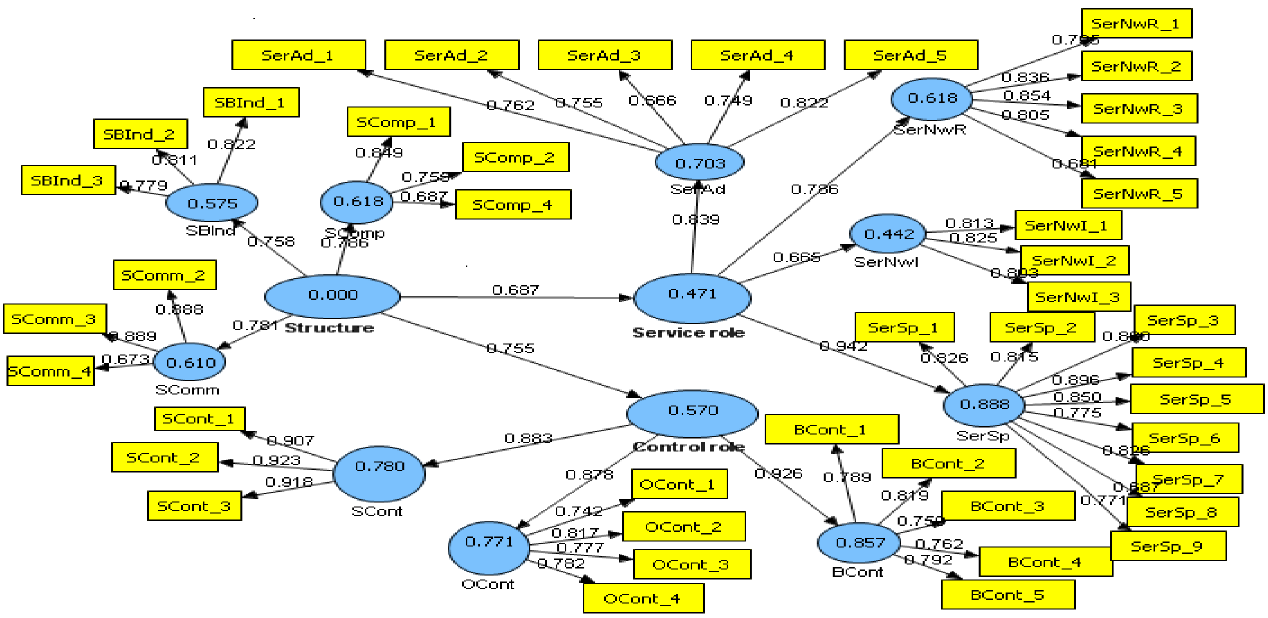

Figure 8.4: Outer loadings and path coefficients for non mediated model (without board process construct)

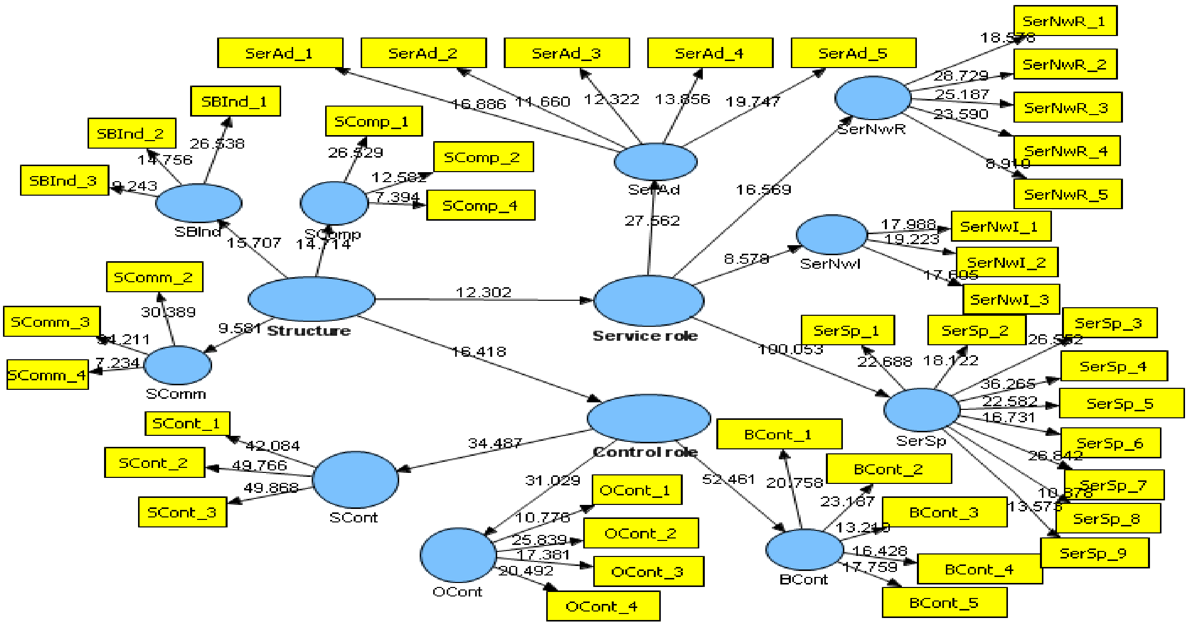

Figure 8. 5: Bootstrap results of the non-mediated model (excluding board process)

Table 8. 7: **Path Coefficients of structural model without board process (Mean, STDEV, T-Values)**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)
Structure -> Service role	0.686591	0.690659	0.055810	0.055810	12.302300
Structure -> Control role	0.755290	0.756738	0.046004	0.046004	16.417976

From Figures 8.4 and 8.5 and Table 8.7, it can be observed that the outer model loadings and inner model path coefficients without mediation are all significant at p<0.01 (one-tailed). Specifically the direct effects of board structure on both service role and control role are significant when the board process (mediator) variable is excluded from the PLS path model. The inner path coefficients (total effect) are larger than the mediated path coefficients, which means that the mediator variable (board process) absorbs some of the total effect. Hence, the effect size (strength) of the mediator variable has to be determined by including it in the PLS path model, as shown below, and observe the changes in the path coefficients and the R^2s.

Table 8. 8: Relative explanatory power (effect size) of mediator for board service role

Construct (Mediator)	**R^2included (with mediator)**	**R^2excluded(without mediator)**	**Effect size (f^2)**
Board process	0,61	0.47	0.36

Table 8. 9: Relative explanatory power (effect size) of mediator for board control role

Construct (Mediator)	R^2 *included*	R^2 *excluded*	Effect size (f^2)
Board process	0.70	0.57	0.43

Tables 8.8 and 8.9 reveal that the effect sizes (f^2) of the board process on the two endogenous variables, board service role and board control role, are 0.36 and 0.43, respectively. These values suggest that the board process latent variable serving as a mediator has a substantial (large) effect size (influence) in explaining both the board service role and board control role latent variables. Thus, the board process's mediating role is strongly supported. Furthermore, the indirect effect (see Table 8.6 summary of hypotheses testing results above) coefficients are also significant implying that the mediator absorbs some of the direct effect. It is, therefore, crucial to determine the relative size of the mediating effects of the board process (mediator) in relation to the total effect (board structure latent variable) to determine the amount that the mediator absorbs and also decide whether the board process fully or partially mediates the situation. The VAF (Variance Accounted For) is used to determine the relative size of the mediating effect. According to Hair et al. (2014b), VAF determines the amount of the variance of target constructs that is explained by the indirect relationship through the mediator variable or the proportion of the variance of the dependent variable explained by the independent variable. The following criteria are set to determine mediation effects (Hair, 2014b):

- VAF > 80%, Full mediation,
- 20% ≤ VAF≤ 80, Partial mediation, and
- VAF < 20%, no mediation.

VAF = Indirect effect/ Total effect

Table 8. 10: The relative size of the mediating effects of the board process

	Indirect effect	**Total effect (Direct+Indirect)**	**VAF**
Structure -> Service role	0.725*0.531= 0.385	0.302+0.385= 0.687	0.56
Structure -> Control role	0.725*0.517= 0.375	0.381+0.375= 0.756	0.50

The above table shows that the board process latent construct partially mediates the relationship between the board structure and the board service performance; and also between the board structure and the board control performance with VAF values of 56% and 50%, respectively. Consequently, it can be inferred that 56% of the board structure's effect on the board service role is explained through the partial mediation of the board process latent variable. Likewise, 50% of the variation in the board control role construct is explained through the partial mediation of the board process latent variable. This also magnifies the relevance of the board structure's direct effects in explaining the endogenous variables. A summary of the structural model evaluation is provided in Table 8.11 below for quick reference.

Table 8. 11: Summary of structural model evaluation

First order exogenous latent variables	Collinearity Statistics		Second order exogenous constructs	Collinearity Statistics	
	Tolerance	VIF		Tolerance	VIF
SBInd (Board Independence)	.634	1.58	BStruct (Board structure)	.475	2.11
SComm (Board committee)	.633	1.58	BProcess (Board Process)	.475	2.11
SComp (Board composition)	.654	1.53			
PrCog (Cognitive conflict)	.386	2.59			
PrBrA Boardroom activity)	.389	2.57			
PrCom (board commitment)	.396	2.53			
PrCon (process conflict)	.813	1.23			

Second order endogenous constructs	R^2	Explanatory power	Mediator for board service role		Implication
			Mediator	Effect size (f^2)	
Board **Service role**	0.61	Moderate	BProcess	0.36	Large effect, VAF = 56%, partial mediation
			Mediator for board control role		
Board **Control role**	0.70	Moderate	Mediator	f^2	
Board **process**	0.53	Moderate	Bprocess	0.43	Large effect, VAF = 50%, partial mediation

Path From -> to	Significance of path coefficients		Predictive relevance	
	Path Coefficients	P-value	Effect size (Q^2)	Predictive relevance of exogenous variables
Structure ->Service role	0.301	0.0*	0.03	Small
Structure -> Control role	0.381	0.0*	0.07	Small
Structure -> Process	0.725	0.0*	0.29	Medium
Process -> Control role	0.517	0.0*	0.08	Small
Process -> Service role	0.531	0.0*	0.11	Closer to medium

*Significant at p<0.01.

The above summary of assessments confirms validity of the structural model.

8.3.3 Moderation effects of ownership structure/ sub-sample analysis: H5a and H5b

It has been hypothesized that the type of ownership (being private or public) has no significant bearing on the board service and control performances. In the hypothesis, ownership type (private or public) is designated as a moderator variable.

The nature of ownership has implication on the way boards are brought to representation. As stated in Chapter One section 1.4, the ways boards are brought to board membership differ in the private and public banks. That is, when the banks are owned privately by the shareholders, representation is by mere election by the shareholders while for the banks that are owned by the state, boards are appointed by the government. The assumption here is that the practice of election or appointment will have impact up on the strength of boards' service and control performances. The intention here is to see if the practice of election or appointment of boards affects the strength of the board performances. In this case, it was hypothesized that there is a categorical moderator variable, ownership type, that influences the relationships in the PLS path model. The aim, therefore, was to find out the strength of the effect of ownership type, moderator variable, by comparing PLS path models of the publicly owned and privately owned bank dataset to see whether different parameter estimates occur for each group (Hair et al., 2014b; Henseler et al., 2010).

Henseler et al. (2010) consider the group comparison approach as a popular method of determining the effect of a categorical moderator variable up on the endogenous latent variable. To this end, the data is divided into two groups based up on moderator variable, the type of ownership, (Henseler et al., 2010), for analysis purposes. To see the effect of the moderator variable, it is necessary to determine its effect size by drawing separate PLS path models for private and public banks and observe differences in the path coefficients to find out the role of the moderator variable (see Appendix 8.4 for the path models). If no significant differences exist, the role of the moderator path coefficient variable is minimal. A moderator effect size is $d = b_1 - b_2$; where b_1 is private bank parameters and b_2 public bank parameters.

Table 8. 12: Structural path coefficients and moderator effect size

Paths		Path coefficient			Effect size
From	**to**	**Global (full model)**	**Private ownership (b_1)**	**Public ownership (b_2)**	**Effect size $d = b_1$-b_2**
Board structure	Board service role	0.302	0.225	0,365	-0.140
Board structure	Board control role	0.381	0.361	0.493	-0.132
Board structure	Board process	0.725	0.722	0.602	0,120
Board process	Board service role	0.531	0.586	0.115	0.471
Board process	Board control role	0.517	0.504	0.455	0.049

It is observed from Table 8.12 that there are considerable differences in the path coefficients between the two models. This implies that being private (board by election) or public (board by appointment), type of ownership, influences the relationships in terms of strength and/or direction between the exogenous variable and endogenous variables, that is (1) between board structure and board service and control roles, (2) between board structure and board process and (3) between board process and board service and control roles.

Therefore for the current model, a moderator effect is present, which could mean that the board structure and board processes do not have a constant effect on board performances with changes in the type of ownership. Thus, ownership type matters. That is, ownership type moderates the relationship between board structure and board service and control performances; and between board structure and board process. On the basis of the results of the above analysis, hypotheses H5a and H5b are not supported

To further confirm the above inference on the moderator's role, further analysis was conducted using SPSS to compare the equality of means of the endogenous second order latent variables of the structural model. To this end, the independent samples t- test was used to understand and determine if a difference exists between the means of:

- board service task performances of private and public boards
- board control task performances of private and public boards
- board process performances of private and public boards

Table 8. 13: Private and public bank board group descriptive statistics

	PriPub	N	Mean	Std. Deviation	Std. Error Mean
BStruct	Private	85	3.9229	.52145	.05656
	Public	19	4.3041	.39691	.09106
BProcess	Private	84	3.6688	.49618	.05414
	Public	20	3.9588	.33662	.07527
BServrole	Private	80	3.6972	.56087	.06271
	Public	17	4.3182	.35646	.08646
BControle	Private	85	3.8324	.55553	.06026
	Public	20	4.4000	.33834	.07566

Table 8. 14: **Independent Samples T-Test: Comparison between private bank boards and public bank boards' task performances**

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval	
									Lower	Upper
BStruct	Equal variances assumed	.766	.383	-2.994	102	.003	-.38122	.12732	-.63375	-.12868
BProcess	Equal variances assumed	1.681	.198	-2.477	102	.015	-.29006	.11708	-.52229	-.05782
BServrole	Equal variances assumed	1.237	.269	-4.371	95	.000	-.62102	.14207	-.90307	-.33898
BControle	Equal variances assumed	4.253	.051	-4.373	103	.000	-.56765	.12981	-.82509	-.31021

Table 8.13 shows that the mean values for the four second order constructs (board structure, board process, board service task performance and board control task performances) are relatively higher for public banks than private banks. The independent samples t-test Table 8.14 also shows that there are significant differences in the means for each of the four latent variables, indicating that public banks' board average achievements are larger than those of private banks. When the finding is limited to the two endogenous target variables, board service and control task performances, the test indicates that public bank boards accomplish their role better than their private bank counterparts. Thus, one of the main reasons for such differences could be the way individuals are brought on board (i.e. through election or appointment). The difference observed in the mean board performances due to the difference in ownership structure is, thus, considered to be further evidence to the moderation effect, influencing both board service and control task performances. Thus hypotheses H5a and H5b are not supported.

8.3.4 Ownership Structure and Overall Bank Performance

The Ethiopian banking industry consists of both old and young banks, with years of service ranging from 2 to 106 years, with 32% being less than 5 years old (see Appendix 8.5). Table 8.15 displays a summary of the aggregate profitability levels of private and public sector banks. Though there is disparity in the profitability levels, all the sampled banks have positive return on their average assets. For the 2013/14 financial year, the majority of the banks (8 banks, 62%) reported more than 3% return on their assets. No bank reported less the 1.1% ROA, the highest being 5% (see Appendix 8.6). The average ROA (profitability rate) of the private and public banks over the study period (2002/03-2013/14) is 2.56% and 2.06, respectively. The above figures serve as evidence that banks in the Ethiopian context are profitable regardless of their ownership structures.

Thus, it was hypothesized (H6) in Chapter Three, section 3.3.4 that ownership structure (being private or public) has no significant bearing on the banks' overall performance measured in accounting terms. Banks' performance in financial terms is measured by return on assets (ROA) and this is in line with previous studies that examined bank profitability (La Porta et al., 2002; Kiyota et al., 2008; Ghosh, 2006; Grove et al., 2011; Kapur & Gualu, 2012; Bokpin, 2013; Nyamongo & Temesgen, 2013; Rahman & Reja, 2015). ROA is a ratio of profit after tax divided by average total assets and it measures the profit earned per dollar of assets and reflects how well the bank uses the banks' real investment resources to generate profits. To test the hypothesis, data was collected from the annual reports of banks. From the stand points of data availability, banks with more than 5 years of age were considered (see Appendix 8.7). The data set consists of 10 banks out of 16 owned by the private sector and all the 3 banks in the public sector. Data from financial statements of the banks for the years 2002/03-2013/14 (twelve years) were used to test the efficiency of banks in light of the difference in ownership structure.

Table 8. 15: **Summary of ROA, net profit and total assets of Ethiopian Banks**

Year	ROA (%)*		Net profit		Total Assets	
	Private banks	Public Banks	Private banks (Mn)	Public Banks(Mn)	Private banks (Mn)	Public Banks(Mn)
2002/03	1.12	0.73	57.4	530.50	6175	28224
2003/04	2.17	0.7	150	413.20	9159	31725
2004/05	2.19	1.47	290.9	642.30	12580	39551
2005/06	2.43	1.87	432.81	868.00	16439	42582
2006/07	2.26	1.93	599	956.00	22081	50837
2007/08	2.48	2.67	737	1510.00	29170	58443
2008/09	1.32	2.90	976.5	2048.00	39684	68412
2009/10	3.25	2.23	1435	2097.00	50571	86612
2010/11	3.58	2.40	2012	3147.00	63791	132996
2011/12	3.48	3.10	2494	5897.00	75638	189175
2012/13	3.18	2.77	2691	7009.00	93894	232160
2013/14	3.26	2.00	3234	7883.00	110524	286341

*Return on average asset

Source: Researcher' computation from annual reports of individual banks

In order to empirically establish whether ownership structure (private Vs public banks) has significant impact on financial performance measured in terms of profitability (ROA), the Independent samples t- test was used. The appropriateness of the parametric test was determined after the assumption of normality and equality of variances was met. The normality of the data was checked using the Kolmogorov Smirnov test as shown in Table 8.16 below and compare performance parameters of private and public sector banks. The results of the analysis are given below.

Table 8. 16 : Tests of Normality

	Kolmogorov-Smirnov		
	Statistic	df	Sig.
ROA	.098	24	.200*

*. This is a lower bound of the true significance. Test not significant as p>.05.

The test indicates that the data are normally distributed with the test statistic of 0.098 which is smaller than the critical value of 0.200 resulting in the acceptance of the null hypothesis of normality.

Tables 8.17 and 8.18 present the outcomes of the data analysis on financial performance measures based on differences in the ownership structure of banks.

Table 8. 17: Group Statistics

	ownership	N	Mean	Std. Deviation	Std. Error Mean
ROA	Private	12	2.5600	.81189	.23437
	public	12	2.0642	.78803	.22748

Table 8. 18: Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
ROA	Equal variances assumed	.059	.810	1.518	22	.143	.49583	.32662	-.18153	1.17320
	Equal variances not assumed			1.518	21.980	.143	.49583	.32662	-.18157	1.17323

The Levene's Test for Equality of Variances demonstrates that the variability in the ROA of private and public sector banks is not significantly different as the significance level is greater than 0.05. Thus, t-value corresponding to equal variances assumed is considered for analysis. The group statistic table shows that on average private sector banks' return on average asset was 2.56% with a standard deviation of 0.81% and the relevant figure for public sector banks' was 2.06% with standard deviation of 0.79% over the 12 years observation period. It is noted that there is a difference in the ROAs but are the mean differences statistically (significantly) different? The t-test results show no significant difference as the p-value (0.143) is larger than 0.05. Thus, it can be concluded that there is no statistically significant difference between the ROAs of the private and public sector banks. This indicates that, there is no significant difference in the efficient utilization of assets in generating profits, as measured by ROA, between the private and public sector banks over the 12 year study period. The mean difference (0.49583) between the ROAs may be due to other factors or chance but not due to the difference in ownership structure. Thus, hypothesis H6 stating that corporate performances (in accounting terms) of privately and publicly owned banks do not differ due to the difference in ownership structure is supported.

8.4 Summary of Research Findings and Discussions

This section presents a summary of the research questions together with their associated hypotheses, findings and discussions in relation to the conceptual model, corporate governance theories that guide the study and prior empirical studies. The discussion focuses on the main study that examined (1) the overall effect of the model on the boards' service and control performances; (2) the meditational role of the board process between the board structure and the board service and board control performances; (3) the moderational effect of the type of ownership on board service and board control performances; (4) whether the overall firm performances, in financial terms, differ due to the difference in ownership structure and (5) the antecedents of corporate governance factors that influence boards' services and control performance and over all firm performance. Throughout the discussion the descriptive results and interview conducted with boards, board secretaries and bank presidents are triangulated, as found appropriate, to explain the statistical results.

8.4.1 Summary of Research Questions, Hypothesis and Findings

This sub-section recaps the main research question, sub questions, subsequent hypotheses developed to answer the research questions, and the research findings. The main research question answered in the study and formulated in Chapter One section 1.5 was*: How do corporate governance structure and process, in an emerging economy setting, affect performances of boards in the Ethiopian banks?* Six sub questions were set to address attendant issues related to the main question. The first four sub questions were answered by 10 testable hypotheses formulated in Chapter Three. The last two sub questions were answered using the stakeholders' survey results as presented in Chapter Seven. In testing the hypothesis of relationships, mediation and moderation roles, the Smart Partial Least Squares regression method is used. To test a difference in profitability due to the differences in ownership structure; the independent samples t-test was employed. Descriptive statistics and bivariate correlation analysis were also used to explain and complement the results. Furthermore, to assess the stakeholders perception of the current corporate governance practices in Ethiopia, descriptive statistics was used. Finally, the results of the qualitative analysis were triangulated, as deemed necessary, to validate and give meaning to the findings.

The following table presents a summary of research questions, associated hypotheses and findings.

Table 8. 19: Summary of research questions, hypothesis and research findings

RQ No.	Research Question (RQ)	Hypothesis	Research findings
1	What is the nature of the interplay between board governance structures, processes, and boards' service and control performances in banks?	**H1a:** A *board with proper structure is positively and significantly related to boards' service task performances.*	Supported
		H1b: *A board with proper structure is positively and significantly related to control task performances.*	Supported
		H2a: *Board process has positive and significant relationship with board service task performances.*	Supported
		H2b: *Board process has positive and significant relationship with board control task performances.*	Supported
		H3: *A properly structured board has positive and significant relationship with board process.*	Supported
2	How does the board process mediate the relationship between boards' structure and boards' service and control performances?	***H4a:*** *Board process mediates the relationship between board structure and boards service task performances.*	Supported
		H4b: *Board process mediates the relationship between board structure and boards control performances.*	Supported
3	What is the impact of ownership structure on boards' service and control performances?	***H5a:*** *Type of ownership does not moderate board service task performances.*	Not supported
		H5b*: Type of ownership does not moderate board control task performances.*	Not supported
4	Does the difference in ownership structure affect bank performances in accounting terms?	***H6:*** *There is no significant difference in the return on average asset (ROA) between private and public banks due to the difference in ownership structure.*	Supported
5	What is the attitude of stakeholders toward corporate governance practices in the private and public banks?		See chapter 7
6	What are the unique features of the Ethiopian banking industry corporate governance environment?		See chapter 9 section 9.2.1

From the above table, it is noted that 80% of the hypotheses (8 out of 10) are statistically supported.

8.4.2 Discussion of Findings

The following section revisits and discusses the findings from the perspectives of the conceptual model, corporate governance theories and prior empirical findings. The key findings of the discussion are a synthesis of the analysis of the survey results and the semi-structured interviews. The discussion part of the stakeholders' perceptions is not included in this section as detailed discussion is made in Chapter Seven sections 7.2, 7.3, 7.4, 7.5 and 7.6.

In Chapter Three, a conceptual framework linking board structure and process with the board services and control task performances anchored on the agency, stewardship, stakeholders, resource dependency and social capital theories of corporate governance, was proposed. A survey sample of 106 respondents from the private and public bank domains was drawn to test the conceptual model.

From the collected data, it is noted that 80%(85) of participants serve private banks and 20% (21) public banks. Of the 106 participants in the study, 10%(11) are board chairpersons, 64%(68) non-executive board members, 7%(7) former board members, 8%(8) board secretaries, and 11%(12) bank presidents. The demographic data of the sample group used to test the theoretical model provided the following basic facts that supported the study's reliability. From Table 6.17, 82% of the participants have served for at least 3 years as board members and about 96% have more than10 years of work experience other than board membership, and more than two-third of the participants (69%) hold either a master's or doctoral degree in areas such as business, economics, finance, law, accounting, agriculture and science related areas to mention at least few. These characteristics suggest that the respondents have the requisite background to competently examine issues from various perspectives and fill the questionnaire comfortably and properly, enabling the collection of valid data. Furthermore, the questionnaires that examine the role of boards were filled by those persons that directly or indirectly play active roles in corporate leadership. Of the 106 that properly filled the questionnaire, 93% (board members and presidents) are involved in making corporate decisions and, therefore, are expected to have sufficient understanding of corporate practices. Thus, the data from the respondents are believed to be representative of corporate governance picture, enabling to answer the research questions and thereby the research hypotheses. From the data (see table 6.17), it is observed that there are no executive boards. The National Bank of Ethiopia's Directive No. SBB/49/2011 strictly prohibits bank employees from board positions. The board is, therefore, exclusively composed of non-executive directors making it unique considering the state of affairs of relevance in other emerging economies like South Africa, Ghana, Nigeria or those countries that have unitary or one tier model. By the same directive, there is no issue of CEO duality as the CEO cannot be a member of the board of directors.

With regard to the exclusion of executives from the board membership, the qualitative interview shows that the respondents support the idea of the inclusion of a limited number of executives on the board, which was the case before the year 2011. They believe the inclusion of few insiders will not be a problem. On the contrary executive boards can serve as internal resource persons in facilitating decision making by providing important information to the board. The agency and stewardship theories and OCED (2004) do not discount the benefits of including insiders on the board but they argue for a significant majority of outsiders so that the boards' independence is largely maintained. This is in line with the research that Hermalin and Weisbach (1991) have reviewed which highlights the importance of having both by illustrating situations where outside directors can do better in safeguarding the interests of shareholders than insiders; and there are other board jobs where inside directors are more preferable than outsiders.

In terms of academic credentials, it can be noted that 98% of the respondents hold a minimum of a bachelor's degree in business and economics and related backgrounds (more than 70%). This that respondents' level of understanding of governance issues is adequate or high giving indication that they can easily comprehend questionnaire items. In consequence, data obtained from such groups is expected to be reliable and valid. Furthermore, the National Bank of Ethiopia's Directive No. SBB/54/2012 under the section 'Requirements for Persons with Significant Influence in a Bank' stipulates the appropriate level of knowledge, experience and age for a place on the non-executive board of directors. According to the directive, at least seventy five percent of a bank's board members should hold a minimum of a basic degree or its equivalent and the remaining members should have completed general secondary school or its equivalent. Furthermore, board members are required to have adequate experience in business management or should take adequate training after holding a seat on the board and their age should also be at least 30 years (Directives No. SBB/54/2012). Hence, on the basis of the above analysis, all the board members surveyed comply with requirements set out by the NBE.

Assessments of Measurement and Structural Model Fit

The theoretical model developed in chapter three shows the relationships between the endogenous and exogenous variables and this has been extensively evaluated using the partial least squares method. This method was used to assess both the measurement (outer) and structural (inner) models (Hair et al., 2014a & b; Gotz et al., 2010).

First the measurement model that displayed the relationships between the constructs and the indicator variables was assessed for reliability and validity before testing the structural model. The tests of validity, PLS-CFA tests, provide evidence of construct validity. That is, the tests indicate how well the indicator variables of theoretical constructs relate to one another as well as how well their variances are captured by the latent variables (Hair et al., 2014a). As presented and discussed in detail in Chapter Six sections 6.2 and 6.3, the model has passed the tests of reliability at the first order factor model and tests of validity (CFA) both at the first and second order factor models. Once the quality of measurement model was determined through CFA, the next step followed was evaluating the quality of the structural model before conducting the tests of hypothesis (Hair et al., 2014a & b). The quality of (overall goodness) the structural model was determined using non-parametrical tests such as the endogenous variables' determination coefficient (R^2), and direction and significance of path coefficients (Hair et al., 2014a &b; Sanchez, 2013; Gotz et al., 2010). In assessments of the quality of the structural model, Hair et al. (2014b) and Wong (2013) recommend that the structural model be examined for collinearity problems. Accordingly, as displayed in Table 8.1, there are no collinearity problems among the predictor variables both at the first and second order structural model of this study.

Chapter Eight section 8.2, Figure 8.1 and Table 8.2 show that all the path coefficients in the inner model, which are above 0.20 are statistically highly significant at the 5% level (Hair et al., 2014b). All R^2 values are also higher than 0.52 implying that the estimated model fits the survey data well with R^2 values of 0.53, 0.61, and 0.70 for board process, board service role, and board control role, respectively. This means that the theoretical model explains 0.53, 0.61, and 0.70 of the variances in the board process, board service role, and board control role, respectively. The results are very good based on these parameters (Chin, 1998) and support the validity of the structural model with good predictive or explanatory power of the exogenous variables. The model satisfies the criteria set for a good model by Chin (1998) and Hair et al. (2014b). In the next section the results of each of the hypotheses presented in section 8.2 are discussed.

Board Structure, Board Service and Control Task Performances: H1a and H1b

As extensively discussed in Chapter Three section 3.3.1, the agency theory views the board of directors as an important corporate governance mechanism with a key role in reducing the agency costs and maximizing shareholders' wealth (Millan, 2010; Fama & Jensen, 1983). According to the perspectives of the agency and stewardship theory, boards of directors provide important service and control functions. To ensure that boards provide important services and serve as a monitoring body, it is important for boards to have an appropriate board structure explained in terms of composition, independence and committee functioning (OCED, 2004; Millan, 2010; Fauzi & Locke, 2012; Arif & Syed, 2015). Against these desiderata, as put in Table 8.19, research question one is answered by testing five hypotheses. The research question examines the relationships between board governance structures, board processes, and boards' service and control performances of banks. Based on the agency and stewardship theories, direct and significant relationships are expected between: (1) the board structure and board service performances (H1a), (2) the board structure and board control performances (H1b), (3) the board structure and board processes (H3), (4) the board process and board service performances (H2a) and (5) the board process and control performances (H2b). The results of the hypotheses are in the expected direction. The PLS results give strong support to hypotheses H1a and H1b, that is, there is a positive and significant relationship between the board structure and the board service and control performances. The predictive path coefficients of 0.30 and 0.38 between board structure and board service role; and between board structure and board control role, respectively, imply that the board structure is a good predictor of both the board service and control task performances. This suggests, the board structure has a significant contribution in explaining the variances in both the boards' service and control task performances. From the PLS outputs, the board structure has the potential to explain 61% and 70% of variability in the boards' service and control task performances, respectively.

The results lend support to the agency, stewardship, resource dependency and social capital theories (see Chapter Three sections 3.2 and 3.3). The proponents of these theories believe in a properly structured board of directors as one internal corporate governance mechanism in order for boards to carry out their service and control roles. Wan and Ong (2005) believe that boards with different backgrounds, composition, and independence are likely to have an influence on the boards' decision making process and on their ability to execute their service and control roles.

Past empirical work focused largely on the relationship between board structures, defined in terms of CEO duality, proportion of insider/outsider directors, board size (Rosenstein & Wyatt, 1990; Hermalin & Weisbach, 1991; Daily & Dalton, 1993; Klein, 1998; Coles et al., 2001; Dulewicz & Herbert, 2004; Abdullah, 2004; Andres et al., 2005; Garg, 2007; Yi et al., 2008; Fauzi & Locke, 2012; Lee et al., 2013; Guillet et al., 2013), board demographics, board independence (Rosenstein & Wyatt, 1990; Dulewicz & Herbert, 2004; Sarkar, 2009; Knyazeva et al., 2013; Arif & Syed, 2015), committee structure (Klein,1998), and company performance though the empirical evidence were not conclusive. Minichilli et al. (2009) and Wan and Ong (2005) have specifically examined the antecedents of board performances. Using regression analysis, Minichilli et al. (2009) tested the relationship between board structure (board size, CEO duality, outsider ratio) and board performances and found mixed results. With regard to the board tasks, they found that board size negatively impacts the advisory role, while positively influences both the output and behavioral control roles. The CEO duality has no influence on both the service and control roles. The outsider ratio, apart from negatively influencing the strategic participation role, has no influence on the service and control roles. Wan and Ong (2005) also examined the relationships between board structure (CEO duality and insider/outsider director), process and performances in public listed companies. They found no significant relationships between structural variables and the monitoring, service and strategic roles and concluded that board structure does not influence board performance.

As presented above, the results of this study are quite different from the findings in prior empirical studies for two reasons. First, the board structure components used in previous studies centered on the CEO duality and insider/outsider ratio, which are not prevalent in Ethiopian context. Second, the methodologies used in testing the hypotheses differ.

To recap the discussion, the results of this study suggest that a board composed of a workable number of members with the right blend of skills and experience functioning with appropriate board committees and who maintain their independence will effectually accomplish their service and control roles. To further support the hypothesis test results, descriptive and bivariate correlation analyses are drawn and triangulated. The descriptive statistics show an overall average score of 4.14 (83%) for the board structure, which is a high achievement rate for the items measuring the same, which in turn has resulted in the overall mean achievements of 3.81(76%) and 3.98(78%) for board service and control performances, respectively. This high achievement, as Buchanan and Huczynski (1997) cited in Wan and Ong (2005) argue, reflects that a group's performance is as much a function of its structure and process. That is, properly structured boards are expected to accomplish service and control tasks more effectively. This is further strengthened by the results of the correlation analysis presented in Chapter Six section 6.5 and Tables 6.25 and 6.30.

The bivariate correlation analyses also provide support for the significant and positive association between each of the structural latent variables (Scomp, SBInd and Scomm) and each of the service (SerAd, SerNwR, SerNwI and SerSp) and control role (BCont, OCont and SCont) latent variables (see Table 6.27). The significant and positive correlation implies that properly structured boards accomplish the service and control tasks effectively. The correlation coefficient relating to the second order constructs between the board structure and the board service role (0.679) and board structure and control role (0.737) demonstrates the existence of strong association.

Given the strong association, the descriptive statistics show a higher achievement for control role than the service role as the predictive path coefficients between board structure and board service role (0.30); and between board structure and board control role (0.38) are higher for board control role. These results show that given the above relationships, the boards of directors are oriented more to control role than the service role. This is further supported by the stakeholder perception survey, which shows that 81% of the respondents characterize the Ethiopian board of directors as control oriented and to much lesser degrees strategic and service oriented. These orientations might be directly or indirectly associated with the backgrounds of the board members. The vast majority of the respondents in the stakeholder perception survey examining the boards' individual and group experience, effectiveness and approach in running their respective banks also shows that the boards are positively viewed (as being good or very good). This seems to explain the contribution of the board structure to board performance.

Board Structure and Board Process: H3

Coming to H3 that hypothesizes the direct and positive relationships between board structure and board process, the PLS output result is in agreement with the expectation. That is, there is a direct, strong and positive relationship (with predictive path coefficient of 0.725) between the board structure and the board process. This value is high, denoting the strong predictive power of the board structure regarding the board process, showing the extent of its influence on the board process. From the analysis it is noted that, the board structure has the potential to explain 53% of the variance in the board process. The hypothesis is in line with the argument mentioned above that the board process is a function or reflection of the board structure. This is also in line with the resource dependency and social capital theories as the proponents argue that a board composed of independent outsiders with different backgrounds will bring in more knowledge, skill and experience that enable the board to make better decisions and maintain good board room atmosphere. Proponents of the agency theory also argue that outside boards are likely to be more objective in their discussions and willing to accommodate various ideas in decision making with higher level of cognitive (job related) conflict in the board room (Wan & Ong, 2005).

On this issue, Wan and Ong (2005) have examined the relationships between board structure (CEO duality and insider/ outsider director) and board process and found no relationship and concluded that board structure does not influence/affect the board process. This is not in agreement with this study's findings. The difference in the findings could be again due to the methodology employed and components of the structural variables considered. Despite Wan and Ong's findings, Forbes and Milliken (1999) found a positive and significant relationship of the proportion of outside directors with both effort norms (commitment) and cognitive conflict. This finding is consistent with this study's findings at the first order latent variables.

The descriptive and correlation analysis serve as further evidence and support the findings of this study. As mentioned above, the overall achievement of the board structure and the board process are high suggesting that success in the board structure is also success in the board process or otherwise. From the bivariate correlation analysis presented in Chapter Six section 6.5 it is noted that, the board structure latent variable is significantly and positively correlated with the board process latent variable with a correlation coefficient of 0.679. The value gives evidence of the relationship between the board structure latent variable and the board process dimension. The result is consistent with the hypothesis testing results showing that board structure affects board process. The results imply that, a properly structured board in terms of composition, independence, and active committee might also be active in the board process expressed in terms of commitment, critical debate, and maintaining good sprit in the boardroom.

Board Process, Board Service and Control Task Performances: H2a and H2b

Hypotheses H2a and H2b have examined the direct relationship between: (1) board process and board service role, (2) board process and board control role, respectively. The results of the PLS test show that the board process is directly and positively related to the board service task performances with the predictive path coefficient of 0.531. The same holds true for H2b that posited that the board process directly influences the board performance with a significant path coefficient of 0.517. The path coefficients indicate the extent of influence of the board process, as an exogenous variable, on the board service and control roles as endogenous variables. Thus, both H2a and H2b are in the expected directions. The descriptive statistics for the variables as indicated in the above paragraphs are all well above average denoting good achievements. The bivariate correlation analyses both at the first and second order variables also indicate significant and positive relationships across all the latent variables except for the process conflict first order variable. Specifically, the correlation at the second order (principal construct) level of the board process with the board service performance is 0.740 and with the board control performance is 0.746. These are additional evidence confirming the results obtained through the PLS hypothesis testing procedure. To this end, the statistical results do suggest that strong commitment coupled with a high level of cognitive conflict and conducive board room environment is likely to enhance the service and control tasks of the board of directors. This could mean, at least to mention few, high commitment enables board members to take initiatives in giving advice based on personal knowledge and to have significant influence on major management issues, to help in obtaining scarce resources. The test also implies high involvement in strategic issues, and the exercise of proper output, behavioral and strategic control roles. The cognitive conflict, which is based on important ideas, issues, principles and critical questions, enables boards to play their strategic role of making quality decisions and actively monitoring their implementation. Despite the above results, the personal interview with members of the private bank board shows that there is lack of commitment and seriousness in the board of directors due probably to fixing of the relevant annual remunerations by the NBE. They believe that this has consequences for the service and control roles they are supposed to play. The effect on the boardroom is likely to be significant; a conducive board room environment with the board chair leading meetings with a clear focus and in a cohesive way would be very likely to contribute favorably to the board strategic role. But this assumes proper compensation.

Minichilli et al. (2009) tested the positive relationship between two variables, board members' commitment and critical debate, of the board process construct and the board service and control task performances as the first order latent variables. Their findings suggest that board members' commitments are important predictors of the boards' service and control task performances. That is, boards' commitment as one component of the board process has a strong and positive impact on all the boards' service and control tasks; whereas, critical debate as one component of the board process is positively related only to the advisory and networking roles of the service tasks. The commitment variable as a predictor of both the boards' service and control tasks is consistent with the findings of this study.

In this study, however, the process and the cognitive conflicts of the first order variables of the higher order board process construct are negatively related to all the services, but positively related to control roles. The results suggest that process conflict inhibits board performance since the disagreements relate largely to boards' working style (procedural matters) more than the decision making process, which is typically based on ideas, issues and principles (cognitive conflict). The cognitive conflict enhances the board performances. This result is different from Minichilli et al. (2009) when it comes to the critical debate variable. This is due to the fact that Minichilli et al. (2009) merged both the process and cognitive conflict variables into one to form the critical debate variable. As a result they came up with combined results as this study has done in testing the hypotheses at the second order by bringing together the first order variables. Another reason explaining the disparity in the results could be the methodological differences, that is, the authors measured the critical debate items by asking the CEOs only. In this study, originally, both the process conflict and cognitive conflict variables were set to be one variable under the name critical debate, but the scale assessment procedure of the principal component analysis (EFA) factorized the critical debate variable as a two factor structure with the process conflict and cognitive conflict.

The empirical evidence from Wan and Ong (2005) shows that board process is related to board performance. They considered general effort norms (commitment), cognitive conflict and process conflict as components of the board process and examined their relationships with monitoring, service, strategic function and resource dependence. On the basis of the examination of the individual variables, they found that effort norms (commitment) and cognitive conflicts are positively related to the boards' monitoring, service, strategic function and resource dependence roles whereas the process conflict is negatively related to the board roles. The results from Wan and Ong (2005) are fully in agreement with the findings of this study. Forbes and Milliken's (1999) prediction of both the effort norms and cognitive conflicts with the service and control roles are also consistent with the results of this study.

The Mediation Effect of the Board Process: H4a and 4b

H4a and H4b tested the mediation effect of board process on board service task and control task performances, respectively. Both tested the indirect relationship of board structure with board service and control performances mediated through the board process. To test and support the meditational role of the board process between the board structure and the board performances, the following condition should hold true in the theoretical model. That is, the board structure should be related to both the board process and the board performance; and in turn, the board process should be related to board performance together with the board structure (Baron & Kenny, 1986 in Wan & Ong, 2005). The theoretical model of this study is indeed in the desired setting so that the mediating effect of board process can be examined.

The test results of the PLS, on whether the board process mediates the relationship between the board structure and the board performances (service and control roles), confirm the meditational role of the board process. Hence, the board structure indirectly positively and significantly influence both the service and control roles (see section 8.3.2). To determine the extent of the influence of the exogenous variable (board structure) up on the endogenous variables (board service and control roles), the change in the coefficient of determination with and without the mediator variable is calculated and effect size determined. The effect sizes (f^2) of the board process on the two endogenous variables, board service role and board control role, are 0.36 and 0.43, respectively. These values of the effect size suggest that the board process latent variable serving as a mediator has a substantial (large) effect size (influence) in explaining both the board service role and board control role latent variables. Thus, the board process's mediating role is strongly supported. It is also important to determine the relative size of the mediating effect to see whether it partially or fully mediates the relationships. VAF (Variance Accounted For) was used to determine the relative size of the mediating effect. The VAF values between board structure and service role; and between board structure and control role are 56% and 50%, respectively. Thus, the board process partially mediates the relationships. These values have important implication for explaining the relevance of the board structure's direct effects in explaining the endogenous variables. The VAF values of 56% and 50% indicate the board structure's effect on the board service and control roles explained through the partial mediation of the board process latent variable.

The findings of the present study do not agree with those of Wan and Ong's (2005) who found that board process does not mediate the relationship between board structure and board performance. There are several reasons for the mixed results. Firstly, Wan and Ong's test fails to meet two of the conditions out of three for testing the meditational role of the board process. They found no relationship between structure and process and between structure and board performance. In their study, only one of the required conditions is met, i.e., board process is related to board performance. Secondly, it could be due to the differences in the components forming the structural latent variable and the statistical approaches used in the analysis (Hierarchical regression vs. partial least squares of structural equation modeling).

Moderation Effects of Ownership Structure/ Sub-Sample Analysis: H5a and H5b

As mentioned in the hypothesis formation stage and analysis part, the practice of representation of boards depends on the type of ownership. For the private banks, representation is by mere election by the shareholders, while for the banks that are owned by the state, representation is by appointment by the government. The assumption underlying this practice is that, ownership type matters in affecting the strength of board service and control task performances of private and public banks. That is, ownership type moderates the performances of private and public boards. Hence, H5a and H5b examined whether ownership type has significant bearing on board service and control task performances, respectively. Both the PLS path models (Hair et al., 2014b; Henseler et al., 2010) and the independent samples t-test were used. The PLS path models of the group comparison approach to determine the effect of a categorical moderator variable, ownership structure, up on the endogenous latent variable, showed that ownership matters implying that hypotheses H5a and H5b are not supported. Thus, ownership structure moderates the relationship between board structure and board service and control task performances; and between board structure and board process.

As further evidence to the above, the Independent samples t-test was used. The test showed that there is a significant difference in the means for the four latent variables (board structure, board process, board service task performance and board control task performances) between the private and public bank boards. From the Independent samples t-test, public bank board's average achievement scores are larger than the values for private banks'. In relation to the two endogenous target variables, board service and control task performances, the test indicated that public bank boards accomplish their roles better than their private bank counterparts. One of the main reasons for such differences could be the way broads are formed (through election or appointment). The Public bank boards appreciate the current practice of assignment or appointment of boards to the public banks by the government as many considerations such as professional experience, educational background and commitment are taken into account in the process of assignment. Serving as a board member is also seen as a part of the full time assignment in the government offices. This reason is supported by an interview made with one long serving public bank board member. The director argued in his words that,

> "It has to be clear that assignment of board members to the public banks is based on considerations of experience and backgrounds in the various sectors that include agriculture, industry, finance, trade and the like so as to meet/ address the developmental agendas in these sectors. There are advantages in such a composition such as easy access to key government decision makers, access to national data and high facilitation as members are representatives of the government…"

Another board member of a public bank added that:

> “Boards that are appointed by the government are resourceful and useful in networking as they bring skills and experiences related to the organization or ministry that they lead. Decisions are almost unanimous as they have common interests which are developmental and commercial.”

With all the support they get from the government, it is not surprising that the service and control task performances of public board members are relatively better than their private counter parts. One of the private bank respondents said:

> “As I observe in most of the private banks, board membership is based on the blessing of the influential shareholders and the mass selection by the shareholders. To me, composition of board members should be based more on knowledge of the business…’’

The argument at this junction is that, public bank board members are screened thoughtfully in their assignments and private bank board members are nominated and elected during the annual general meeting without going through thorough nomination process. The absence of nomination committee is highly echoed by stakeholders as one major problem. Another person from the private domain expressed his relevant worries and the need for a nomination committee to have the right blend of boards so that they can carry out their roles properly. He commented:

> “…[C]orporate governance situation in Ethiopia is worrisome as corporate governance is new and most of us do not really know its very essence. The way board of directors is selected is on lobby basis; it is not merit based and if no corrective measures are not taken on time the consequences can be disastrous, with shareholders losing confidence and trust in corporate forms of organizations. The NBE, the regulatory body, has to revise the current board nomination criteria and clearly set them by consulting the experiences of other countries and local studies…”

Thus, the difference observed in the mean board performances due to the difference in ownership structure is considered as further evidence for the moderation effect, explaining why the public bank board excels in the average board service and control performances.

Ownership Structure and Overall Bank Performance

The above discussion focused on the moderation effect of the ownership type on board performance while this part discusses whether ownership matters in the banks' performances expressed in monetary terms. Looking into the summary of the aggregate profitability levels of private and public sector banks displayed in Chapter Eight Table 8.15, regardless of the disparity in the profitability levels, all the sampled banks have positive return on their average assets. This confirms what was hypothesized (H6) in Chapter Three section 3.3.4 that ownership structure (being private or public) has no significant bearing on the banks overall performance measured in accounting terms. For example, for the 2013/14 financial year, the majority of the banks (8 banks, 62%) reported more than 3% return on their assets. No bank has reported less than the 1.1% ROA, the highest being 5% (see Appendix 8.6). The average ROA (profitability rate) of the private and public banks over the study periods (2002/03-2013/14) was 2.56% and 2.06, respectively. These financial performances show that banks in the Ethiopian context are profitable regardless of their ownership structures. But, the question remains whether there is significant difference between the private and public banks in their average profitability rates. The banks performance was measured in terms of ROA. This is a ratio of profit after tax divided by average total assets measuring the profit earned per dollar of assets and reflects how well the bank uses the banks' real investment resources to generate profits. ROA as a measure of efficiency was used in prior empirical studies by La Porta et al. (2002), Zeitun and Tian (2007), Kiyota et al. (2008), Ongore (2011), Kapur and Gualu (2012), Ongore and Kusa (2013), Mule and Mukras (2015), and Rahman and Reja (2015).

The hypothesis was tested using the Independent samples t- test first by verifying the appropriateness of the parametric test in terms of the assumptions of normality and equality of variances. The t-test result shows that there is no statistically significant difference between the ROAs of the private and public sector banks. In other words, there is no significant difference in the efficient utilization of assets in generating profits, as measured by ROA, between the private and public sector banks over the 12 year study period. The mean difference (0.49583) between the ROAs may be due to other factors or chance but not due to the difference in ownership structure. Thus, hypothesis H6 which states the corporate performances (in accounting terms) of privately and publicly owned banks do not differ due to the difference in ownership structure is supported. This implies that ownership structure's moderating role in a banks' performance in accounting measures is insignificant. This finding is consistent with Ongore and Kusa (2013) that ownership type does not influence firm performance.

The findings of this study differ from those of Rahman and Reja (2015), Iannota et al. (2007) and Micco et al. (2007) who concluded that government-owned banks have lower profitability than privately owned banks. The present study also disagrees with the research of Gursoy and Ayodogan (2002) and Bonin et al. (2005) who suggest that government ownership leads to a better performance. The present project is also different from those of Kapur and Gualu (2012), Kiyota et al. (2008) and La Porta et al. (2002) that specifically addressed the Ethiopian situation and inferred that private ownership leads to better performance in the Ethiopian context; that private banks show generally better performance in Ethiopia; and privately owned banks are more efficient than public banks in other countries, respectively. Also, Ongore (2011), Zeitun (2009) and Zeitun and Tian (2007) produced empirical evidence showing a negative significant relation between government ownership and a firm's accounting performances. The difference in the findings could be due to the reason that: (1) Kapur and Gualu (2012) used all 8 commercial banks (six private and two public banks) in operation over the years 2001-2008 (covering only eight years) when relatively there was no stiff competition due to the small number of banks compared to the post 2008 period which saw 10 more private banks emerging to share the profits, (2) methodological differences. Thus Kapur and Gualu (2012) used a nonparametric Mann-Whitney U test as opposed to the current study that used parametric tests. The same argument as above also applies to Kiyota et al.'s (2008) findings from a regression study of 10 banks (7 private and all 3 public banks) over the time period 1998-2006. Interview results on the issue reveal that the possible reasons could be aggressive expansion and branching of the giant public bank, i.e., Commercial Bank of Ethiopia, enabling it to maintain the lion's market share, and the establishment of new banks that share the market resulting in a relatively lower profit for the majority of private banks, which may balance profitability between the private and public domain.

Stakeholders' Perceptions on Corporate Governance Practices

Extensive discussion of the perception survey results was made in Chapter Seven. This part will briefly revisit and discuss the major results. Research question five was answered by scanning corporate governance practices through stakeholders' perceptions. It primarily examined the attitudes of various groups of stakeholders to the current practices. The aspects of corporate governance practices that were examined include: the principles of good corporate governance (OECD, 2004), strategies and approaches to promote good governance, characteristics of the Ethiopian boards, key corporate governance issues and recommendations to improve corporate governance. The comprehensive assessment indicates the status of corporate governance in Ethiopia as an emerging market economy. Understanding the relevant status is particularly important, in order to pay due attention to corporate governance as an important agenda as this is a relatively new phenomenon to Ethiopia. The assessment of stakeholders' perception also aims to contribute to the literature by addressing corporate governance practices and issues from the stand point of an emerging economy.

As mentioned in Chapter One sub section 1.1.2, the history of corporate governance in Ethiopia dates back to 1960. It was still in its infancy when a regime change in 1974 led to its demise. It was in 1992 with a major policy change to reopen a market economy that the interest in corporate governance emerged. Due to the absence of a capital market, a national code of best practices and an institution responsible for it, it is, relatively, at its earliest stage of development. Despite its current weak status, there have been some measures put in place to make strides like revising the 1960 Commercial Code of Ethiopia (work in progress), a joint move to standardize the accounting and auditing practices of corporate firms, modernizing the company register, strengthening the organizations of the business community at national and city levels to make important contributions to the institutional environment for supporting corporate governance.

The evaluation of the stakeholder perceptions showed that ownership is relatively concentrated with the largest shareholders effectively controlling the bank with substantial voting rights. This would allow the controlling shareholders to have more freedom and influence over decisions to their benefits. However, the concentration of ownership is limited by the Banking and Insurance Proclamation NO. 592/2008 of the Federal Government of Ethiopia.

The exercise of the basic principles of the rights and equitable treatment of shareholders; and the transparency and disclosure issues appear to be in good state as extensively discussed in Chapter Seven. In prompting and improving good corporate governance, the Financial Supervisory Agency is indicated to be the most important stakeholder followed by professional societies, the Chamber of Commerce, the judiciary and finally non-executive board. In the banking sector, the financial supervisory agencies are believed to be relatively most important stakeholders in controlling the undue influence of controlling owners, followed by the legal system and non- executive board of directors. Such results are to be expected because the regulatory body is vested with the legal power to oversee the activities of banks. Corporate governance is in its early years and this is the only enforcing institution that oversees how well it is practiced.

Stakeholders believe that internal corporate governance mechanisms, codes, high standards of accounting and auditing, and external corporate governance mechanisms are important to ensure improved corporate governance practices. The effectiveness of the boards and their individual and group experience, in running their respective banks is rated by the stakeholders as at least good although the vast majority of the respondents characterize them as control oriented boards. The stakeholders proposed a balanced corporate governance approach that would work better in promoting good governance practices in the Ethiopian banks. This approach allows flexibility as it is a combination of the prescriptive and non-prescriptive approaches. Respondents preferred this approach taking into account the existing reality and future trends of the social, economic, political and legal environment of the country as well as the organizational milieu.

The current remuneration package of boards, which the National Banks of Ethiopia fixed in 2011, was decried as being insufficient incommensurate with the level of responsibility and insufficient to attract, retain and motivate board members. Interviewees stated that board remuneration, being inadequate, can have a negative repercussion on the boards’ commitment to their assigned key roles. Respondents believe that the level of remuneration should reflect the level of duties and responsibilities that boards shoulder and the decision of how much to pay should be left to the shareholders as owners. According to the respondents, the current corporate governance practices in the banks are much better compared with those of the previous years. Though there are improvements in practice, they disclosed some major corporate governance issues prevailing in their banks that include:

- Board members' lack of relevant knowledge, limited experience, understanding of corporate governance by boards and key stakeholders;
- lack of integrity, conflict of interest and corruption of board members; limited capacity of the regulatory body (National Bank of Ethiopia) and undue intrusion by the same; influence of large shareholders/ownership concentration;
- lack of a proper national code of corporate governance practices or comprehensive regulation; lack of transparency;
- lack of awareness of roles and responsibilities by the board of directors; interference of board of directors in managerial and operational activities that undermine the autonomy of managers; and
- poor remuneration scheme for board members that affected their commitment to play their role; and lack of a proper mechanism of nomination and selection of a board of directors.

They also forwarded the following recommendations to address one or more of the issues identified above. The recommendations include:

- crafting national codes of best practices;
- introducing regular capacity building systems for regulatory agencies and board members;
- standardizing board nominations;
- introducing more transparency and a disclosure system; creating and promoting awareness on corporate governance in general and the boards' roles and responsibilities in particular;
- introducing performance related remuneration schemes for board members; and
- ensuring that board members and major shareholders keep the required distance form managerial and operational activities.

8.5 Summary

This chapter evaluated the structural model for its fitness, tested the hypothesis and discussed the major findings of both the quantitative and qualitative analyses. The hypotheses were tested mainly using the PLS structural model evaluation technique. Before the hypotheses were tested, the structural model was checked for collinearity problems and the tests verified that there was no collinearity problem among the predictor variables. The quality of the structural model was also determined by examining the significance of the path coefficients, the coefficient of determination (R^2) of the endogenous variables and the predictive relevance of the exogenous variables. The tests verified the good fit of the structural model. These tests are prerequisites to testing the hypotheses of the research. To facilitate discussion of findings, the research questions, hypotheses and their findings were summarized. Finally, an extensive discussion was made on the findings of the hypotheses tests and the perception data of stakeholders. The following chapter presents conclusions, contributions and implications of findings.

Chapter 9 Conclusions, Contributions and Implications of findings

9.1 Introduction

In Chapter Eight section 8.4, the findings of both the quantitative and qualitative data analyses were discussed. This chapter presents conclusions drawn from the findings of the analysis, addresses the contributions of the study and draws implications for future study.

9.2 Conclusions from Findings

Recent empirical studies on corporate governance focused on board structure (size, CEO duality, outsider/ insider ratio) and firm performance leaving out the board process, which is thought to be an important missing link between board structure and firm performance. Most of the analyses of recent studies are based on secondary data and the results mixed and inconclusive. Most research is in the context of well developed economies and typically western oriented.

This study, which is based on primary data, examined the relationship between board structure, board process and board performances. This study is different in the sense that it investigated the relationships between the structural, process (the missing link) and board performance variables (not only company performance) using largely primary data from boards of directors. Additionally, unlike the vast majority of previous studies, this research addressed an emerging market economy context.

On the basis of the empirical results discussed in the previous chapter, it is concluded that there is:

(1) Positive and significant relationship between board structure and board service;

(2) Positive and significant relationship between board structure and control task performance;

(3) Positive and significant relationship between board structure and board process;

(4) Positive and significant relationship between board process and board service, and

(5) Positive and significant relationship between board process and control task performance.

Furthermore, the study concludes that the relationships (1) between board structure and board service and (2) between board structure and control task performances are affected by board process. Interestingly, the results show that board service and control task performances are also affected by ownership type, whereas company performance in accounting terms is not affected by this variable.

Another important conclusion to be drawn from the findings is that the indicator variables of the latent exogenous variables of the board structure construct (board composition, board independence and board committee); and the board process (commitment, process conflict, cognitive conflict and boardroom activity) are acceptable measures of the board structure and board process, respectively. Likewise, the proposed manifest variables forming the latent variables (advisory role, networking resource, networking image, strategic participation, behavioral control, output control and strategic control) are found out to be good measures of the constructs of board service and control performances.

The study also investigated perceptions of corporate governance practice in Ethiopia's context as an emerging market economy where there is neither a national code of best practices nor an institution responsible for it. From the findings, it can be concluded that corporate governance is a relatively new phenomenon in the country. Ethiopia, like many emerging market economies, has neither fully developed the legal and regulatory systems, nor a regulatory organ with sufficient enforcement capacities, nor a private sector that is required to support effective corporate governance.

Given these limitations associated with the infancy of corporate governance in context, the achievements in terms of rights and equitable treatment of shareholders (fairness), disclosure and transparency, recognitions of roles of stakeholders and accountability of boards are not bad. However, to make strides in corporate governance, much has to been done in the enabling elements that lead to an effective corporate governance framework. These include: the basic stock exchange development with listing requirements, an institution responsible for crafting the principles of good corporate governance, strong laws and regulations, and well developed private sector institutions such as a strong accounting and auditing sector, professional associations, strong financial press and capable security analysts. As stated above, there is no stock market in the country as a result of which the role of capital market to institute corporate control is limited. The NBE, the regulatory organ, should take the lead in the development of capital markets in the country. Until such development is realized, the NBE should enhance its capacity to effectively regulate and promote sound corporate governance practices in the Ethiopian banks.

Based on the roles that boards play and taking in to account the predictive path coefficients of the structural model, descriptive statistics of the service and control role constructs, and perception results of the governing bodies and stakeholders, the Ethiopian boards of directors are characterized as more control oriented than strategic or service oriented leaders. As regards the preferred approach to promote good governance, once an institution responsible for it is established, a mixed (balanced) approach (which is a mix of the prescriptive and the non-prescriptive approaches) is recommended. Furthermore, the nature of the Ethiopian banking corporate governance system is characterized as one tier system with non executive boards of directors and ownership concentration.

9.2.1 Unique Features of the Ethiopian Banking Industry Corporate Governance Environment

From the analysis, results, discussion, conclusions and policy recommendations, the following traits are identified that may make the Ethiopian banking industry corporate governance environment look different from those of developing economies like India, Indonesia, Sri Lanka, Ghana, South Africa, and Nigeria. Distinctively, the Ethiopian banking industry corporate governance system operates in the following environment.

(1) Absence of stock market as a fertile ground for voluntary codes (Shares are simply sold freely in the market).
(2) Absence of national code of corporate governance.
(3) Fixing of remuneration for board members by the regulatory body not the shareholders as owners after the year 2011.
(4) Exclusion of insider directors from board membership by the regulatory organ after the year 2011.
(5) No nomination and selection committee, mass nomination and selection made during the annual general meeting without prior nomination and screening process.

(6) Highly regulated and excessive interference by the regulatory organ, which is the National Bank of Ethiopia.
(7) The closed nature of the banking sector to foreign investment isolating it from the impact of globalization.

9.2.2 Policy Implications

The results of both the quantitative and qualitative perceptions suggest the following policy implications.

(1) The need for a national code of corporate governance.
(2) The need for a capital market.
(3) The need for the establishment of nomination and selection committee supported by an appropriate legal framework.
(4) The need for the rational inclusion of insiders to the board.
(5) The need to review and raise the present meager fixed bank board compensation to a reasonable level.
(6) The need for well developed private sector institutions.

9.3 Contributions of the Study

Empirical studies on corporate governance until recently have focused only on the board structure and organizational performance. The empirical findings point to mixed or inconclusive relationships (Rosenstein & Wyatt, 1990; Hermalin & Weisbach, 1991; Daily & Dalton, 1993; Dalton et al., 1998; Klein, 1998; Dulewicz & Herbert, 2004; Andres et al., 2005; Garg, 2007; Pamburai et al., 2015). As explained in Chapter Two, the literature on board processes is scant and scholars in the area consider the lack of sufficient studies as a lacuna standing in the way of a full understanding of performance. Researchers in the area believe that one of the reasons for the limited empirical studies on board processes could be inaccessibility of the board of directors (Minichilli et al., 2009; Wan & Ong, 2005). Minichilli et al. (2009) for example assessed board performance by using the CEOs as key informants, while Wan and Ong (2005) largely depended on data of publicly listed companies as it was difficult for them to obtain data on private companies. The conceptual model of this study has incorporated the missing link, board process, in assessing board performance by targeting the boards themselves. Thus, it contributes both empirically and methodologically.

In examining the board structure, prior studies depended on secondary data with a focus on the CEO duality, board size, outsider/ insider director ratio and other demographic information (Rosenstein & Wyatt, 1990; Hermalin & Weisbach, 1991; Daily & Dalton, 1993; Dalton et al., 1998; Klein, 1998; Dulewicz & Herbert, 2004; Andres et al., 2005; Garg, 2007, Pamburai et al., 2015), while this study collected primary data on board structure with a focus on board composition, board independence, and board committee functioning as determinants of the board process and board service and control roles.

The results suggest that both board structure and board process directly play an important role in board performance. They also indicate that the board process plays a more important role than board structure in explaining board performance. The mediation effect of the board process is another important contribution to the existing literature. The results also suggest the important role that ownership structure plays in corporate governance systems in moderating board performance. That is, ownership type moderates the relationship between board structure and board service and control task performances; and between board structure and board process.

In terms of theoretical development, these findings contribute to enriching the existing literature and corporate governance theories, i.e., agency, stewardship and resource dependence theories. Well structured boards as representatives of shareholders accomplish their service and control tasks (agency theory) and also play their stewardship and networking role to say the least. The validated comprehensive conceptual model with a second order construct that links board structure, board process and board performance can be considered as a contribution to the corporate governance literature and serve as a springboard for other studies. The study also offers reliable and valid research instruments than can be used by other researchers for similar purposes.

The contribution of the present study to practice can be viewed from two angles. One, the different items used to measure structure, process and performance components and the various corporate governance issues identified, can create greater understanding of the corporate governance system that may help boards and stakeholders to promote good corporate governance and there by enhance their contributions. Second, the model developed and tested may help boards and other stakeholders, especially shareholders and the government as owners of the banks to understand more clearly how the corporate structure and process influence the board service and control task performances and thereby the corporate performance at large. Understanding of the issues may help them inject structure, process and role related interventions to enhance board effectiveness and shareholders' value. By way of substantially adding to the scant research on board process (Minichilli et al., 2009; Wan & Ong, 2005; Finkelstein & Mooney, 2003; Lablanc & Gillies, 2003), this research has thoroughly investigated its mediation role potentially helping boards to appreciate how important the process is in affecting their roles. Furthermore, the outcomes of the study help to understand the role of ownership type on both board and company performances.

The results from the stakeholder perception survey are of significant value to interested groups like policy makers, board of directors, regulatory and supervisory agencies that directly or indirectly are concerned with the implementation of good corporate governance practices. Finally, the study in general, is believed to be useful to all interested groups, including academia, in terms of enhancing their understanding of corporate governance in the context of emerging economies.

9.4 Implications for Future Research

The results of this study indicate avenues for future research. The meditational role of the board process (missing link) between the board structure, on the one hand, and board service and control roles, on the other hand, point to its importance by directly or indirectly affecting the board roles that deserve further research. Other future directions that deserve attention include:

(1) The sample drawn was confined to governing bodies and stakeholders of private and public banks. This has to be extended to incorporate the non-financial institutions in order to have a broader perspective on the boards' structural, process and performance variables and validate the results. Especially, the relationship between structural, process and performance variables have to be further tested as the CEO duality and insider directors do not apply to this study. The results of this study show that ownership type matters in board performance while it has no impact on company performance. The latter is a quite different result from those of previous studies, demanding further confirmation.

(2) As the research focuses on an emerging economy context, more research is needed to further reconfirm the antecedents of board performances.

(3) In line with the above, the study has provided vital data on the current corporate governance practices in the Ethiopian banks from the standpoints of key stakeholders. To the best of the researcher's knowledge, no prior study has explored the perceptions of groups of stakeholders on corporate governance in Ethiopia, so this pioneering study may serve as a spring board for further studies in the future.

Finally, together the theoretical model on board structure, board process and board roles and the perception results may provide a wider base for future researches in corporate governance.

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Appendices

Appendix 4.1. Main constructs, variables, and their operationalizing items before EFA and CFA (Sample -1)

Main constructs	Variables	Operationalizing items	Source (Adapted from)	Prior Alpha reliability
Board Structure	Board Composition	11 measurement items on a 5 point Likert scale ranging from (1) strongly agree…(5) strongly disagree	World bank (2011); King III; Board Evaluation questionnaire; Procl. 592/2008	
	Board Committee	five measurement items on a 5 point Likert scale ranging from (1) strongly agree…(5) strongly disagree	World bank, 2011; OECD, 2004	
	Board Independence	Three measurement items on a 5 point Likert scale ranging from (1) strongly agree…(5) strongly disagree	OECD, 2004; Procl. 592/2008; Nam & Nam, 2004	
Board process	Commitment	Six measurement items on a 5 point Likert scale ranging from (1) strongly agree…(5) strongly disagree	Minichilli et al. (2009) Forbes & Milliken (1999)	0.87
	Critical debate	Seven measurement items on a 5 point Likert scale ranging from (1) strongly agree…(5) strongly disagree	Minichilli et al. (2009) and Wan & Ong (2005)	0.77
	Board room activity/ atmosphere	Nine measurement items on a 5 point Likert scale ranging from (1) strongly agree…(5) strongly disagree	World bank(2011); Board Evaluation questionnaire	
Service role/task	Advisory role	Seven measurement items on a 5 point Likert scale ranging from (1) strongly agree…(5) strongly disagree	Minichilli et al. (2009) and resource dependency thoery	0.82
	Networking role	Seven measurement items on a 5 point Likert scale ranging from (1) strongly agree…(5) strongly disagree	Minichilli et al. (2009) and Wan & Ong (2005)	0.83
	Strategic participation role	Eight measurement items on a 5 point Likert scale ranging from (1) strongly agree…(5) strongly disagree	Minichilli et al. (2009) and Wan & Ong (2005)	0.83

Control role/task	Behavioral control role	Seven measurement items on a 5 point Likert scale ranging from (1) strongly agree…(5) strongly disagree	Minichilli et al. (2009)	0.62
	Output control role	Six measurement items on a 5 point Likert scale ranging from (1) strongly agree…(5) strongly disagree	Minichilli et al. (2009) and Wan & Ong (2005)	0.71
	Strategic control role	Four measurement items on a 5 point Likert scale ranging from (1) strongly agree…(5) strongly disagree	Minichilli et al. (2009) and theory	
Ownership and control structure		One multiple choice question	Nam & Nam, 2004; OECD, 2004; Procl. 592/2008	
Shareholder Rights		Six nominal type questions	OECD, 2004; Nam & Nam, 2004	
Disclosure and transparency		One nominal type questions	OECD, 2004; Procl. 592/2008	
Role of Stakeholders		Three ranking and one nominal questions	OECD, 2004; Nam & Nam, 2004; Procl. 592/2008	
Upper echelon remuneration		Three nominal type questions	Procl. 592/2008	
Corporate governance practices		Eleven likert scale, multiple choice and nominal type questions	OECD, 2004; Nam & Nam, 2004;	

Appendix 4.2. Survey Questionnaires

Appendix 4.2a. Survey Questionnaire for governing bodies

University of South Africa
Graduate School of Business Leadership

Dear respondent,

Thank you very much for your willingness to take time to respond to this research questionnaire. The research is being conducted by a staff member of Addis Ababa University who is a PhD candidate at Graduate School of Business Leadership, University of South Africa (UNISA).

The survey is asking questions on the corporate governance systems and practices in the Ethiopian banks. As a distinguished and experienced board member, your accurate and frank response is imperative for the successful accomplishment of the study and in the future improvement of corporate governance practices in Ethiopia. Please be assured that your responses will be treated strictly confidential, your identity anonymous; and the results will be used only for the purpose of this research and be presented only in aggregate without being revealed by individual Banks. The survey questionnaire contains three parts: the first part is on personal profile, the second on corporate governance related issues, and the third on corporate governance structure, process, and roles. Kindly return the questionnaire appropriately filled by ***answering every item*** at your earliest convenience.

Thank you again.

Respectfully,

Tsegabrhan Mekonen
Doctoral candidate in Business Leadership
Graduate School of Business Leadership
University of South Africa
Tel. 0911403644

Private/Public Banks

Please answer every item by putting a tick (√) mark as appropriate and feel free to make additional comments.

SECTION ONE: PERSONAL PROFILE

1. Indicate your position in the bank

Chairman	Non-executive board[7]	Executive board[8]	President	Board secretary	Other

2. Gender: Male____ Female ____
3. Age group
   18-29____ 30-39____ 40-49____ 40-59____ Over 60____
4. Years of service as a board member: ______________
5. Work experience other than serving as a board (years):
   1-5____ 6-10____ 11-15____ 16-20____ 21 or more____
6. Highest level of education
   Certificate____ Diploma____ Bachelor's Degree____ Master's Degree____
   Doctoral degree____ Other (Please specify): _________________________
7. Major background (Field of study): ____

SECTION TWO: Please put a tick (√) mark as appropriate (Does not apply to public banks)

Ownership and control structure of Private Banks

8. Which one of the following describes the ownership and control structure of the Bank?
   (i) The largest shareholders (each up to 5% of holding) have a substantial voting right and effectively control the Bank_____
   (ii) The largest shareholder effectively controls the Bank even though the voting right is far less than 5%____
   (iii) Two or more large shareholders collectively control the Bank _____
   (iv) Ownership is fairly diffused with no controlling shareholder, and the management is not directly controlled by shareholders_____
   (v) Other (Please specify):__________________________

Shareholder Rights

9. Is there any deviation from the one-share one-vote rule in your bank?
   Yes____ No____
10. Indicate shareholders participation in voting and other issues at the shareholders' meetings.

	Yes	No
10.1 Is voting by mail allowed?	____	____
10.2 Can anybody serve as a proxy?	____	____
10.3 Are shareholders given adequate time for asking questions at the shareholders' meeting?	____	____
10.4 Are shareholders' priority subscription rights in the issuance of shares well protected?	____	____

11. Is the principle of equitable treatment of shareholders being practiced in your bank?
    Yes ______ Not fully ______ Not at all ______

12. Indicate the role of shareholders in nominating candidates and electing outside board of directors of your bank by the following sub questions.

---

[7] Board of director who is outsider/not part of Management
[8] Board of director who is insider/ part of Management

		Yes	No
12.1	Are director candidates disclosed before the shareholders' meetings?	____	____
12.2	Do large shareholders (holding up to 5% shares) nominate candidates at the shareholders' meetings?	____	____

13. In your judgment, do the shareholders know their rights and obligations?
Yes ____ Majority know _______ Only few know _____Almost none knows_______
14. Do you think that those who know their rights freely exercise it in the annual general meeting in matters such as voting and profit sharing?
Yes ______ No ______ Sometimes ______

Disclosure and Transparency

15**.** Does your bank disclose the following information?

		Yes	No
(i)	Governance structures	____	____
(ii)	Explicit corporate governance rules	____	____
(iii)	Vision, missions, and values	____	____
(iv)	financial performances	____	____
(v)	Audited annual reports	____	____
(vi)	Resume or background of directors	____	____
(vii)	Members of board sub committees	____	____

If yes, by what means? **(More than one choice can be made)**
(i) Bank's web page _____
(ii) Annual report _______
(iii) Report to regulatory agencies _____
(iv) Brochures ____
(v) Meetings ____

Role of Stakeholders

16. How do you **<u>rank</u>** the relative importance of the following entities in improving corporate governance in Ethiopia in general and the banking sector in particular?
<u>(Write 1, 2 ...6 starting from the most important)</u>
i. Media ___________
ii. Chamber of commerce ___________
iii. Professional societies such as accounting and audit ___________
iv. Financial supervisory agencies ___________
v. The judiciary ___________
vi. Outside (non-executive) board of directors ___________

17. How do you **<u>rank</u>** each of the following tasks in terms of their relative effectiveness (contribution) for better corporate governance in Ethiopia in general and the banking sector in particular? **<u>(Write 1, 2 ...7 starting from the most effective)</u>**
i. Making the internal corporate governance mechanisms (such as active shareholder participation and the role of the board) work better ___________
ii. Making the external governance mechanisms (such as outside board, monitoring, enact specific regulation) more effective ___________
iii. Enhancing the standards of accounting, audit and disclosure ___________
iv. Introducing code of corporate governance___________
v. Conducting and publicizing corporate governance ratings of banks___________
vi. Prohibiting or tightly controlling some types of related-party transactions (like lending to directors or senior officers and cross-guarantees of repayment) ___________
vii. Reducing ownership concentration (by tighter control of cross-shareholding[9] or pyramid ownership structure[10] etc.) ___________
viii. Other (please specify) ____

[9] A situation in which stocks are held by two corporations in each other
[10] The control of a corporation through a chain of ownership structure of a group of firms

18. How do you **<u>rank</u>** the relative importance of each of the following stakeholders in preventing the influence of controlling owners (largest shareholders) from abusing their power (to pursue their private interests)? **<u>(Write 1, 2…6 starting from the most important)</u>**
   i. Minority (non-controlling) shareholders ___________
   ii. Institutional investors (like companies and others) ________
   iii. Outside (non-executive) board of directors ______________________
   iv. Financial supervisory agencies __________________________
   v. Labor unions or employees ______________
   vi. The legal system _____________
   vii. Other (please specify)____

19. Are institutional shareholders in a stronger position to influence the board, than the other types of shareholders (minority and controlling shareholders), to act in the best interest of the owners?
   Yes ______ No ______

Power of Boards

20. Of the following, who has the strongest influence in the selection and dismissal of non executive board of directors? **(You may choose more than one)**
   i. Board of directors__________
   ii. Nomination committee (autonomously)__________
   iii. President/CEO __________
   iv. Controlling owner, but the board puts some input __________
   v. Others (please specify)___________

21. Of the following, who has the strongest influence in removing a <u>poorly</u> performing President and selecting a new President of the bank? **(You may choose more than one)**
   i. Board of directors __________
   ii. Nomination committee (autonomously) __________
   iii. Controlling owner, but the board puts some input __________
   iv. Other (specify)___________

Boards' Access to Information

22. The following questions refer to board of directors' access to information.
   22.1 Meeting/discussing with managers (who are not board members) and workers of the company Often______ Sometimes______ Rarely_____ Never______
   22.2 Access to business records and books of account
   No restriction at all _______ Somewhat limited______ Very limited_______
   22.3 issuing information material in time to be digested before every board meeting
   Very much so__________ Not always _______ Rarely____________

Board and executive officers (senior management) remuneration

23. Do you think that the remuneration is sufficient enough to attract, retain, and motivate board members? Yes _____ No ______

24. Do you think that the remuneration is sufficient enough to attract and retain qualified senior management? Yes _____ No ______

25. Do you think that the remuneration of senior management is linked to performance?
   Yes____ No____

Corporate governance practices

26. What is your view of corporate governance in your bank compared with other banks?
   Much better _____ Slightly better_______ About the same_____ Slightly worse______ Much worse______

27. How do you compare your bank's current corporate governance practices with those of the previous years?
   Much better ____ Slightly better_____ About the same_____ Slightly worse______ Much worse______

28. Your <u>overall</u> evaluation of the board members in light of individual and group experience, effectiveness, and approach to run the bank is:
Very good _____ Good ______ Satisfactory ______ Poor ______ Very poor ______

29. Which of the following have you strictly observed or adhered to in the appointment of boards? **(You may choose more than one)**
(i) Relevant Commercial Code ________
(ii) Requirements of the National Bank of Ethiopia (regulatory agency) ________
(iii) Company Policy______
(iv) Code of Corporate Governance ________________
(v) Other, please specify___________

30. How often does the board conduct meetings (frequency of meetings)?
Every two weeks _________ Every month_________ Every three months______
If different, please specify __________

31. What was your average attendance rate for board meetings per year?
90-100% ____ 75-89% _____ 60-74% ____ 50-59%_____ Below 50%_____

32. Does your board have the following committees?

	Yes	No
(i) Audit Committee	____	____
(ii) Nomination Committee	____	____
(iii) Remuneration Committee	____	____

33. What do you think of the current size of your board (governing bodies)?
Too large_______ Too small _________ Ideal _________

34. If too large or too small, what do you think should be the ideal size of your board? ________________

35. In your view, which of the roles mainly characterize the Ethiopian board of directors? **(You may choose more than one)**
(i) Control Role[11] ______
(ii) Service role[12] _______
(iii) Strategic role[13] _______

36. In your view, which of the following <u>approaches</u> would work better to promote good corporate governance practices in the Ethiopian banks? **(Please choose one option)**
(i) Prescriptive approach[14]_____
(ii) Non-prescriptive approach[15]_____
(iii) Mixed approach[16]______

In your opinion, what are the major corporate governance problems or issues faced by the Ethiopian banks?
……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
………

[11] Monitoring financial performance, top management behavior, and strategic decision making
[12] Mentoring and supporting top management
[13] Initiation and involvement in the different phase of strategic decision making process
[14] Prescription of specific corporate governance rules and practices by regulations
[15] Allowing firms to determine their own corporate governance practices
[16] Prescription only the basic framework by regulations and allowing firms to develop more detailed practices

SECTION THREE: Structure, process and roles of boards

This section requires your observation regarding the structure, process, roles of boards etc…in your bank. Please rate the extent to which you agree or disagree with the statements by putting a tick (√) mark on one of the following: **Strongly disagree, Disagree, Neutral (or no opinion), Agree, or Strongly agree**. *Kindly answer every item*

37	**Composition**	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**
37.1	There is a transparent and clear structure that defines roles, responsibilities, functions, and relationships between the board members, the President, and executive directors					
37.2	The board consists of a workable number of board members to function effectively and efficiently as a group.					
37.3	The board includes enough employee representatives as members.					
37.4	Inclusion of executive directors in a board is essential as they have sufficient information and are knowledgeable about the bank.					
37.5	Non executive board members bring with them important resources (expertise, link to the market, know-how, technology…) and serve as a link with the external environment.					
37.6	Prospective board members are identified by a nominating committee or through other means of succession planning process					
37.7	Board members are required to disclose possible conflicts of interest before their appointment					
37.8	Induction and development programs are provided to board members					
37.9	Outside (non executive) board members actively play their stewardship/ control role compared to inside board members					
37.10	Working as a team, the board has the right blend of skills, experience, and appropriate degree of diversity relevant to the boards tasks and bank's operation					
37.11	The quality, experience and independence of a board member directly affect board performance					
38	**Committee/board appointment**	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**
38.1	This board has standing and ad hoc committees that include board members and management					
38.2	Working with committees is useful as this would allow maximum use of board's expertise and knowledge					

38.3	Committee assignments reflect the interests, experience, and skills of individual board members					
38.4	Standing and ad hoc committees report regularly to the full board					
38.5	Committees are reviewed annually with regard to composition, goals, responsibilities and performance.					
Board process						
39	**Commitment**	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**
39.1	Board members regularly attend board meetings and make informed decisions.					
39.2	Board members come to the meeting well prepared for the agenda and are actively involved in discussions.					
39.3	Board members are very active in finding their own information in addition to reports supplied by the President or top management team					
39.4	Board members devote sufficient time needed and are available to fulfill board activities.					
39.5	Board members effectively use their knowledge, skill, and experience and contribute meaningfully to board discussions.					
39.6	The board follows up and monitors its decisions and receives sufficient status reports on the implementation.					
40	**Critical debate**	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**
40.1	There are conflicts and disagreements on the decisions to be taken during meetings					
40.2	There are conflicts and disagreements on the board working style					
40.3	Differences of opinion in board decisions are more often settled by vote than by more discussions					
40.4	The Board exerts efforts to build consensus and managing conflict constructively					
40.5	Board members ask critical questions to proposals initiated by the management team.					
40.6	Board members critically assess information presented by the management team					
40.7	Board members raise critical points during meetings and do not serve as rubber stamp					
41	**Board room activity/ processes**	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**
41.1	Board members receive clear agendas					

	and background material with sufficient time to review prior to board and committee meetings					
41.2	The board focuses much of its attention on long-term strategy and policy issues rather than on short-term administrative concerns					
41.3	The board chair leads meetings well with a clear focus on the big issues facing the bank and allows full and open discussion before major decisions are made.					
41.4	The board refrains from making decisions related to operations and the implementation of policy that fall in the domain of the President/CEO and management team.					
41.5	The board conducts its deliberations in a thoughtful, objective manner, and considers viewpoints of different members before making decisions.					
41.6	Each board member has equal and adequate opportunities to discuss issues and ask questions					
41.7	The length of board meetings is adequate to thoroughly examine all items on the board's agendas					
41.8	Board members accept and support a decision that has been made, regardless of the way they voted on the issue.					
41.9	There is always a very good internal atmosphere at board meetings					
Service role						
42	**Advisory role**	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**
42.1	Board members take initiatives to give advice based on personal knowledge, ideas, and points of view					
42.2	The board provides support and counsel to senior executive body up on request					
42.3	The board has significant influence on major management issues (such as bank's structure, strategy…)					
42.4	The board contributes to technical issues (new technology, new product…)					
42.5	The board contributes to market issues (new market or consumer behavior) and legal issues affecting the bank					
42.6	The board gives proper advice and directions on how to achieve goals by setting policies					
42.7	Non executive directors provide alternative viewpoints					
43	**Networking role**	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**
43.1	The board creates linkages with important external stakeholders					

	(customers, government, non government agencies…)					
43.2	The board assists the bank in obtaining scarce resources					
43.3	The board provides the bank with external legitimacy and reputation					
43.4	The board effectively represents the bank in the political, economic, and social arena influencing the decision-making process.					
43.5	Board members are chosen on their merit and influence in community					
43.6	The board seeks information and advice from leaders of similar organization					
43.7	The board invites former members to special events designed to convey the bank's history and values to new members and also share their experience					
44	**Strategic participation role**	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**
44.1	The board understands the organization's operational and environmental contexts					
44.2	The board is actively involved in long-term strategic planning process and goals to align with changes in the external environment					
44.3	The board identifies actions to seize opportunities that will contribute to the bank's strategic priorities					
44.4	The board applies a strategic approach to decision making , i.e., considers facts, perspectives, objectives and criteria in discussions					
44.5	The board demonstrates awareness of emerging/ environmental trends affecting the bank and reflect them in discussion and decision-making					
44.6	The board benchmarks strategic plan with best performing banking industry data					
44.7	The board identifies annual strategic direction within the framework of the long range planning					
44.8	The board receives plan for strategy implementation from the President					
Control role						
45	**Behavioral control role**	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**
45.1	The board is actively involved in monitoring that all internal behaviors are adequately controlled					
45.2	The board is actively involved in defining behavioral guidelines for itself and top level managers					

45.3	The board is actively involved in controlling/preventing occurrence of conflicts of interest among itself					
45.4	The board is actively involved in supervising and evaluating the performance of the President					
45.5	The board actively oversees the activities of its standing committees					
45.6	The board is formally evaluated by its members					
45.7	The board is formally evaluated by its shareholders					
46	**Output control role**	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**
46.1	The board controls that the activities are well organized					
46.2	The board evaluates performance according to plans and budgets					
46.3	The board has internal mechanisms to effectively monitor key performance areas yearly					
46.4	The board is regularly kept informed on the financial position of the bank					
46.5	Management regularly reports to the board on key outcomes and targets that flow directly from the strategy.					
46.6	As member of this board, I have been regularly assessed and received feedback on my performance					
47	**Strategic control role**	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**
47.1	The board actively monitors and evaluates implementation of strategic decisions and main goals					
47.2	The board critically reviews performance against strategic plan					
47.3	The board monitors top management in decision-making					
47.4	Management regularly reports to the board on key outcomes and targets that flow directly from the strategy					
48	**Board responsibilities**	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**
48.1	As a member of the board of directors, I am adequately informed and knowledgeable about my functions and responsibilities					
48.2	As a member of the board of directors, I feel responsible and devote sufficient time to carry out my responsibilities					
48.3	As a member of the board of directors, I consider fiduciary and stewardship responsibilities in discussions and decision-making					
48.4	As a member of the board of directors, I					

	am responsible and take into account stakeholder interests in decisions and actions					
48.5	As a member of the board, I am willing to be accountable and responsible for situations that may cost me to the extent of relinquishing my position.					
49	**Board independence**	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**
49.1	The board of directors of the bank are independent from the President of the bank					
49.2	The board of directors of the bank are independent from the board chairperson because the chairperson will not influence the extension or termination of the directorship					
49.3	The board of directors of the bank are independent from the controlling (large) shareholders					

Any comments and recommendations that you think will improve corporate governance practices. …………………………………………………………………………………………
....……
………
……….

End of questionnaire

I highly appreciate your time and effort in filling the questionnaire

Appendix 4.2b. Survey Questionnaire for shareholders and MPs

University of South Africa
Graduate School of Business Leadership

Dear* Shareholder/ *Honorable M*ember of Parliament*,

Thank you very much for your willingness to take time to respond to this research questionnaire. The study is being conducted by a staff member of Addis Ababa University who is a PhD candidate at Graduate School of Business Leadership, University of South Africa.

The survey is asking questions on the corporate governance systems and practices in the Ethiopian banks. As a shareholder, your accurate and frank response is imperative for the successful accomplishment of the study program and in the future improvement of corporate governance practices in Ethiopia. Please be assured that your responses will be treated strictly confidential, your identity anonymous, and the results will be used only for the purpose of this research and be presented only in aggregate without being revealed by individual Banks. The survey questionnaire contains three parts: The first part is on personal profile; the second and the third are on corporate governance related issues. Kindly return the questionnaire appropriately filled *by* ***answering every item*** at your earliest convenience. Thank you again.

Respectfully,

Tsegabrhan Mekonen
Doctoral candidate in Business Leadership
Graduate School of Business Leadership
University of South Africa
Mobile: 0911403644

Please <u>answer every item</u> by putting a tick (√) mark as appropriate and feel free to make additional comments

SECTION ONE: PERSONAL PROFILE

1. Gender Male____ Female_______________

2. Age group 18-29____ 30-39____ 40-49____ 50-59____ Over 60____

3. Years as shareholder **(Applies to shareholders)**

   1-2____ 3-5___ 6-10_____ 11-20 _____ Since establishment______

4. Highest level of education Certificate____ Diploma____ Bachelor's Degree____ Master's Degree____ Doctoral degree____ Other (Please specify): ____________

5. Number of shares owned **(Applies to shareholders)** ________

TWO: Please put a tick (√) mark as appropriate

Ownership and control structure of Private Banks (Applies to shareholders)

6. Which one of the following describes the ownership and control structure of the Bank?

   (i) The largest shareholders (each up to 5% of holding) have a substantial voting right and effectively control the bank _____

   (ii) The largest shareholder effectively controls the Bank even though the voting right is far less than 5% _____

   (iii) Two or more large shareholders collectively control the Bank _____

   (iv) Ownership is fairly diffused with no controlling shareholder, and the management is not directly controlled by shareholders _____

   (v) Other (Please specify):__________________________

Shareholder Rights (Applies to shareholders)

7. Is there any deviation from the one-share one-vote rule in your bank?

   Yes_____ No________

8. Indicate shareholders participation in voting and other issues at the shareholders' meetings.

	Yes	No
8.1 Is voting by mail allowed?	____	____
8.2 Can anybody serve as a proxy?	____	____
8.3 Are shareholders given adequate time for asking questions at the shareholders' meeting?	____	____
8.4 Are shareholders' priority subscription rights in the issuance of shares well protected?	____	____

9. Is the principle of equitable treatment of shareholders being practiced in your bank?

   Yes ______ Not fully ______ Not at all ______

10. Indicate the role of shareholders in nominating candidates and electing outside board directors of your bank by the following sub questions.

		Yes	No
10.1	Are director candidates disclosed before the shareholders' meeting?	____	____
10.2	Do large shareholders (holding up to 5% shares) nominate candidates at the shareholders' meeting?	____	____
10.3	Can the existence of large shareholders be a built-in corporate governance mechanism as this would reduce the problem of the separation of ownership and management?	____	____

11. As a shareholder, do you know your rights and obligations?

Yes ____ Partly I know _______ No _____

12. If your answer to the above is yes, do you freely exercise your rights in the annual general meeting in matters pertaining to voting, profit sharing and other issues?

Yes ______ No ______ Sometimes ______

Disclosure and Transparency

13**.** Does your bank disclose the following information?

		Yes	No
(i)	Governance structures	____	____
(ii)	Explicit corporate governance rules	____	____
(iii)	Vision, missions, and values	____	____
(iv)	financial performances	____	____
(v)	Audited annual reports	____	____
(vi)	Resume or background of directors	____	____
(vii)	Members of board sub committees	____	____

If yes, by what means? (**More than one choice can be made**)

(i) Bank's web page ____

(ii) Annual report_______

(iii) Report to regulatory agencies_____

(iv) Brochures ____

(v) Meetings____

Role of Stakeholders

14. How do you **rank** the relative importance of the following entities in improving corporate governance in Ethiopia in general and the banking sector in particular?

(Write 1, 2 ...6 starting from the most important)

i. Media ___________
ii. Chamber of commerce ___________
iii. Professional societies such as accounting and audit ___________
iv. Financial supervisory agencies ___________
v. The judiciary ___________
vi. Outside (non-executive) board of directors[17] ___________
vii. Other (please specify) ____

15. How do you **rank** each of the following tasks in terms of their relative effectiveness (contribution) for better corporate governance in Ethiopia in general and the banking sector in particular? **(Write 1, 2 ...7 starting from the most effective)**

i. Making the internal corporate governance mechanisms (such as active shareholder participation and the role of the board) work better ___________
ii. Making the external governance mechanisms (such as outside board, monitoring, enact specific regulation) more effective ___________
iii. Enhancing the standards of accounting, audit and disclosure ___________
iv. Introducing code of corporate governance___________
v. Conducting and publicizing corporate governance ratings of banks___________
vi. Prohibiting or tightly controlling some types of related-party transactions (like lending to directors or senior officers and cross-guarantees of repayment) ___________
vii. Reducing ownership concentration (by tighter control of cross-shareholding[18] or pyramid ownership structure[19], etc) ___________
viii. Other(please specify) ____

16. How do you **rank** the relative importance of each of the following stakeholders in preventing the influence of controlling owners (largest shareholders) from abusing their power (to pursue their private interests)? **(Write 1, 2…6 starting from the most important)**

i. Minority (non-controlling) shareholders ___________
ii. Institutional investors (like companies and others) ________
iii. Outside (non-executive) board of directors _____________________
iv. Financial supervisory agencies _________________________

[17] Board of director who is outsider/not part of Management
[18] A situation in which stocks are held by two corporations in each other
[19] The control of a corporation through a chain of ownership structure of a group of firms

v. Labor unions or employees ______________

vi. The legal system ________________

vii. Other please specify)____

17. Your <u>overall</u> evaluation of the board members in light of individual and group experience, effectiveness, and approach to run the bank is:

Very good ______ Good ______ Satisfactory ______ Poor ______ Very poor ______

18. In your view, which of the roles mainly characterize the Ethiopian board of directors? **(You may choose more than one)**

(i) Control Role[20] _____ (ii) Service role[21] _____ (iii) Strategic role[22] ______

19. In your view, which of the following <u>approaches</u> would work better to promote good corporate governance practices in the Ethiopian banks? **(Please choose one option)**

(i) Prescriptive approach[23]___ (ii) Non-prescriptive approach[24]___ (iii) Mixed approach[25]____

Board and executive officers (senior management) remuneration

a. Do you think that the remuneration is sufficient enough to attract, retain, and motivate board members? Yes _____ No ______

b. Do you think that the remuneration is sufficient enough to attract and retain senior management? Yes _____ No ______

22. Do you think that the remuneration of senior management is linked to performance?

Yes____ No____

In your opinion, what are the major corporate governance problems or issues faced by the Ethiopian banks?

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………

[20] Monitoring financial performance, top management behavior, and strategic decision making
[21] Mentoring and supporting top management
[22] Initiation and involvement in the different phase of strategic decision making process
[23] Prescription of specific corporate governance rules and practices by regulations
[24] Allowing firms to determine their own corporate governance practices
[25] Prescription only the basic framework by regulations and allowing firms to develop more detailed practices

SECTION THREE:

Please rate the extent to which you agree or disagree with the statements by putting a tick (√) mark on one of the following: **Strongly disagree, Disagree, Neutral (or no opinion), Agree, or Strongly agree**. _Kindly answer every item_

23	**General corporate governance**	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**
23.1	Board of directors play crucial role in bringing about good governance by carrying out their pivotal role of directing, governing, and controlling activities of the bank.					
23.2	Boards of directors as corporate governance mechanism are important instruments to maximize shareholders wealth.					
23.3	Better corporate governance increases market value of shares					
23.4	Better corporate governance reduces political or regulatory intervention					
23.5	Boards are true representatives of shareholders who strive to defend my interest					
23.6	Current corporate governance practices in my bank are much better compared with those of the previous years					
23.7	Corporate governance in my bank is much better compared with other banks in Ethiopia					
23.8	Compared with other banks, our board members are competent, skillful, experienced, and educated with high level of integrity to discharge their duty					
24	**Board- management Relations**	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**
24.1	I believe that, in my bank, there is a sound relationship between the board and top management.					
24.2	There is a smooth relationship between the board and the President of the bank					
25	**Corporate performance**					
26.1	As a shareholder, I am satisfied with the performance of the bank and the share dividend declared every year					
25.2	The bank is profitable every year due to persistent effort by the **board**, **executive body** and **employees**					
25.3	The bank is profitable every year due to persistent effort **only** by the					

	executive body and **employees**					
25.4	Many of the issues that the board deals with add value to the shareholders					
25.5	I can sense the effectiveness of the boards and clearly see their wealth maximization efforts					
25.6	My bank, besides making profit for shareholders, has the goal of attaining the well-being of various stakeholders, such as employees and customers					
26	**Strategic issue**					
26.1	My board is actively involved in formulating long-term strategies for attaining future goals and reviews it as deemed necessary					
26.2	My board is more involved in strategic matters than routine matters					
26.3	The board identifies actions to seize opportunities that will contribute to the bank's strategic priorities					
26.4	The board identifies annual strategic direction within the framework of the long range planning					
26.5	The board demonstrates awareness of emerging/ environmental trends affecting the bank and reflect them in discussion and decision-making					
27	**Board independence**	**Strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**
27.1	The board of directors of the bank are independent from the President of the bank					
27.2	The board of directors of the bank are independent from the board chairperson					
27.3	The board of directors of the bank are independent from the controlling (large) shareholders					
27.4	Non executive board of directors[26] are fully independent from the board chairperson, because the chairperson will not influence the extension or termination of the directorship					
28	**Board duty**					
28.1	The board of directors in my bank act honestly, carefully, and reasonably in executing their duties					

[26] Board of director who are outsiders/not part of Management

28.2	In my judgment, the board's involvement in the oversight and monitoring of a company's financial performance, its top management and its strategic processes and outcomes meet shareholders' expectations					
28.3	My board is not perfunctory/ rubber stamp: the chairperson does not dominate the board meeting, and different views of directors are welcome					
28.4	My board plays an important role in selecting, monitoring, and replacing the President of the bank					
28.5	My board effectively oversees potential conflicts of interest including related-party transactions					
28.6	My board is active in ensuring proper disclosure and actively communicate with shareholders and stakeholders					
28.7	In general, my board is active in ensuring the effectiveness of various governance practices					
29	**Corporate governance issues**					
29.1	Lack of integrity and ethics among boards is a major issue					
29.2	Lack of integrity and ethics among top management is a major issue					
29.3	Insider trading[27] is a major issue					
29.4	Conflict of interest of board of directors is a major issue					
29.5	Lack of proper balance between executive[28] and non executive members in the board is a major issue					
29.6	Ineffective connectivity between board and management is a major issue					

Any comments and recommendations that you think will improve corporate governance practices:

……
……
……
………

End of questionnaire

I highly appreciate your time and effort in filling the questionnaire

[27] When share prices are artificially controlled for personal gain

[28] Board of director who is insider/ part of Management

Appendix 4.2c. Survey Questionnaire for bank employees, NBE and PFEA

University of South Africa

Graduate School of Business Leadership

Dear respondent,

Thank you very much for your willingness to take time to respond to this research questionnaire. The study is being conducted by a staff member of Addis Ababa University who is a PhD candidate at Graduate School of Business Leadership, University of South Africa.

The survey is asking questions on the corporate governance systems and practices in the Ethiopian banks. Your accurate and frank response is imperative for the successful accomplishment of the study and in the future improvement of corporate governance practices in Ethiopia. Please be assured that your responses will be treated strictly confidential, your identity anonymous, and the results will be used only for the purpose of this research and be presented only in aggregate without being revealed by individual Banks. The survey questionnaire contains three parts: The first part is on personal profile; the second and the third are on corporate governance related issues. Kindly return the questionnaire appropriately filled by **answering every item** at your earliest convenience.

Thank you again.

Respectfully,

Tsegabrhan Mekonen
Doctoral candidate in Business Leadership
Graduate School of Business Leadership
University of South Africa
Mobile: 0911403644

Private/ Public Bank employees, NBE and PFEA

Please answer every item putting a tick (√) mark as appropriate and feel free to make additional comments

SECTION ONE: PERSONAL PROFILE

1. Indicate your position in the bank

Managerial	Professional	Technical	Administrative	Other

2. Gender: Male____ Female_______________

3. Age group

18-29____ 30-39____ 40-49____ 50-59____ Over 60____

4. Work experience in the same business, related or others

1-5____ 6-10____ 11-15____ 16-20____ 21 or more____

5. Highest level of education

Certificate____ Diploma____ Bachelor's Degree____ Master's Degree____ Doctoral degree____ Other (Please specify): ________________________

SECTION TWO: Please put a tick (√) mark as appropriate

Disclosure and Transparency

6. Does your bank disclose the following information?

		Yes	No
(i)	Governance structures	____	____
(ii)	Explicit corporate governance rules	____	____
(iii)	Vision, missions, and values	____	____
(iv)	financial performances	____	____
(v)	Audited annual reports	____	____
(vi)	Resume or background of directors	____	____
(vii)	Members of board sub committees	____	____

If yes, by what means? **(More than one choice can be made)**

(i) Bank's web page ______

(ii) Annual report ________

(iii) Report to regulatory agencies _____

(iv) Brochures ____

(vi) Meetings ____

(vi) Other (please specify):_________________

Role of Stakeholders

7. How do you **rank** the relative importance of the following entities in improving corporate governance in Ethiopia in general and the banking sector in particular?
   (Write 1, 2...6 starting from the most important)
   i. Media ___________
   ii. Chamber of commerce and sectoral associations___________
   iii. Professional societies such as accounting and audit ___________
   iv. Financial supervisory agencies ___________
   v. The judiciary ___________
   vi. Outside (non-executive) board of directors[29] ___________
   vii. Others (please specify) ____
8. How do you **rank** each of the following tasks in terms of their relative effectiveness (contribution) for better corporate governance in Ethiopia in general and the banking sector in particular? **(Write 1, 2 ...7 starting from the most effective)**

i. Making the internal corporate governance mechanisms (such as active shareholder participation and the role of the board) work better ___________

ii. Making the external governance mechanisms (such as outside board monitoring, enact specific regulation) more effective ___________

iii. Enhancing the standards of accounting, audit and disclosure ___________

iv. Introducing code of corporate governance ___________

v. Conducting and publicizing corporate governance ratings of banks___________

vi. Prohibiting or tightly controlling some types of related-party transactions (like lending to directors or senior officers and cross-guarantees of repayment) ___________

vii. Reducing ownership concentration (by tighter control of cross-shareholding[30] or pyramid ownership structure[31], etc.) ___________

viii. Other (please specify) ____

9. How do you **rank** the relative importance of each of the following stakeholders in preventing the influence of major shareholders (controlling owners) from abusing their power (to pursue their private interests)? **(Write 1, 2 … 6 starting from the most important)**
   i. Minority (non-controlling) shareholders ___________
   ii. Institutional investors (like companies and others) ________
   iii. Outside (non-executive) board of directors _____________________

[29] Board of director who are outsiders/not part of Management
[30] A situation in which stocks are held by two corporations in each other
[31] The control of a corporation through a chain of ownership structure of a group of firms

iv. Financial supervisory agencies ___________________________

v. Labor unions or employees _______________

vi. The legal system ____________

vii. Others (please specify)____

10. My overall evaluation of the board members in light of individual and group experience, effectiveness, and approach to run the bank is:

Very good ______ Good ______ Satisfactory ______ Poor ______ Very poor ______

11. In your view, which of the roles mainly characterize the Ethiopian board of directors? **(You may choose more than one)**

(i) Control Role[32] _____ (ii) Service role[33] _____ (iii) Strategic role[34] ______

12. In your view, which of the following approaches would work better to promote good corporate governance practices in the Ethiopian banks? **(Please choose one option)**

(i) Prescriptive approach[35]___ (ii) Non-prescriptive approach[36]___ (iii) Mixed approach[37]___

Board and executive officers (senior management) remuneration

13. Do you think that the remuneration is sufficient enough to attract, retain, and motivate board members? Yes _____ No ______

14. Do you think that the remuneration is sufficient enough to attract and retain senior management? Yes _____ No ______

15. Do you think that the remuneration of senior management is linked to performance?

Yes____ No____

16. In your opinion, what are the major corporate governance problems or issues faced by the Ethiopian banks?

…………………………………………………………………………………

………

………

……

[32] Monitoring financial performance, top management behavior, and strategic decision making
[33] Mentoring and supporting top management
[34] Initiation and involvement in the different phase of strategic decision making process
[35] Prescription of specific corporate governance rules and practices by regulations
[36] Allowing firms to determine their own corporate governance practices
[37] Prescription only the basic framework by regulations and allowing firms to develop more detailed practices

SECTION THREE:

Please rate the extent to which you agree or disagree with the statements by putting a tick (√) mark on one of the following: **Strongly disagree, Disagree, Neutral (or no opinion), Agree, or Strongly agree**. *Kindly answer every item*

17	**General corporate governance**	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
17.1	Board of directors play crucial role in bringing about good governance by carrying out their pivotal role of directing, governing and controlling activities of the bank.					
17.2	Boards of directors as corporate governance mechanism are important instruments to maximize shareholders wealth.					
17.3	Better corporate governance increases market value of shares					
17.4	Better corporate governance reduces political or regulatory intervention					
17.5	Boards are true representative of shareholders who strive to defend their interests					
17.6	Current corporate governance practices in my bank are much better compared with those of the previous years					
17.7	Corporate governance in my bank is much better compared with other banks in Ethiopia					
17.8	Compared with other banks, our board members are competent, skillful, experienced, and educated with high level of integrity to discharge their duty					
18	**Shareholders' rights**	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
18.1	Institutional shareholders[38] influence the board better than the other types of shareholders (minority and controlling shareholders) to act in the best interest of the owners					
18.2	During annual general meeting, the board gives its shareholders enough room for questions and discussions					

[38] Like companies and others

18.3	Corporate governance system in my bank ensures the equitable treatment of all shareholders					
19	**Board– management relationship**					
19.1	I believe that, in my bank, there is a sound relationship between the board and top management					
19.2	There is a smooth relationship between the board and the President of the bank					
20	**Corporate performance - specific**					
20.1	As an employee, I am satisfied with the performance of the bank and the amount of profit declared every year					
20.2	The bank is profitable every year due to persistent effort by the **board, executive body** and **employees**					
17.3	The bank is profitable every year due to persistent effort **only** by **executive body** and **employees**					
20.4	Many of the issues that the board deals with add value to the shareholders					
20.5	I can sense the effectiveness of the boards and clearly see their wealth maximization efforts					
20.6	My bank, besides making profit for shareholders, has the goal of attaining the well-being of various stakeholders, such as employees and customers					
21	**Strategic issue**					
21.1	The board is actively involved in formulating long-term strategies for attaining future goals and reviews it as deemed necessary					
21.2	The board is more involved in strategic matters than routine matters					
21.3	The board identifies actions to seize opportunities that will contribute to the bank's strategic priorities					
21.4	The board identifies annual strategic direction within the framework of the long range planning					
21.5	The board demonstrates awareness of emerging/ environmental trends affecting the bank and reflect them in discussion and decision-making					

22	**Board Independence**	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
22.1	The board of directors of the bank are independent from the President of the bank					
22.2	The board of directors of the bank are independent from the board chair person					
22.3	The board of directors of the bank are independent from the controlling shareholders					
22.4	Non executive board of directors[39] are fully independent from the board chairperson, because the chairperson will not influence the extension or termination of the directorship					
23	**Board duty**					
23.1	The board of directors in my bank act honestly, carefully, and reasonably in executing their duties					
23.2	In my judgment, the board's involvement in the oversight and monitoring of a company's financial performance, its top management and its strategic processes and outcomes meet shareholders' expectations					
23.3	The board of directors in my bank is not perfunctory/rubber stamp: the chairperson does not dominate the board meeting, and different views of directors are welcome					
23.4	The board of directors plays an important role in selecting, monitoring, and replacing the President of the bank					
23.5	The board of directors effectively oversees potential conflicts of interest including related-party transactions					
23.6	The board is active in ensuring proper disclosure and actively communicate with shareholders and stakeholders					
23.7	In general, the board of directors is active in ensuring the effectiveness of various governance practices					
24	**Corporate governance issues**					
24.1	Lack of integrity and ethics among boards is a major issue					

[39] Board of director who are outsiders/not part of Management

24.2	Lack of integrity and ethics among top management is a major issue					
24.3	Insider trading[40] is a major issue					
24.4	Conflict of interest of board of directors is a major issue					
24.5	Lack of proper balance between executive and non executive members in the board is a major issue					
24.6	Ineffective connectivity between board and management is a major issue					

Any comments and recommendations that you think will improve corporate governance practices:

……………………………………………………………………………………………………

………………………………………………………………………………………………………

………………………………………………………………………………………………………

……

[40] When share prices are artificially controlled for personal gain

Appendix 4.2d. Interview guide questions for the Board/Secretary/President

CG attribute	Questions to ask
Commitment to corporate governance	✓ Does your Bank have a charter or articles of incorporation according to country legislation, with provisions on: (i) the protection of shareholder rights and the equitable treatment of shareholders; (ii) distribution of authority between the Annual General Meeting of Shareholders, the Board of Directors and executive bodies, and (iii) information disclosure and transparency of the Bank's activities?
Implementation of corporate governance policies and practices	✓ Does your Bank have a code of best practices of corporate governance and/or policies? i. If yes, what is its general content and benefit or contribution to any improvement in operational and organizational efficiency? ii. If yes, does your bank's corporate governance practices conform to some established standards, then to which ones iii. If no, are you convinced of its importance and do you intend to craft it? ✓ How do you evaluate your Board? Is it policy, service provider or functional? ✓ How do you evaluate the National Bank of Ethiopia in playing its regulatory and supervisory role?
Structure	✓ How is the composition of the Board of Directors determined? ✓ Do you think that the current structure of boards (characteristics, composition, diversity, mix of skills/experience …) works well (serve the bank's interests) and is in favor of sound board processes? ✓ If not what do you think should be the right skill mix to make the best of boards? If no what is missing? ✓ Do you believe it is important to have both executive and non-executive directors on the board? ✓ Does the Bank have board nomination committee? How does it work? ✓ Do influential shareholders influence nomination and selection of board members?
Functioning of the Board of Directors	✓ Are board meetings considered as simply a formality or taken seriously by members? ✓ How do you describe the board room environment? How important are the board dynamics around the board room table? ✓ Strategy formulation is often considered to be the function of the board. What do you think is the involvement of the board in management operations? ✓ Are conflict of interest and malpractices serious problems?
Board compensation and Performance	✓ If there are as such nonexecutive and executive directors in the board, how do you explain the impact of executive and non-executive directors, as a requirement, on performance? ✓ Does the current level of remuneration of boards' impact on directors' performance?

Appendix 4.3. Sample Letter of Support

Appendix 4.3a. Sample Letter of Support

ADDIS ABABA UNIVERSITY
College of Business and Economics (CoBE)
Office of the Dean

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የቢዝነስና ኢኮኖሚክስ ኮሌጅ
ዲን ቢሮ

October 22, 2013
Ref.No.CoBE/DO/031/2006

<u>Commercial Bank of Ethiopia</u>

<u>Addis Ababa</u>

Ato Tsegabrhan Mekonen, a staff member of the Department of Management, College of Business and Economics of the Addis Ababa University, is undertaking a survey of board of directors and other stakeholders for his PhD study under the University of South Africa on the title "The Practices and Impacts of Corporate Governance Systems in Ethiopia: A comparative study of Private and Public banks".

I am, therefore, kindly requesting you and your good office to provide Ato Tsegabrhan all the necessary support in collecting his data. The College cordially extends its appreciation for the support provided to Ato Tsegabrhan.

Best regards,

Tassew Woldehanna (Dr.)
Dean of CoBE

Tel. 011-1-229231 011-1-229599 Ext. 117 Fax: 251-011-1-22-37-82

Appendix 4.3b Sample Letter of Support

ADDIS ABABA UNIVERSITY
College of Business and Economics (CoBE)
Office of the Dean

አዲስ አበባ ዩኒቨርሲቲ
የቢዝነስና ኢኮኖሚክስ ኮሌጅ
ዲን ቢሮ

October 21, 2013
Ref.No.CoBE/DO/031/2006

Office of the Speaker of the House of Peoples' Representatives

Addis Ababa

Ato Tsegabrhan Mekonen, a staff member of the Department of Management, College of Business and Economics of the Addis Ababa University, is undertaking a survey of board of directors and other stakeholders for his PhD study under the University of South Africa on the title "The Practices and Impacts of Corporate Governance Systems in Ethiopia: A comparative study of Private and Public banks".

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Best regards,

Tassew Woldehanna (Dr.)
Dean of CoBE

Tel. 011-1-229231 011-1-229599 Ext. 117 Fax: 251-011-1-22-37-82

Appendix 4.3c. Sample Letter of Support

ADDIS ABABA UNIVERSITY
College of Business and Economics (CoBE)
Office of the Dean

አዲስ አበባ ዩኒቨርሲቲ
የቢዝነስና ኢኮኖሚክስ ኮሌጅ
ዲን ቢሮ

October 21, 2013
Ref.No.CoBE/DO/031/2006

United Bank
Addis Ababa

Ato Tsegabrhan Mekonen, a staff member of the Department of Management, College of Business and Economics of the Addis Ababa University, is undertaking a survey of board of directors and other stakeholders for his PhD study under the University of South Africa on the title "The Practices and Impacts of Corporate Governance Systems in Ethiopia: A comparative study of Private and Public banks".

I am, therefore, kindly requesting you and your good office to provide Ato Tsegabrhan all the necessary support in collecting his data. The College cordially extends its appreciation for the support provided to Ato Tsegabrhan.

Best regards,

Tassew Woldehanna (Dr.)
Dean of CoBE

Tel. 011-1-229231 011-1-229599 Ext. 117 Fax: 251-011-1-22-37-82

Appendix 4.4. Summary of returned questionnaires (cases) together with their identification numbers.

<table>
<tr><th rowspan="3">Banks</th><th colspan="7">Respondents Category</th></tr>
<tr><th colspan="2">BOD and President</th><th colspan="2">MP/Shareholders</th><th colspan="2">Employees</th><th>Remark</th></tr>
<tr><th>Returned</th><th>Ques. No</th><th>Returned</th><th>Ques. No</th><th>Returned</th><th>Ques. No</th><th></th></tr>
<tr><td>CBE</td><td>8</td><td>83-88, 93,102</td><td rowspan="3">51</td><td rowspan="3">80-123 305-311</td><td>16</td><td>132-147</td><td></td></tr>
<tr><td>CBB</td><td>6</td><td>89,90,96, 98,99,103</td><td>22</td><td>148-167</td><td></td></tr>
<tr><td>DBE</td><td>7</td><td>91,92,94, 95,101,104,106</td><td>22</td><td>168-190</td><td></td></tr>
<tr><td>Awash</td><td>9</td><td>1-7,81,99</td><td>8</td><td>1-8</td><td>7</td><td>191-197</td><td></td></tr>
<tr><td>Dashen</td><td>5</td><td>8-12</td><td>7</td><td>9-15</td><td>8</td><td>198-205</td><td></td></tr>
<tr><td>Abyssinia</td><td>8</td><td>13-20</td><td>9</td><td>16-24</td><td>5</td><td>206-210</td><td></td></tr>
<tr><td>Wegagen</td><td>8</td><td>21-28</td><td>16</td><td>25-40</td><td>15*</td><td>211-224, 312*</td><td></td></tr>
<tr><td>United</td><td>8</td><td>29-36</td><td>12</td><td>41-53</td><td>8</td><td>225-232</td><td></td></tr>
<tr><td>NIB</td><td>7</td><td>37-42,100</td><td>11</td><td>54-63, 80*</td><td>14</td><td>233-246</td><td></td></tr>
<tr><td>CBO</td><td>4</td><td>43-46</td><td></td><td></td><td>6</td><td>247-252</td><td></td></tr>
<tr><td>LIB</td><td>10</td><td>47-56</td><td>16</td><td>64-79</td><td>14</td><td>253-266</td><td></td></tr>
<tr><td>Zemen</td><td>7</td><td>57-61,65,82</td><td></td><td></td><td>6</td><td>267-272</td><td></td></tr>
<tr><td>OIB</td><td>6</td><td>62-68</td><td></td><td></td><td>5</td><td>273-276</td><td></td></tr>
<tr><td>Bunna</td><td>3</td><td>69-71</td><td></td><td></td><td>8</td><td>277-284</td><td></td></tr>
<tr><td>Berhane</td><td>2</td><td>80,105</td><td></td><td></td><td>5</td><td>285-289</td><td></td></tr>
<tr><td>Abay</td><td>3</td><td>72-74</td><td></td><td></td><td>6</td><td>290-295</td><td></td></tr>
<tr><td>Addis</td><td>5</td><td>75-79</td><td></td><td></td><td>9</td><td>296-304</td><td></td></tr>
<tr><td>NBE</td><td></td><td></td><td></td><td></td><td>5</td><td>124-128</td><td></td></tr>
<tr><td>PFEA</td><td></td><td></td><td></td><td></td><td>3</td><td>129-131</td><td></td></tr>
<tr><td>Total</td><td>106 (69%)</td><td></td><td>130**</td><td></td><td>183</td><td></td><td></td></tr>
<tr><td rowspan="2">Grand Total</td><td>Distributed</td><td>556</td><td colspan="2" rowspan="2">Stakeholders (Shareholders, MPs, employees, NBE, PFEA)</td><td>Distributed</td><td colspan="2">402</td></tr>
<tr><td>Returned</td><td>419 (75%)</td><td>Returned</td><td colspan="2">313 (78%)</td></tr>
</table>

***** Not properly filled; **130**** = 79 shareholders and 51 MPs

Appendix 4.5. Ethical Clearance

Graduate School of Business Leadership, University of South Africa PO Box 392, Unisa, 0003, South Africa
Cnr Janadel and Alexandra Avenue, Midrand, 1685, Tel: +27 11 652 0000, Fax: 011 652 0299
Website: www.sblunisa.ac.za

12 December 2013

Ref: # 2013_DBL_001 [CN: Addis Ababa]

GRADUATE SCHOOL OF BUSINESS LEADERSHIP RESEARCH ETHICS REVIEW COMMITTEE (SBL RERC)

Mr Tsegabrhan Mekonen Wubie: student researcher [tsega64@yahoo.com]
Dr Fenta Mandefro Abate: Supervisor [fenfet@gmail.com]

This is to certify that the researcher,
Mr Tsegabrhan Mekonen Wubie (student # 72240318)
declared that he complied with the ethical requirements stipulated by the Unisa Policy on Research Ethics during the conduct and reporting of the following study in the fulfilment of a Doctoral Degree in Business Leadership:

The Practices and Impacts of Corporate Governance Systems in Ethiopia: A comparative study of Private and Public Banks

This compliance notification has been considered by a sub-committee of the Research Ethics Review Committee of the Graduate School of the Business Leadership, Unisa on 11 December 2013 and found to be acceptable. The decision will be submitted to the SBL RERC for ratification on 30 January 2014.

Kind regards,

RVisagie

Dr RG Visagie
Chairperson of the Research Ethics Review Committee, GSBL, UNISA
+2712-429 2478/ Visagrg@unisa.ac.za

Appendix 5.1. Summary of number of missing data by Variable

Variables	Missing data		Variables	Missing data		Variables	Missing data	
	Count	Percent		Count	Percent		Count	Percent
SComp_1	0	.0	**PrCd_3**	0	.0	**SerNw_7**	2	1.9
SComp_2	0	.0	**PrCd_4**	1	.9	**SerSp_1**	0	.0
SComp_3	3	2.8	**PrCd_5**	0	.0	**SerSp_2**	0	.0
SComp_4	2	1.9	**PrCd_6**	0	.0	**SerSp_3**	1	.9
SComp_5	0	.0	**PrCd_7**	0	.0	**SerSp_4**	0	.0
SComp_6	1	.9	**PrBrm_1**	0	.0	**SerSp_5**	1	.9
SComp_7	0	.0	**PrBrm_2**	0	.0	**SerSp_6**	0	.0
SComp_8	0	.0	**PrBrm_3**	0	.0	**SerSp_7**	0	.0
SComp_9	4	3.8	**PrBrm_4**	0	.0	**SerSp_8**	2	1.9
SComp_10	2	1.9	**PrBrm_5**	0	.0	**BCont_1**	1	.9
SComp_11	0	.0	**PrBrm_6**	0	.0	**BCont_2**	1	.9
SBInd_1	1	.9	**PrBrm_7**	0	.0	**BCont_3**	0	.0
SBInd_2	1	.9	**PrBrm_8**	0	.0	**BCont_4**	0	.0
SBInd_3	2	1.9	**PrBrm_9**	0	.0	**BCont_5**	0	.0
SComm_1	0	.0	**SerAd_1**	0	.0	**BCont_6**	0	.0
SComm_2	1	.9	**SerAd_2**	1	.9	**BCont_7**	2	1.9
SComm_3	0	.0	**SerAd_3**	0	.0	**OCont_1**	1	.9
SComm_4	0	.0	**SerAd_4**	0	.0	**OCont_2**	0	.0
SComm_5	0	.0	**SerAd_5**	0	.0	**OCont_3**	0	.0
PrC_1	0	.0	**SerAd_6**	1	.9	**OCont_4**	0	.0
PrC_2	0	.0	**SerAd_7**	5	4.7	**OCont_5**	0	.0
PrC_3	0	.0	**SerNw_1**	0	.0	**OCont_6**	5	4.7
PrC_4	0	.0	**SerNw_2**	0	.0	**SCont_1**	0	.0
PrC_5	0	.0	**SerNw_3**	2	1.9	**SCont_2**	0	.0
PrC_6	0	.0	**SerNw_4**	2	1.9	**SCont_3**	0	.0
PrCd_1	1	.9	**SerNw_5**	1	.9	**SCont_4**	0	.0
PrCd_2	0	.0	**SerNw_6**	0	.0			

There are no variables with 5% or more missing values.

Appendix 5.2. Summary of number of missing data by cases

Cases	Missing data		Cases	Missing data		Cases	Missing data		Cases	Missing data	
	Count	Percent		Count	Percent		Count	Percent		Count	Percent
1	0	.0	**28**	0	.0	**55**	1	1.3	**82**	4	5.0
2	0	.0	**29**	0	.0	**56**	0	.0	**83**	1	1.3
3	0	.0	**30**	0	.0	**57**	0	.0	**84**	2	2.5
4	0	.0	**31**	0	.0	**58**	0	.0	**85**	1	1.3
5	0	.0	**32**	0	.0	**59**	0	.0	**86**	1	1.3
6	0	.0	**33**	0	.0	**60**	0	.0	**87**	0	.0
7	0	.0	**34**	0	.0	**61**	1	1.3	**88**	4	5.0
8	0	.0	**35**	0	.0	**62**	0	.0	**89**	0	.0
9	0	.0	**36**	0	.0	**63**	0	.0	**90**	0	.0
10	0	.0	**37**	0	.0	**64**	0	.0	**91**	1	1.3
11	0	.0	**38**	0	.0	**65**	2	2.5	**92**	0	.0
12	1	1.3	**39**	0	.0	**66**	1	1.3	**93**	1	1.3
13	0	.0	**40**	0	.0	**67**	0	.0	**94**	0	.0
14	0	.0	**41**	0	.0	**68**	1	1.3	**95**	0	.0
15	0	.0	**42**	0	.0	**69**	0	.0	**96**	5	6.3
16	0	.0	**43**	0	.0	**70**	0	.0	**97**	7	8.8
17	0	.0	**44**	0	.0	**71**	0	.0	**98**	1	1.3
18	0	.0	**45**	0	.0	**72**	0	.0	**99**	0	.0
19	0	.0	**46**	0	.0	**73**	1	1.3	**100**	0	.0
20	0	.0	**47**	0	.0	**74**	0	.0	**101**	1	1.3
21	0	.0	**48**	0	.0	**75**	1	1.3	**102**	1	1.3
22	0	.0	**49**	1	1.3	**76**	1	1.3	**103**	0	.0
23	0	.0	**50**	0	.0	**77**	1	1.3	**104**	0	.0
24	0	.0	**51**	0	.0	**78**	0	.0	**105**	0	.0
25	0	.0	**52**	0	.0	**79**	0	.0	**106**	1	1.3
26	0	.0	**53**	0	.0	**80**	0	.0			
27	0	.0	**54**	0	.0	**81**	0	.0			

There are no cases with 10% or more missing values.

Appendix 5.3. Mahalanobis D^2 Distance Multivariate Outlier Test Results (df = 80)

Case	D^2	D^2/df	Case	D^2	D^2/df	Case	D^2	D^2/df	Case	D^2	D^2/df
36	96	1	15	86	1	91	80	0	8	74	0
66	94	1	99	86	1	50	79	0	54	74	0
16	94	1	53	86	1	27	79	0	25	74	0
19	93	1	62	86	1	73	79	0	104	73	0
82	92	1	85	85	1	30	79	0	106	73	0
90	91	1	11	85	1	2	79	0	26	73	0
29	91	1	51	85	1	101	79	0	94	72	0
69	90	1	20	85	1	46	79	0	13	71	0
72	90	1	35	85	1	31	78	0	83	71	0
59	90	1	75	84	1	6	78	0	17	70	0
71	90	1	10	84	1	1	78	0	87	69	0
52	90	1	74	84	1	38	78	0	60	69	0
34	90	1	102	83	1	5	77	0	84	69	0
37	90	1	22	83	1	43	77	0	100	68	0
79	90	1	76	83	1	80	77	0	33	66	0
78	90	1	42	82	1	105	76	0	32	66	0
68	89	1	58	82	1	7	76	0	65	65	0
14	89	1	49	82	1	24	76	0	40	61	0
98	88	1	28	82	1	41	76	0	56	60	0
21	88	1	70	81	1	55	75	0	95	60	0
97	88	1	93	81	1	44	75	0	45	59	0
63	88	1	39	81	1	103	75	0	86	57	0
67	88	1	12	81	1	88	75	0	4	56	0
3	88	1	9	81	1	77	75	0	89	52	0
23	87	1	96	80	1	64	75	0	57	51	0
48	87	1	18	80	1	92	75	0			
47	86	1	61	80	0	81	74	0			

df (degree of freedom) = 80

Appendix 5.4. Independent sample t-test for non-response bias (First order latent variables)

First order latent variables	**t-test for Equality of Means**						
	t	**df**	**Sig. (2-tailed)**	**Composite Index (mean of LV)**			**Std. Error Difference**
				Early	Late	Mean Difference	
SComp (Board composition)	-0.398	56	0.692	3.58	3.63	-0.05	0.13
SBInd (Board Independence)	1.291	61	0.202	4.10	3.85	-0.05	0.13
Committee function (SComm)	-0.176	62	0.860	3.99	4.02	-0.03	0.14
Board Process – Commitment (PrCom)	2.221	63	0.030	3.95	3.62	0.33	0.15
Board Process – Critical debate (PrCd)	0.284	62	0.777	3.48	3.44	0.04	0.13
Process- Boardroom atmosphere (PrBrA)	0.681	63	0.499	4.06	3.95	0.11	0.16
Board Service role- Advising (SerAd)	-0.663	57	0.510	3.86	3.96	-0.10	0.15
Board Service role- Networking (SerNw)	-0.955	61	0.343	3.38	3.55	-0.17	0.18
Board Service role- Strategic participation (SerSp)	0.222	62	0.825	4.06	4.02	0.04	0.17
Board control role (BCont)	0.121	62	0.904	3.44	3.42	0.02	0.15
Output control role (OCont)	0.573	56	0.569	3.86	3.80	0.07	0.12
Strategic control role (SCont)	0.188	63	0.851	4.02	3.99	0.03	0.16

Appendix 7. Ownership and control structure

Appendix 7.1a. Ownership and control structure of private banks by Sample one

Characteristics	Frequency	Valid %	Cumulative %
largest shareholders control bank with substantial voting right	34	41	41
largest shareholders control with voting right <5%	5	6	47
at least two large shareholders control bank	8	9	55
Ownership diffused	37	44	100
Missing	1		
Total	**85**		

Appendix 7.1b. Ownership and control structure of private banks evaluated by Sample two

Characteristics	Frequency	Valid %	Cumulative %
largest shareholders control bank with substantial voting right	38	51.4	51.4
largest shareholders control with voting right <5%	14	18.9	70.3
at least two large shareholders control bank	14	18.9	89.2
Ownership diffused	8	10.8	**100**
Missing	5		
Total	**79**		

Appendix 7.1c. Ownership and control structure of private banks (Sample one and two)

Characteristics	Frequency	Valid %	Cumulative %
largest shareholders control bank with substantial voting right	72	45.6	45.6
largest shareholders control with voting right <5%	19	12	57.6
at least two large shareholders control bank	22	13.9	71.5
Ownership diffused	45	28.5	**100**
Missing	6		
Total	**164**		

Appendix 7.2. Boards' power, access to information, and remunerations

Characteristics	Yes		No		Missing	
Who has the strongest influence in the selection and dismissal of non executive board of directors?*	**#**	**%**		**%**	**#**	**%**
Board of directors	57	54	46	43	3	3
Nomination committee	10	9	92	87	4	4
President/CEO	12	11	91	86	3	3
Controlling owner with input from board	56	53	47	44	3	3
Others as NBE, AGM	22	21	79	75	5	5
Who influences removal and appointment a president/CEO*	**Yes**		**No**		**Missing**	
	#	**%**	**#**	**%**	**#**	**%**
Board of directors	96	91	10	9		
Nomination committee	3	3	103	97		
Controlling owner with input from board	28	26	77	73	1	1

Others as NBE	7	7	98	93		

Boards' access to information	**Often**	**Sometimes**	**Rarely**	**Never**	**Missing**
Boards' access to information made through meetings with managers and workers	39 (37%)	49 (46%)	18 (17%)	-	-
	No restriction	**Somewhat limited**	**Very limited**	**Missing**	
Boards' access to business records and books of account	82 (77%)	16 (15%)	8 (8%)	-	
	Very much so	**Not always**	**Rarely**	**Missing**	
Issuing information in time before every board meeting	79 (75%)	21 (20%)	5 (5%)	1 (1%)	

	Yes		**No**		**Missing**	
Remuneration sufficient enough to attract, retain, and motivate:	#	%	#	%	#	%
Board members	11	10	94	89	1	1
Qualified senior management	69	65	36	43	1	1
Remuneration of senior management is linked to performance	50	47	55	52	1	1

* More than one chosen

Appendix 7.3. General corporate governance practices

Characteristics	**Much better**	**Slightly better**	**Same**	**Slightly worse**	**Much worse**	**Misi ng**
Status of corporate governance in your bank compared with other banks	38(36%)	30(28%)	32(30%)	3(3%)	1 (1%)	2
Bank's current corporate governance practices compared with those of the previous years	50(54%)	35(33%)	17(16%)	2(2%)	1 (1%)	2
	Very good	**Good**	**Satisfa ctory**	**Poor**	**Very poor**	**Mis.**
Evaluation of board in light of individual and group experience, effectiveness, approach to run the bank	26(25%)	61(58%)	14(13%)	2(2%)	2 (2%)	1
	Every 2 weeks	**Every month**	**Every 3 months**	**Every week**	**Missing**	
Frequency of board meetings	43(41%)	42(40%)	6(6%)	1(1%)	1 (1%)	
Average attendance rate per year	**90-100%**	**75-89%**	**60-74%**	**50-59%**	**Below50%**	**Mis.**
	66(62%)	34(32%)	3(3%)	-	1 (1%)	2
Size of board	**Too large**	**To small**	**Ideal**	**7**	**9**	
	14(13%)	7(7%)	85(80%)	5(5%)	15 (14%)	

Document adhered to in the appointment of boards*	**Yes**		**No**		**Missing**	
	#	**%**	**#**	**%**	**#**	**%**
Commercial code	55	52	47	449	4	4
NBE requirements	103	97	2	2	1	1
Company policy	26	25	79	75	1	1
Code of corporate governance	17	16	84	79	4	4

	Yes		No		Missing	
Presence of Board committee	#	%	#	%	#	%
Audit committee	106	100	-	-	-	-
Nomination committee	10	9	96	91	-	-
Remuneration committee	19	18	86	81	1	1
	Control role		**Service role**		**Strategic role**	
Board roles that mainly characterizes the Ethiopian board of directors*	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
	85 (80%)	21 (20%)	41(39%)	65 (61%)	67(63%)	39 (37%)
Approach that would work better to promote good corporate governance practices in the Ethiopian banks	**Prescriptive**		**Non-prescriptive**		**Mixed**	
	#	%	#	%	#	%
	15	14	5	5	86	81

* More than one item chosen

Appendix 7.4. The rights, equitable treatment and obligations of shareholders

Appendix 7.4a. Aggregates of sample one and shareholders' perceptions on the rights and equitable treatment of shareholders

Characteristics	**Yes**		**No**	
	#	%	#	%
Deviation from one-share one-vote rule	10	6	154	94
Voting by mail allowed	2	1	162	99
Voting by proxy allowed	120	74	43	26
Adequate time given for questions at shareholders meetings	126	79	34	21
Shareholders' priority subscription rights protected	153	95	8	5
Equitable treatment of shareholders practiced	107	77	53*	33
Candidates disclosed before shareholders' meetings	22	14	137	86
Large shareholders nominate candidates at the shareholders' meetings	115	72	45	28

*Not fully

Appendix 7.4b. Aggregates of samples one and shareholders perceptions' on the rights and obligations

Characteristics	**Yes**		**Majority know**		**Only few know**	
	#	%		%	#	%
Shareholder know their rights and obligations	55	34	78	48	30	18
Those who know their rights freely exercise it in AGM in matters such as voting and profit sharing	**Yes**		**No**		**Sometimes**	
	#	%	#	%	#	%
	104	73	6	4	32	23

Appendix 7.5. Aggregates of samples one and two on disclosure and transparency of private and public banks

Characteristics	**Yes**		**No**	
	#	%	#	%
Governance structures	354	87	55	13
Explicit corporate governance rules	268	66	137	34
Vision, missions, and values	398	96	15	4
financial performances	390	95	21	5
Audited annual reports	385	94	25	6
Resume or background of directors	237	58	172	42
Members of board sub committees	256	63	152	37

Appendix 7.6. Relative importance of stakeholders in improving corporate governance

Appendix 7.6a. Aggregates of samples one & two respondents on the relative importance of stakeholder in improving corporate governance

Stakeholders	Levels												
	1		2		3		4		5		6		Missing
	#	%	#	%	#	%	#	%	#	%	#	%	#
Media	63	16	40	10	61	16	71	18	85	22	71	18	26
Chamber of commerce	12	3	49	13	81	21	92	24	90	23	65	17	28
Professional society	40	10	83	21	100	26	91	23	46	12	31	8	26
Financial supervisory agencies	224	55	100	25	48	12	18	4	9	2	7	2	11
The judiciary	35	9	54	14	69	18	61	16	79	20	89	23	30
Non executive board of directors	74	19	81	21	44	12	30	8	45	12	107	28	36

Appendix 7.6b. Kruskal-Wallis test of perceptions in regard to the relative importance of stakeholders in improving corporate governance

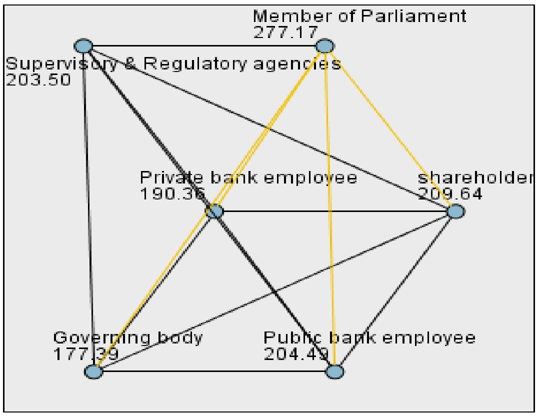
Test Statistics[a,b]

	Media_1	Chamber_2	ProfSoc_3	SupAg_4	Judi_5	NEboard_6
Chi-Square	10.617	13.897	13.252	31.105	10.978	15.874
df	5	5	5	5	5	5
Asymp. Sig.	.060	.016	.021	.000	.052	.007

a. Kruskal Wallis Test
b. Grouping Variable: Stkhol

Appendix 7.6c. Sample of pairwise comparison for the financial supervisory and regulatory agencies as stakeholder in improving corporate governance

Pairwise Comparisons of Stakeholder type



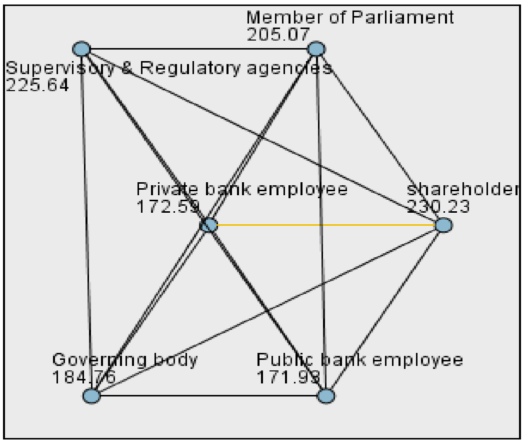
Each node shows the sample average rank of Stakeholder type.

Sample1-Sample2	Test Statistic	Std. Error	Std. Test Statistic	Sig.	Adj.Sig.
Governing body-Private bank employee	12.970	14.482	.896	.370	1.000
Governing body-Supervisory & Regulatory agencies	26.113	38.850	.672	.501	1.000
Governing body-Public bank employee	27.104	17.307	1.566	.117	1.000
Governing body-shareholder	32.257	16.034	2.012	.044	.664
Governing body-Member of Parliament	99.786	18.392	5.425	.000	.000
Private bank employee-Supervisory & Regulatory agencies	-13.143	38.724	-.339	.734	1.000
Private bank employee-Public bank employee	-14.134	17.022	-.830	.406	1.000
Private bank employee-shareholder	19.288	15.726	1.227	.220	1.000
Private bank employee-Member of Parliament	-86.816	18.124	-4.790	.000	.000
Supervisory & Regulatory agencies-Public bank employee	.992	39.867	.025	.980	1.000
Supervisory & Regulatory agencies-shareholder	6.145	39.331	.156	.876	1.000
Supervisory & Regulatory agencies-Member of Parliament	73.673	40.349	1.826	.068	1.000
Public bank employee-shareholder	5.153	18.360	.281	.779	1.000
Public bank employee-Member of Parliament	72.682	20.452	3.554	.000	.006
shareholder-Member of Parliament	-67.529	19.386	-3.483	.000	.007

Each row tests the null hypothesis that the Sample 1 and Sample 2 distributions are the same.
Asymptotic significances (2-sided tests) are displayed. The significance level is .01.

Appendix 7.6d. Sample of pairwise comparison for the non-executive boards as stakeholder in improving corporate governance

Pairwise Comparisons of Stakeholder type



Each node shows the sample average rank of Stakeholder type.

Sample1-Sample2	Test Statistic	Std. Error	Std. Test Statistic	Sig.	Adj.Sig.
Public bank employee-Private bank employee	.660	17.777	.037	.970	1.000
Public bank employee-Governing body	-12.827	18.195	-.705	.481	1.000
Public bank employee-Member of Parliament	33.144	21.201	1.563	.118	1.000
Public bank employee-Supervisory & Regulatory agencies	-53.714	43.210	-1.243	.214	1.000
Public bank employee-shareholder	58.303	19.386	3.007	.003	.040
Private bank employee-Governing body	-12.167	15.237	-.798	.425	1.000
Private bank employee-Member of Parliament	-32.484	18.724	-1.735	.083	1.000
Private bank employee-Supervisory & Regulatory agencies	-53.054	42.050	-1.262	.207	1.000
Private bank employee-shareholder	57.643	16.642	3.464	.001	.008
Governing body-Member of Parliament	20.318	19.121	1.063	.288	1.000
Governing body-Supervisory & Regulatory agencies	40.888	42.228	.968	.333	1.000
Governing body-shareholder	45.477	17.087	2.662	.008	.117
Member of Parliament-Supervisory & Regulatory agencies	-20.570	43.608	-.472	.637	1.000
Member of Parliament-shareholder	25.159	20.258	1.242	.214	1.000
Supervisory & Regulatory agencies-shareholder	4.589	42.755	.107	.915	1.000

Each row tests the null hypothesis that the Sample 1 and Sample 2 distributions are the same.
Asymptotic significances (2-sided tests) are displayed. The significance level is .01.

Appendix 7.6e. Ranks of respondents on the relative importance of stakeholders in improving corporate governance

	Stkhol	N	Mean Rank
Media_1	shareholder	74	196.26
	Private bank employee	111	195.62
	Member of Parliament	47	155.13
	Public bank employee	59	203.02
	Supervisory & Regulatory agencies	8	156.00
	Governing bodies	92	216.11
	Total	391	
Chamber_2	shareholder	72	193.31
	Private bank employee	110	189.75
	Member of Parliament	47	160.47
	Public bank employee	59	181.08
	Supervisory & Regulatory agencies	8	222.63
	Governing bodies	93	226.42
	Total	389	
ProfSoc_3	shareholder	71	167.30
	Private bank employee	110	213.50
	Member of Parliament	47	166.29
	Public bank employee	57	201.07
	Supervisory & Regulatory agencies	8	246.25
	Governing bodies	98	204.34
	Total	391	
SupAg_4	shareholder	76	208.91
	Private bank employee	112	192.27
	Member of Parliament	49	276.31
	Public bank employee	59	203.77
	Supervisory & Regulatory agencies	8	202.75
	Governing bodies	102	176.72
	Total	406	
Judi_5	shareholder	72	157.04
	Private bank employee	110	203.67
	Member of Parliament	47	211.59
	Public bank employee	56	198.92
	Supervisory & Regulatory agencies	8	172.50
	Governing bodies	94	201.10
	Total	387	
NEboard_6	shareholder	69	230.23
	Private bank employee	107	172.59
	Member of Parliament	48	205.07
	Public bank employee	56	171.93
	Supervisory & Regulatory agencies	7	225.64
	Governing bodies	94	184.76
	Total	381	

Appendix 7.7. Preventing the influence of controlling owners

Appendix 7.7a. Aggregates of samples one and two perceptions in preventing influence of controlling owners

Characteristics	Levels												
	1		2		3		4		5		6		Missing
	#	%	#	%	#	%	#	%	#	%	#	%	#
minority shareholders	34	9	34	9	67	17	76	20	105	27	71	18	30
Institutional investors	30	8	48	12	83	21	110	28	81	21	35	9	30
Outside (non-executive) board of directors	42	11	76	19	95	24	77	20	60	15	42	11	25
Financial supervisory agencies	205	52	111	28	37	9	25	6	9	2	12	3	17
Labor unions or employees	15	4	27	7	51	14	46	12	58	16	177	48	42
The legal system	106	27	111	28	69	17	36	9	49	12	25	6	21

Appendix 7.7b. Kruskal-Wallis test of perceptions in preventing the influence of controlling owners

Test Statistics[a,b]

	MnrtySH_1	InstInves_2	OutsBOD_3	FSagen_4	Unions_5	LegalS_6
Chi-Square	32.037	3.324	9.501	18.945	32.929	10.469
df	5	5	5	5	5	5
Asymp. Sig.	.000	.650	.091	.002	.000	.063

a. Kruskal Wallis Test
b. Grouping Variable: Stkhol

Appendix 7.7c. Ranks of perceptions in preventing the influence of controlling owners

	Stkhol	N	Mean Rank
MnrtySH_1	shareholder	74	154.60
	Private bank employee	110	194.15
	Member of Parliament	48	232.58
	Public bank employee	56	230.99
	Supervisory & Regulatory agencies	8	296.69
	Governing bodies	91	173.72
	Total	387	
InstInves_1	shareholder	75	196.70
	Private bank employee	107	190.00
	Member of Parliament	48	212.09
	Public bank employee	56	194.59
	Supervisory & Regulatory agencies	8	231.81
	Governing bodies	93	183.48
	Total	387	
OutsBOD_3	shareholder	73	220.79
	Private bank employee	110	195.37
	Member of Parliament	48	216.49
	Public bank employee	58	172.62
	Supervisory & Regulatory agencies	8	154.75
	Governing bodies	95	187.14
	Total	392	
FSagen_4	shareholder	76	199.39
	Private bank employee	113	181.51
	Member of Parliament	48	258.43
	Public bank employee	58	207.14
	Supervisory & Regulatory agencies	8	195.88

	Governing bodies	97	191.24
	Total	400	
Unions_5	shareholder	74	206.86
	Private bank employee	102	182.87
	Member of Parliament	48	132.04
	Public bank employee	55	175.17
	Supervisory & Regulatory agencies	8	113.56
	Governing bodies	88	223.40
	Total	375	
LegalS_6	shareholder	75	210.11
	Private bank employee	112	201.50
	Member of Parliament	48	162.00
	Public bank employee	58	202.11
	Supervisory & Regulatory agencies	8	123.25
	Governing bodies	95	208.38
	Total	396	

Appendix 7.8. Relative effectiveness of tasks for better corporate governance

Appendix 7.8a. Aggregate of samples one & two perceptions on relative effectiveness of tasks for better corporate governance

Characteristics	Levels														
	1		2		3		4		5		6		7		Missing
	#	%	#	%	#	%	#	%	#	%	#	%		%	#
Internal CG mechanism for better CG	162	41	82	21	57	14	37	9	29	7	9	2	20	5	21
external CG mechanism for better CG	55	14	78	20	74	19	80	20	51	13	38	10	16	4	25
Enhancing the standards of accounting, audit and disclosure	46	12	86	22	74	19	71	18	52	13	27	7	35	9	26
Introducing code of corporate governance	126	32	82	21	77	20	48	12	36	9	18	5	7	2	23
Conducting and publicizing corporate governance ratings of banks	26	7	47	12	49	13	70	18	90	23	49	13	58	15	28
Tightly controlling some types of related-party transactions	15	4	36	9	34	9	34	9	65	17	127	33	71	19	35
Reducing ownership concentration	36	10	24	6	31	8	32	9	49	13	79	21	126	34	40

Appendix 7.8b. Kruskal-Wallis Test of perceptions of effectiveness of tasks for better corporate governance

Test Statistics[a,b]

	IntCG_1	ExtCG_2	Stds_3	CCG_4	CGrating_5	RPT_6	Ownconc_7
Chi-Square	2.780	6.184	22.765	6.187	11.684	14.629	34.164
df	5	5	5	5	5	5	5
Asymp. Sig.	.734	.289	.000	.288	.039	.012	.000

a. Kruskal Wallis Test

b. Grouping Variable: Stkhol

Appendix 7.8c. Ranks of perceptions of effectiveness of tasks for better corporate governance

	Stkhol	N	Mean Rank
IntCG_1	shareholder	74	212.32
	Private bank employee	110	199.59
	Member of Parliament	47	186.61
	Public bank employee	59	196.22
	Supervisory & Regulatory agencies	8	228.81
	Governing bodies	98	191.44
	Total	396	
ExtCG_2	shareholder	74	219.43
	Private bank employee	109	188.89
	Member of Parliament	46	207.95
	Public bank employee	59	182.92
	Supervisory & Regulatory agencies	8	154.25
	Governing bodies	96	193.84
	Total	392	
Stds_3	shareholder	73	186.48
	Private bank employee	110	221.39
	Member of Parliament	46	132.77
	Public bank employee	58	202.52
	Supervisory & Regulatory agencies	8	156.13
	Governing bodies	96	203.83
	Total	391	
CCG_4	shareholder	72	222.32
	Private bank employee	112	181.65
	Member of Parliament	46	200.03
	Public bank employee	59	201.54
	Supervisory & Regulatory agencies	8	205.13
	Governing bodies	97	193.09
	Total	394	
CGrating_5	shareholder	73	202.10
	Private bank employee	109	178.26
	Member of Parliament	45	197.16
	Public bank employee	59	183.83
	Supervisory & Regulatory agencies	8	124.63
	Governing bodies	95	220.59
	Total	389	
RPT_6	shareholder	72	171.53
	Private bank employee	108	184.87
	Member of Parliament	45	233.99
	Public bank employee	57	217.39
	Supervisory & Regulatory agencies	7	192.14
	Governing bodies	93	178.19
	Total	382	
Ownconc_7	shareholder	72	173.60
	Private bank employee	105	167.90
	Member of Parliament	45	257.81
	Public bank employee	57	214.82
	Supervisory & Regulatory agencies	7	261.50
	Governing bodies	91	169.76
	Total	377	

Appendix 7.9 Aggregate of sample one and sample two results

Appendix 7.9a. Aggregate of sample one and sample two results of board evaluation, and corporate governance approaches

	Very good	Good	Satisfactory	Poor	Very poor	Mis.
Evaluation of board in light of individual and group experience, effectiveness, approach to run the bank	88(22%)	176(44%)	106(26%)	24(6%)	10 (3%)	13

	Control role		Service role		Strategic role	
	Yes	**No**	**Yes**	**No**	**Yes**	**No**
Board roles that mainly characterizes the Ethiopian board of directors*	333(80%)	81(20%)	124(30%)	289(70%)	206(50%)	208 (50%)
Approach that would work better to promote good corporate governance practices in the Ethiopian banks	**Prescriptive**		**Non-prescriptive**		**Mixed**	
	#	**%**	**#**	**%**	**#**	**%**
	66	16	26	6	316	78

Appendix 7.9b. Aggregate of samples one and sample two results regarding remuneration

	Yes		No		Missing	
Remuneration sufficient enough to attract, retain, and motivate:	#	%	#	%	#	%
Board members	128	32	271	68	18	4
Qualified senior management	251	62	153	37	13	3
Remuneration of senior management is linked to performance	184	46	217	54	16	4

Appendix 7.9c. Kruskal-Wallis test for board evaluation (BrdMR1.2) of samples one & two combined

Test Statistics[a,b]

	Evalua
Chi-Square	19.042
df	5
Asymp. Sig.	.002

a. Kruskal Wallis Test
b. Grouping Variable: Stkhol

Ranks

	Stkhol	N	Mean Rank
Evalua	Shareholder	77	201.76
	Private bank employee	108	196.97
	Member of Parliament	48	181.71
	Public bank employee	58	188.12
	Supervisory & Regulatory agencies	8	97.00
	Governing bodies	105	234.21
	Total	404	

Appendix 7.10. Sample-2 Tests of the general corporate practices, board–management relationships, corporate performance, strategic issues, board independence, board duty, and major governance issues of stakeholders' perceptions

Appendix 7.10a. Kruskal- Wallis Tests (Sample-2)

Test Statistics[a,b] - General corporate governance

	GCGpra_1	GCGpra _2	GCGpra _3	GCGpra _4	GCGpra _5	GCGpra _6
Chi-Square	6.314	16.379	12.140	25.885	9.844	7.019
df	4	4	4	4	4	4
Asymp. Sig.	.177	.003	.016	.000	.043	.135

a. Kruskal Wallis Test
b. Grouping Variable: Stkhol

Test Statistics[a,b] – Board-management relations

	BrdMR1.1	BrdMR1.2
Chi-Square	5.410	34.284
df	4	4
Asymp. Sig.	.248	.000

Test Statistics[a,b] - Corporate performance

	CorPrf_1	CorPrf_2	CorPrf_3	CorPrf_4	CorPrf_5	CorPrf_6
Chi-Square	11.311	26.389	.565	8.442	2.414	11.142
df	4	4	4	4	4	4
Asymp. Sig.	.023	.000	.967	.077	.660	.025

c. Kruskal Wallis Test
d. Grouping Variable: Stkhol

Test Statistics[a,b]: Strategic issue

	StrIss_1	StrIss_2	StrIss_3	StrIss_4	StrIss_5
Chi-Square	8.923	18.968	12.362	13.244	5.432
df	4	4	4	4	4
Asymp. Sig.	.063	.001	.015	.010	.246

e. Kruskal Wallis Test
f. Grouping Variable: Stkhol

Test Statistics[a,b] : Board Independence

	BrdInd_1	BrdInd_2	BrdInd_3
Chi-Square	59.863	87.452	3.663
df	5	5	3
Asymp. Sig.	.000	.000	.160

g. Kruskal Wallis Test
h. Grouping Variable: Stkhol

Test Statistics[a,b]: Board duty

	BrdDty_1	BrdDty_2	BrdDty_3	BrdDty_4	BrdDty_5	BrdDty_6	BrdDty_7
Chi-Square	7.438	2.439	14.693	22.734	3.356	12.559	2.596
df	4	4	4	4	4	4	4
Asymp. Sig.	.114	.656	.005	.021	.500	.014	.627

i. Kruskal Wallis Test
j. Grouping Variable: Stkhol

Test Statistics[a,b]: Corporate governance issues

	CGIssu_1	CGIssu_2	CGIssu_3	CGIssu_4	CGIssu_5	CGIssu_6
Chi-Square	31.915	30.320	35.533	37.743	30.564	33.738
df	4	4	4	4	4	4
Asymp. Sig.	.000	.000	.000	.000	.000	.000

k. Kruskal Wallis Test
l. Grouping Variable: Stkhol

Appendix 7.10b. Ranks

General corporate governance ranks

	Stkhol	N	Mean Rank
GCGpra_1	shareholder	78	164.20
	Private bank employee	114	163.74
	Member of Parliament	51	133.02
	Public bank employee	59	149.64
	Supervisory & Regulatory agencies	8	139.88
	Total	310	
GCGpra_2	shareholder	79	167.32
	Private bank employee	114	168.67
	Member of Parliament	51	118.48
	Public bank employee	59	153.01
	Supervisory & Regulatory agencies	8	124.88
	Total	311	
GCGpra_3	shareholder	79	143.71
	Private bank employee	113	171.01
	Member of Parliament	51	130.06
	Public bank employee	59	164.84
	Supervisory & Regulatory agencies	8	146.19
	Total	310	
GCGpra_4	shareholder	79	141.36
	Private bank employee	114	172.21
	Member of Parliament	51	112.52
	Public bank employee	58	182.64
	Supervisory & Regulatory agencies	8	134.31
	Total	310	
GCGpra_5	shareholder	79	147.72
	Private bank employee	114	170.11
	Member of Parliament	51	137.35
	Public bank employee	59	163.25
	Supervisory & Regulatory agencies	8	102.06
	Total	311	
GCGpra_6	shareholder	79	144.07
	Private bank employee	114	162.89
	Member of Parliament	51	145.75
	Public bank employee	59	172.68
	Supervisory & Regulatory agencies	8	118.06
	Total	311	
GCGpra_7	shareholder	78	139.22
	Private bank employee	114	168.79
	Member of Parliament	51	132.45
	Public bank employee	59	176.41
	Supervisory & Regulatory agencies	8	117.63
	Total	310	
GCGpra_8	shareholder	79	149.73
	Private bank employee	114	165.79
	Member of Parliament	47	131.70
	Public bank employee	58	159.71
	Supervisory & Regulatory agencies	8	98.69
	Total	306	
	Total	246	

Board- management relations ranks

	Stkhol	N	Mean Rank
BrdMR1.1	shareholder	79	148.42
	Private bank employee	114	157.50
	Member of Parliament	51	147.11
	Public bank employee	58	173.50
	Supervisory & Regulatory agencies	8	119.94
	Total	310	
BrdMR1.2	shareholder	79	152.38
	Private bank employee	113	169.63
	Member of Parliament	50	102.09
	Public bank employee	58	180.91
	Supervisory & Regulatory agencies	8	97.81
	Total	308	

Corporate performance ranks

	Stkhol	N	Mean Rank
CorPrf_1	shareholder	79	157.62
	Private bank employee	113	163.31
	Member of Parliament	50	118.62
	Public bank employee	57	160.59
	Supervisory & Regulatory agencies	8	160.88
	Total	307	
CorPrf_2	shareholder	79	158.18
	Private bank employee	114	162.16
	Member of Parliament	51	118.52
	Public bank employee	58	183.05
	Supervisory & Regulatory agencies	8	70.13
	Total	310	
CorPrf_3	shareholder	79	159.38
	Private bank employee	113	154.13
	Member of Parliament	51	153.68
	Public bank employee	57	148.84
	Supervisory & Regulatory agencies	8	157.13
	Total	308	
CorPrf_4	shareholder	79	142.44
	Private bank employee	114	154.07
	Member of Parliament	49	141.60
	Public bank employee	57	175.21
	Supervisory & Regulatory agencies	8	192.00
	Total	307	
CorPrf_5	shareholder	79	163.24
	Private bank employee	113	153.63
	Member of Parliament	51	141.61
	Public bank employee	58	159.49
	Supervisory & Regulatory agencies	8	145.75
	Total	309	
CorPrf_6	shareholder	79	140.04
	Private bank employee	114	166.23
	Member of Parliament	51	135.24
	Public bank employee	57	170.19
	Supervisory & Regulatory agencies	8	160.44
	Total	309	

Strategic issue ranks

	Stkhol	N	Mean Rank
StrIss_1	shareholder	79	145.88
	Private bank employee	114	151.61
	Member of Parliament	51	182.21
	Public bank employee	58	158.63
	Supervisory & Regulatory agencies	8	112.94
	Total	310	
StrIss_2	shareholder	79	145.41
	Private bank employee	114	141.05
	Member of Parliament	50	187.78
	Public bank employee	59	177.02
	Supervisory & Regulatory agencies	8	100.69
	Total	310	
StrIss_3	shareholder	78	147.76
	Private bank employee	114	149.44

	Member of Parliament	51	184.32
	Public bank employee	59	161.04
	Supervisory & Regulatory agencies	8	92.69
	Total	310	
StrIss_4	shareholder	79	154.85
	Private bank employee	114	143.42
	Member of Parliament	51	180.85
	Public bank employee	59	168.70
	Supervisory & Regulatory agencies	8	94.56
	Total	311	
StrIss_5	shareholder	78	154.78
	Private bank employee	114	144.54
	Member of Parliament	51	174.29
	Public bank employee	57	159.76
	Supervisory & Regulatory agencies	8	129.94
	Total	308	

Board independence ranks

	Stakeholder type	N	Mean Rank
BrdInd_1	shareholder	78	179.12
	Private bank employee	114	192.89
	Member of Parliament	51	138.62
	Public bank employee	58	244.13
	Supervisory & Regulatory agencies	8	135.44
	Governing bodies	105	263.16
	Total	414	
BrdInd_2	shareholder	79	163.49
	Private bank employee	114	199.14
	Member of Parliament	51	127.99
	Public bank employee	57	219.48
	Supervisory & Regulatory agencies	8	157.75
	Governing bodies	105	285.60
	Total	414	
BrdInd_3	shareholder	77	145.90
	Private bank employee	114	161.14
	Public bank employee	55	175.85
	Governing bodies	104	212.97
	Total	350	

`Board duty ranks

	Stkhol	N	Mean Rank
BrdDty_1	shareholder	79	146.47
	Private bank employee	114	160.50
	Member of Parliament	51	141.71
	Public bank employee	59	176.53
	Supervisory & Regulatory agencies	8	125.69
	Total	311	
BrdDty_2	shareholder	77	153.45
	Private bank employee	114	155.88
	Member of Parliament	51	140.73
	Public bank employee	58	164.84
	Supervisory & Regulatory agencies	8	157.75
	Total	308	
BrdDty_3	shareholder	77	135.50
	Private bank employee	114	173.47
	Member of Parliament	51	139.57
	Public bank employee	59	164.40
	Supervisory & Regulatory agencies	8	108.50
	Total	309	
BrdDty_4	shareholder	77	142.76
	Private bank employee	114	179.52
	Member of Parliament	51	119.03
	Public bank employee	57	154.15
	Supervisory & Regulatory agencies	8	120.38
	Total	307	
BrdDty_5	shareholder	77	141.53
	Private bank employee	114	162.04
	Member of Parliament	50	149.71
	Public bank employee	58	159.50
	Supervisory & Regulatory agencies	8	146.44

	Total	307	
BrdDty_6	shareholder	79	142.93
	Private bank employee	113	171.78
	Member of Parliament	51	136.49
	Public bank employee	56	157.61
	Supervisory & Regulatory agencies	8	98.50
	Total	307	
BrdDty_7	shareholder	79	148.41
	Private bank employee	112	158.88
	Member of Parliament	51	155.70
	Public bank employee	57	156.00
	Supervisory & Regulatory agencies	8	115.81
	Total	307	

Corporate governance issues ranks

	Stkhol	**N**	**Mean Rank**
CGIssu_1	shareholder	79	166.45
	Private bank employee	112	133.69
	Member of Parliament	51	207.71
	Public bank employee	59	131.95
	Supervisory & Regulatory agencies	8	174.31
	Total	309	
CGIssu_2	shareholder	79	163.83
	Private bank employee	112	132.11
	Member of Parliament	51	208.08
	Public bank employee	58	138.58
	Supervisory & Regulatory agencies	8	149.69
	Total	308	
CGIssu_3	shareholder	79	145.98
	Private bank employee	109	131.06
	Member of Parliament	50	210.15
	Public bank employee	53	137.16
	Supervisory & Regulatory agencies	8	156.81
	Total	299	
CGIssu_4	shareholder	78	162.72
	Private bank employee	111	131.41
	Member of Parliament	50	211.76
	Public bank employee	58	127.47
	Supervisory & Regulatory agencies	8	175.69
	Total	305	
CGIssu_5	shareholder	76	156.83
	Private bank employee	107	126.71
	Member of Parliament	51	199.25
	Public bank employee	54	138.11
	Supervisory & Regulatory agencies	8	107.44
	Total	296	
CGIssu_6	Shareholder	77	166.01
	Private bank employee	110	129.90
	Member of Parliament	51	203.45
	Public bank employee	56	127.21
	Supervisory & Regulatory agencies	8	147.75
	Total	302	

Appendix 8.1. Collinearity diagnostic and model summary

A- First order model

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.814[a]	.663	.639	.60384

a. Predictors: (Constant), PrCon, SComm, SBInd, SComp, PrCom, PrBrA, PrCog

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	70.267	7	10.038	27.530	.000[b]
	Residual	35.733	98	.365		
	Total	106.000	105			

a. Dependent Variable: Serole (Board control role)
b. Predictors: (Constant), PrCon, SComm, SBInd, SComp, PrCom, PrBrA, PrCog

Coefficients[a]

Model 1	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	2.576E-006	.059		.000	1.000		
SBInd	.062	.074	.062	.849	.398	.634	1.576
SComm	.039	.074	.039	.528	.599	.633	1.581
SComp	.243	.073	.243	3.352	.001	.654	1.529
PrCog	.165	.094	.165	1.744	.084	.386	2.587
PrBrA	.422	.094	.422	4.489	.000	.389	2.567
PrCom	.120	.093	.120	1.283	.202	.396	2.525
PrCon	.135	.065	.135	2.079	.040	.813	1.230

a. Dependent Variable: Serole (Board service role)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.846[a]	.716	.695	.55448

a. Predictors: (Constant), PrCon, SComm, SBInd, SComp, PrCom, PrBrA, PrCog

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
2	Regression	75.871	7	10.839	35.254	.000[b]
	Residual	30.130	98	.307		
	Total	106.000	105			

a. Dependent Variable: Controle (Board control role)
b. Predictors: (Constant), PrCon, SComm, SBInd, SComp, PrCom, PrBrA, PrCog

Coefficients[a]

Model 2	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	4.001E-006	.054		.000	1.000		
SBInd	.199	.068	.199	2.942	.004	.634	1.576
SComm	.074	.068	.074	1.097	.276	.633	1.581
SComp	.198	.067	.198	2.970	.004	.654	1.529
PrCog	.074	.087	.074	.852	.396	.386	2.587
PrBrA	.303	.086	.303	3.506	.001	.389	2.567
PrCom	.223	.086	.223	2.606	.011	.396	2.525
PrCon	-.004	.060	-.004	-.065	.949	.813	1.230

a. Dependent Variable: Controle (Board control role)

B- Second order model

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.778[a]	.605	.598	.63735

a. Predictors: (Constant), Process, Structure

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	64.161	2	32.080	78.974	.000[b]
	Residual	41.840	103	.406		
	Total	106.000	105			

a. Dependent Variable: Serole
b. Predictors: (Constant), Process, Structure

Coefficients[a]

Model1	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-4.940E-006	.062		.000	1.000		
Structure	.302	.090	.302	3.359	.001	.475	2.105
Process	.531	.090	.531	5.912	.000	.475	2.105

a. Dependent Variable: Serole

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.836[a]	.698	.692	.55725

a. Predictors: (Constant), Process, Structure

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
2	Regression	74.015	2	37.008	119.175	.000[b]
	Residual	31.985	103	.311		
	Total	106.000	105			

a. Dependent Variable: Controle
b. Predictors: (Constant), Process, Structure

Coefficients[a]

Model 2	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-5.411E-006	.054		.000	1.000		
Structure	.381	.079	.381	4.850	.000	.475	2.105
Process	.517	.079	.517	6.587	.000	.475	2.105

a. Dependent Variable: Controle

Appendix 8.2. Total Effects (Mean, STDEV, T-Values) of the first and second order full model

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)
Control role -> BCont	0.925623	0.924016	0.017874	0.017874	51.787424
Control role -> OCont	0.878005	0.879687	0.027537	0.027537	31.884235
Control role -> SCont	0.883611	0.883492	0.022810	0.022810	38.737280
Process -> BCont	0.478875	0.473013	0.070916	0.070916	6.752703
Process -> Control role	0.517355	0.511726	0.074824	0.074824	6.914270
Process -> OCont	0.454240	0.450535	0.069823	0.069823	6.505587
Process -> Pr Cog	0.901720	0.899495	0.029776	0.029776	30.283002
Process -> PrBrA	0.869944	0.868461	0.027045	0.027045	32.165986
Process -> PrCom	0.880629	0.881240	0.021358	0.021358	41.232535
Process -> PrCon	-0.462525	-0.425156	0.223440	0.223440	2.070020
Process -> SCont	0.457140	0.452579	0.070326	0.070326	6.500327
Process -> SerAd	0.445306	0.440487	0.080090	0.080090	5.560069
Process -> SerNwI	0.353651	0.344684	0.077047	0.077047	4.590087
Process -> SerNwR	0.416141	0.407559	0.079153	0.079153	5.257440
Process -> SerSp	0.500873	0.493587	0.091835	0.091835	5.454054
Process -> Service role	0.531061	0.523310	0.095300	0.095300	5.572538
Service role -> SerAd	0.838521	0.842431	0.030105	0.030105	27.852909
Service role -> SerNwI	0.665933	0.657934	0.078784	0.078784	8.452622
Service role -> SerNwR	0.783603	0.778836	0.052547	0.052547	14.912468
Service role -> SerSp	0.943157	0.942492	0.009313	0.009313	101.272786
Structure -> BCont	0.699522	0.699260	0.045257	0.045257	15.456496
Structure -> Control role	0.755731	0.756490	0.042137	0.042137	17.935276
Structure -> OCont	0.663535	0.665847	0.047815	0.047815	13.877246
Structure -> Pr Cog	0.653379	0.660789	0.055519	0.055519	11.768597
Structure -> PrBrA	0.630354	0.638176	0.054871	0.054871	11.487851
Structure -> PrCom	0.638096	0.647125	0.049090	0.049090	12.998573
Structure -> PrCon	-0.335142	-0.314025	0.166737	0.166737	2.009997
Structure -> Process	0.724591	0.734035	0.048579	0.048579	14.915879
Structure -> SBInd	0.760535	0.767554	0.045452	0.045452	16.732722
Structure -> SComm	0.780705	0.779423	0.083173	0.083173	9.386511
Structure -> SComp	0.783527	0.786599	0.060278	0.060278	12.998567
Structure -> SCont	0.667773	0.668762	0.047155	0.047155	14.161150
Structure -> SerAd	0.575676	0.577850	0.047478	0.047478	12.125000
Structure -> SerNwI	0.457188	0.452993	0.074164	0.074164	6.164548
Structure -> SerNwR	0.537973	0.535361	0.063661	0.063661	8.450588
Structure -> SerSp	0.647513	0.647001	0.054499	0.054499	11.881110
Structure -> Service role	0.686538	0.686210	0.054231	0.054231	12.659441

Appendix 8.3. Predictive relevance (Q^2)

Board service role Construct Cross-validated Redundancy (Q^2)

Total	SSO	SSE	1-SSE/SSO
BCont	530.000000	252.066400	0.524403
Control role	1378.000000	856.622656	0.378358
OCont	424.000000	226.469009	0.465875
Pr Cog	530.000000	229.093954	0.567747
PrBrA	424.000000	210.952331	0.502471
PrCom	530.000000	280.866833	0.470063
PrCon	318.000000	274.190192	0.137767
Process	1802.000000	1379.054705	0.234709
SBInd	318.000000	202.398261	0.363527
SComm	318.000000	187.445309	0.410549
SComp	318.000000	204.442261	0.357100
SCont	318.000000	109.960882	0.654211
SerAd	530.000000	326.668256	0.383645
SerNwl	318.000000	228.700614	0.280816
SerNwR	530.000000	323.452236	0.389713
SerSp	954.000000	405.616983	0.574825
Service role	2332.000000	1685.948464	0.277038

Board control role Construct Cross-validated Redundancy(Q^2)

Total	**SSO**	**SSE**	**1-SSE/SSO**
BCont	530.000000	256.326497	0.516365
Control role	1378.000000	858.803687	0.376775
OCont	424.000000	235.521985	0.444524
Pr Cog	530.000000	229.087798	0.567759
PrBrA	424.000000	210.955610	0.502463
PrCom	530.000000	280.881278	0.470035
PrCon	318.000000	274.194862	0.137752
Process	1802.000000	1379.092436	0.234688
SBInd	318.000000	202.440435	0.363395
SComm	318.000000	187.358328	0.410823
SComp	318.000000	204.422333	0.357162
SCont	318.000000	116.486510	0.633690
SerAd	530.000000	319.932301	0.396354
SerNwl	318.000000	225.276124	0.291585

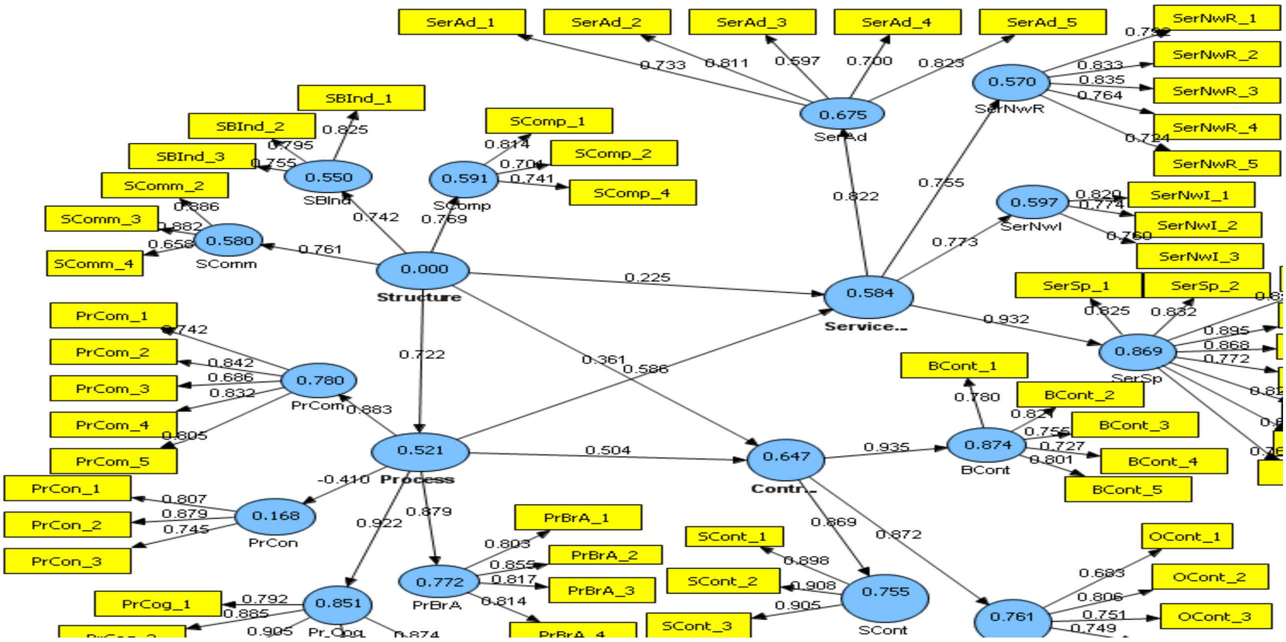
SerNwR	530.000000	324.056708	0.388572
SerSp	954.000000	393.391854	0.587640
Service role	2332.000000	1682.373364	0.278571

Board process Construct Cross-validated Redundancy(Q2)

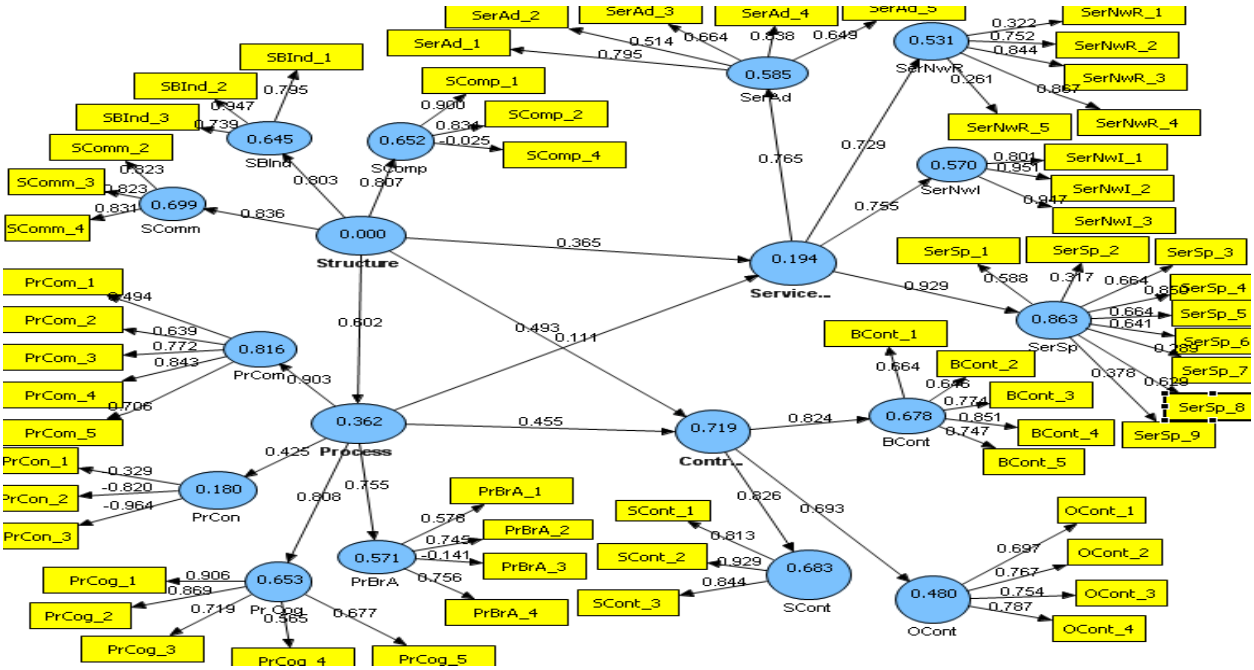
Total	SSO	SSE	1-SSE/SSO
BCont	530.000000	252.070744	0.524395
Control role	1378.000000	855.312413	0.379309
OCont	424.000000	226.476234	0.465858
Pr Cog	530.000000	229.009065	0.567907
PrBrA	424.000000	212.819401	0.498067
PrCom	530.000000	285.775739	0.460800
PrCon	318.000000	277.442943	0.127538
Process	1802.000000	1380.730773	0.233779
SBInd	318.000000	202.461304	0.363329
SComm	318.000000	187.294226	0.411024
SComp	318.000000	204.448663	0.357080
SCont	318.000000	109.962204	0.654207
SerAd	530.000000	319.941764	0.396336
SerNwl	318.000000	225.278024	0.291579
SerNwR	530.000000	324.034729	0.388614
SerSp	954.000000	393.430993	0.587599
Service role	2332.000000	1684.968154	0.277458

Appendix 8.4. Private-public bank path models

Appendix 8.4a Private bank path model



Appendix 8.4b. Public bank path model



Appendix 8.5. List of Banks in Ethiopia

Public Banks	Year of Est. (G.C)	Private Banks	Year of Est. (G.C)
Commercial Bank of Ethiopia (CBE)	1970	Awash International Bank	2001
Construction and Business Bank (CBB)	1982	Dashen bank	2002
Development Bank of Ethiopia(DBE)	1909	Bank of Abysinnia	2003
		Wegagen Bank	2004
		United Bank	2005
		NIB International Bank	2006
		Cooperative Bank of Oromia	2004
		Lion International Bank (LIB)	2006
		Zemen Bank	2008
		Oromia International Bank	2008
		Bunna International Bank	2009
		Berhan International Bank	2009
		Abay Bank S.C	2010
		Addis International Bank	2011
		Debub Global Bank S.C	2012
		Enat Bank	2012

Appendix 8.6. ROA of Ethiopian Banks

Year	Financial indicators	Private banks & year of establishment (E.C.)										Public banks & year of establishment (E.C.)		
		Awash (1994)	Dashen (1995)	Abyssinia (1996)	Wegagen (1997)	United (1998)	NIB (1999)	CBO (2004)	LIB (2006)	Zemen (2008)	OIB (2008)	CBE (1963)	CBB (1975)	DBE (1901)
2002/03	Return on Average Assets (ROA) %	0.7	1.5	0.4	1.4	1.2	1.5*					2.3	0.5	-0.6
2003/04	Return on Average Assets (ROA) %	1	2.4	2.5	3.2	1.2	2.7*					1.6	0.7	-0.2
2004/05	Return on Average Assets (ROA) %	0.8	2.3	3.0	3.5	3.5	3.1	-0.9				1.9	1.2	1.3
2005/06	Return on Average Assets (ROA) %	1.7	3.4	3.5	4.0	3.3	3.1	-2.0				2.3	2.8	0.5
2006/07	Return on Average Assets (ROA) %	2.9	3.6	2.2	4.0	3.4	3.3	0.6	-1.9			2.2	3.0	0.6
2007/08	Return on Average Assets (ROA) %	3	3.4	0.4	4.0	3.4	3.6	2.2	-0.2			2.9	3.9	1.2
2008/09	Return on Average Assets (ROA) %	3.6	2.9	2.1	4.0	2.4	3.6	0.2	0.5	-2	-4.1	3.5	4.3	0.9
2009/10	Return on Average Assets (ROA) %	3.1	2.9	2.4	4.1	3.3	3.7	1.8	3.5	5.5	2.2	3.0	3.2	0.5
2010/11	Return on Average Assets (ROA) %	3.6	3.3	2.6	4.7	3.4	3.8	2.3	2.8	6.4	2.9	3.0	2.6	1.6
2011/12	Return on Average Assets (ROA) %	3.3	4.1	2.8	4.1	3.6	3.7	3.3	3.5	4.3	2.1	4.0	3.5	1.8
2012/13	Return on Average Assets (ROA) %	2.8	3.3	2.9	3.6	3.0	3.3	3.7	3.6	3.3	2.3	3.6	2.9	1.8
2013/14	Return on Average Assets (ROA) %	3.1	3.4	2.5	2.9	2.5	3.2	5.0	3.3	3.6	3.1	3.3	1.1	1.6

Source: Annual reports of individual banks

Appendix 8.7. Net profit after Tax and Total Assets of Private and Public Banks (2003-2013/14)

Year	Financial indicators	Private banks & year of establishment (G.C.)										Public banks year & establishment (G.C.)		
		Awash (2001)	**Dashen (2002)**	**Abyssinia (2003)**	**Wegagen (2004)**	**United (2005)**	NIB **(2006)**	**CBO (2004)**	**LIB (2006)**	**Zemen (2008)**	**OIB (2008)**	**CBE (1970)**	**CBB (1982)**	**DBE (1908)**
2002/03	Net Profit After Tax (Million)	9	27	5.4	11	5	**n.a.**	**n.a.**	**n.a.**			541	4.5	-15
	Total Assets	1403	1991	1422	889	470	**n.a.**	**n.a.**	**n.a.**			24630	950	2644
2003/04	Net Profit After Tax (Million)	17	56	38	32	7	**n.a.**	**n.a.**	**n.a.**			412	7.2	-6
	Total Assets	1770	2677	1651	1140	674	1247	**n.a.**	**n.a.**			27870	1093	2762
2004/05	Net Profit After Tax (Million)	35	71	61	48	31	46	-1.1	**n.a.**			579	17.3	46
	Total Assets	2379	3420	2231	1616	1073	1732	129	**n.a.**			33172	1833	4546
2005/06	Net Profit After Tax (Million)	45	134	85	71	44	58	-4.19	**n.a.**			793	50	25
	Total Assets	2990	4546	2834	2259	1559	2027	224	**n.a.**			35827	1797	4958
2006/07	Net Profit After Tax (Million)	95	188	67	112	64	76	2	-5			867	56	33
	Total Assets	3683	6041	3396	3480	2183	2607	424	267			43393	1885	5559
2007/08	Net Profit After Tax (Million)	127	239	17	139	91	113	12	-1			1360	84	66
	Total Assets	4783	7840	4270	4125	3250	3650	678	574			50344	2394	5705
2008/09	Net Profit After Tax (Million)	214	250	100	181	94	154	2	4	-9.1	-13.4	1921	106	53
	Total Assets	7133	9733	5477	5118	4652	4807	1023	952	463	326	59412	2588	6408
2009/10	Net Profit After Tax (Million)	248	324	141	223	175	201	25	40	42	16	1968	92	37
	Total Assets	9023	12353	6280	5742	5896	5971	1768	1364	1055	1119	74187	3162	9263
2010/11	Net Profit After Tax (Million)	361	451	178	323	232	246	48	44	85`	44	2863	86	198
	Total Assets	11089	14660	7278	8061	7725	7112	2483	1808	1613	1962	114265	3504	15227
2011/12	Net Profit After Tax (Million)	394	652	216	336	298	286	102	75	86	49	5419	116	362
	Total Assets	13125	17520	8240	8347	8787	8276	3700	2463	2394	2787	158114	5947	25024
2012/13	Net Profit After Tax (Million)	439	607	264	340	282	286	190	111	94	78	6318	200	491
	Total Assets	17784	19747	10200	10393	9986	9145	6538	2942	3248	3911	194488	7925	29747
2013/14	Net Profit After Tax (Million)	618	713	265	318	278	314	344	96	128	154	7265	90	528
	Total Assets	22100	21962	11270	11529	11876	10747	7350	3613	3925	6152	242726	7898	35717

Source: Annual reports of individual banks