THE EFFECT OF CORPORATE GOVERNANCE ON BANKSPROFITABILITY; A STUDY ON PRIVATE COMMERCIAL BANKSIN ETHIOPIA

A Research Report Submitted to the School of Graduate Studies of Jimma University in Partial Fulfillment of the Requirements for the Award of Master of Sciences Degree in Accounting and Finance

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JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

SCHOOL OF GRADUATE STUDIES

DEPARTMENT OF ACCOUNTING AND FINANCE

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JIMMA, ETHIOPIA

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Under the guidance of

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DECLARATION

I, the under signed, declare that this study entitled "The effect of corporate governance on banks profitability; a study on private commercial banks in Ethiopia**"** is my original work and has not been presented for a degree in any other university, and that all sources of materials used for the study have been duly acknowledged.

Declared by:

Name: **Muhdin Kassa**

Signature: ______________________

Date: ______________________

CERTIFICATE

This is to certify that this study““The effect of corporate governance on banks profitability; a study on private commercial banks in Ethiopia**”** undertaken by **Muhdin Kassa** for the partial fulfillment of Master of Sciences Degree in Accounting and Finance at Jimma University, is an original work and not submitted earlier for any degree either at this University or any other University.

Research Advisor:

Mr. Abiy Getahun (Assis. Professor)

Signature: ______________________________

Date: ______________________________

Research Co-advisor:

Mengistu Deyassa (MA.)

Signature: ______________________________

Date: ______________________________

Dedication

This study work is dedicated to my savior and protector Almighty God, to my wife Netsanet Hailemichael, my son Zetseat Muhdin and all of my parents for their constant physical, emotional and financial support throughout my educational career and life. And also my dedication was goes to my advisors for their approach and priceless guidance during my education and preparation of this research at Jimma University College of Business and Economics, department of Accounting and Finance.

List of Acronyms and Abbreviations

AUD	Audit committee
BG	Bank growth rate
BLev	Banks leverage
BQUAL	Board Members Educational Qualification
BS	Bank size
BSIZE	Board Size
ICGN	International Corporate Governance Network
ICGN	International Corporate Governance Network
IES	Income expenditure structure
INTR	Interest rate
ISE	Industry specific experience
NBE	National Bank of Ethiopia
OECD	Organization for Economic Cooperation and Development
OLS	Ordinary Least square
RIFR	Inflation rate
ROA	Return on Asset
ROE	Return on Equity
VIF	Variance of Inflation Factor

Acknowledgements

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Abstract

The purpose of this study was to provide an insight on corporate governance and important factors for well-functioning of corporate commercial banks. This study aimed to identify the effect of governance on bank profitability of corporate commercial banks in the case of Ethiopia. Ten year data from seven corporate commercial banks for the period 2010-2019 and survey data from customers were used to study the profitability of seven private Ethiopian corporate commercial banks. The survey data were collected through questionnaires and secondary data were extracted from banks archive. The questionnaire were physically distributed to 265 Wogagen, Dashen, Awash, Abyssinia, United, Oromia Cooperative, and NIB Banks' customers with response rate of 97.4% and banks' branch managers also interviewed from these seven banks. Descriptive statistics analysis tools such as frequency, and percentages were used for qualitative data obtained using questionnaire from customers and the inferential statistics methods multiple linear regression model and correlation analysis were used for quantitative data to present and explore the overall characteristics of the data and to extract important information from the data. Specifically, the linear was performed to see the effect of different factors on the profitability of the banks. Audit committee member, number of times the board conduct meeting in a year and total number of board directors had significant effect on the profitability of the bank as analysis for Abyssinia bank showed whereas boards committee member, actual number of boards and number of times the board conduct meeting per a year had significant effect on the profitability of Awash International bank. The corporate commercial bank management must give special attention all significant factors in both logistic and linear regression model results in order to get maximum profit.

Keywords: Corporate Governance, Regression, Private Commercial Banks, Profitability

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Corporate Governance is “a set of relationship shareholders, and other stakeholders. Corporate governance plays a major role in macroeconomic stability; provide the appropriate environment for economic growth as well as society welfare, therefore international institutions give major attention and concerns to this issue at the level of macro and micro aspects, because of the importance of corporate governance at both the country and the corporate levels. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently”(OECD, 1999. In corporate organization the conflict of interest arises among stakeholder. According to Imam and Malik (2007) these conflicts of interest often arise from two main reasons.

First, different participants have different objectives and preferences. Second, the participants have imperfect information as to each other’s actions, known methods employed, at the firm level, to solve corporate governance problems (Basuony et al., 2014). Since it is viewed as a necessary element of market discipline, strong corporate governance is highly demanded by investors and other financial market participants (Ramsay, 2001). Regulators have enacted corporate governance reforms into law in many countries, such as the USA through (Sarbanes-Oxley Act, 2002) which states that in order to safeguard their long-term successes, organizations implement corporate governance to ensure that they are directed and controlled in a professional, responsible, and transparent manner. In other countries, such as the UK, the corporate governance codes, known as the Combined Code of Corporate Governance of 2003, are principles of best practice with some indirect element of legislature operating through the respective stock exchange listing rules (Nyamongo and Temesgen, 2013).

According Latif*et al*., (2013) documented that corporate governance has a significant impact on the firm performance. Besides, Rashid and Lodh (2011) found that the implementation of good corporate performance practices is one of the determinants of efficient firm performance. Indeed. Sheikh, Wang & Khan (2013) argues that there is existence of material effect between internal governance mechanism (board size, managerial ownership and so on) and firm performance.

In general, corporate governance refers to all issues related to ownership and control of corporate property, the rights of shareholders and management, powers and responsibilities of the Board of Directors, disclosure and transparency of corporate information, the protection of interests of stakeholders that are not shareholders, enforcement of rights, etc. Corporate governance systems depend upon a set of institutions such as laws, regulations, contract enforcements and norms that create self-governing firms as the central element of a competitive market economy. These institutions ensure that the internal corporate governance procedures adopted by firms are enforced and they render management responsible to owners and other stakeholders. As a whole there is no general or specific rule for the composition or size of the corporate governance; it depends on the economic background of the country.

It is important to adopt a working definition for corporate governance as a system of rules and institutions that determine the control and direction of a company and that define relations among the c directors, managers, shareholders and other stakeholders (Hussein Ahmed Tura, 2012). This combines the narrow and broad definitions and it considers corporate governance as a system of rules and institutions which determine the control and direction of a company. It recognizes not only shareholders but also stakeholders that should be involved in the governance of share companies.

Minga Negash (2008) observes that the status of corporate governance in Ethiopia is disappointing and notes that "the Commercial legislative response to complex governance issues of the day, and the new draft corporate. Directives lack coherence and foresights, and (2010) underlines the growing separation between ownership and control in Ethiopia, and he submits some empirical evidence in this regard. Relying on the data and literature on corporate governance, he shows the deficiency of the Commercial Code in protecting the rights of minority shareholders in the context of publicly held companies. He raises crucial issues such as: "what powers does the board have? Who is it accountable to? How is it organized? What are its standards of liability?" among others.

Tewodros Meheret (2011) discusses the legal regime applicable to governance of share companies in Ethiopia. He explores the theoretical background and legal framework of corporate governance and examines the rules of governance in light of available standards. In particular, he discusses the structural choice, appointment and removal, powers, duties and responsibilities, remuneration, and the working methods and mechanism for controlling the boards of directors. Tewodros states that company's is managed share by its board which is composed of directors appointed by the general meeting of share hold between dispersed shareholders and managers and/or block holders of share companies in Ethiopia, therefore, necessitate good corporate governance laws and institutions. Good corporate governance makes the company more profitable. The management or decisions made by the corporate highly affect the performance since the company operates accordingly.

The corporate governance is highly increasing industry with complexes business situation. Generally, banks occupy an important position in the economic equation of any country such that its performance invariably affects the economy of the country. Poor corporate governance may contribute to bank failures, which can increase public costs significantly and consequences due to their potential impact on any applicable system. Poor corporate governance can also lead markets to lose confidence in the ability of a bank to properly manage its assets and liabilities, including deposits, which could in turn trigger liquidity crisis (Uwuigbe olubukunola, 2011).

Although researchers have tried to find out the effects of board size and other variables on the performance of firms, they are mostly in context of developed markets. To the best of the researcher's knowledge based on the literature context of Ethiopian banks. Due to neglect of banking sector by other studies and with radical changes in Ethiopian banking sector in the last few years, present study aims to fill the existing gap in corporate governance literatures.

Studies on bank governance are therefore important because banks play important monitoring and governance roles for their corporate clients to safeguard their credit against corporate financial distress and bankruptcy. An expose by Prowse (1997) shows that research on corporate governance applied to financial intermediaries especially banks, is indeed scarce. This shortage is confirmed in Oman (2001); Goswami (2001); Lin (2001); Malherbe and Segal (2001) and Arun and Turner (2002). They held a consensus that although the subject of corporate governance in developing economies has recently received a lot of attention in the literature, however, the corporate governance of banks in developing economies has been almost ignored by researchers. The idea was also shared by Caprio and Levine (2001). Maceyandara O‟(2002) shared the same opinion and noted that even in developed economies; the corporate governance of banks has only recently been discussed in the literature.

Furthermore, banks are very opaque, which makes the information asymmetry and the agency problem particularly serious (Biserka, 2007). This also necessitates the study on bank governance. This study emphasizes on the impact of corporate governance mechanisms on selected private commercial banks profitability in Ethiopia in order to analyze and explain their effect on bank profitability to give information to the users and issues regarding the use of corporate governance on performance of banks are indicated.

1.2. Statement of the problem

According to guidelines for corporate governance principles for banks effective corporate governance is crucial to the proper functioning of the banking sector and the economy as a whole (Corporate governance principles for banks, 2015). Banks perform a crucial role in the economy by intermediating funds from savers and depositors to activities that support enterprise and help drive economic growth. Banks’ safety and soundness are keys to financial stability, and the manner in which they conduct their business, therefore, is central to economic health. Governance weaknesses at banks that play a significant role in the financial system can result in the transmission of problems across the banking sector and the economy as a whole and results in less profitability or bankruptcy of banks(July, 2015).

Weaknesses in corporate governance arrangements in banks reduce their capacity to identify monitor and manage their business risk and that can result in poor quality lending and excessive risk-taking by the financial institutions. Depending on the resilience of the banks and markets, these risks have the potential to spread across the wider financial system. Inadequate corporate governance can also lead to a poor credit culture, excessive exposure concentration, poor management of interest risk/exchange risk and inadequacies in the management of connected exposures. Some of these risks, singularly or collectively, can lead to potential insolvency and financial instability (Luc Laeven, and Lev Ratnovski**,** July 21, 2014).

Different scholars use different measure of internal and external corporate governance mechanisms to see their impact on bank performance, and the studies reveal inconclusive results (Ashenafi et al. 2013). Nevertheless, previous empirical studies have provided the nexus between corporate governance and firm performance. However, despite the volume of the empirical work, there is no consensus on the impact of corporate governance on firm performance. Consequently, this lack of consensus has produced a variety of ideas (or mechanisms) on how corporate governance influence firm performance (Babatunde & Olaniran, 2009). There is significant literature and empirical studies that link board characteristic and central regulators role to improved bank performance. Studies have been conducted in Ethiopia (Rao & Kidane, 2016; Olani & Berhanu, 2015; Ashenafi et al. 2013; Assefa & Megbaru, 2014; Yenesew 2012; Kibryisfaw, 2013; Firehiwot 2015; Abdurazak, 2017) to identify the effect of corporate governance on the performance of Ethiopian banks. The various studies undertaken to assess effect of corporate governance on bank performance have used a varied combination of governance mechanism as explanatory variables studies (Ashenafi, Kelifa, & Yodit, 2013) in which only seven years data and the study by Manini and Abdillahi (2015) in Kenya which used only one year data and none of them considered the impact of customers on the bank profitability even if the customers relationship is very crucial for the marketing system and profitability of the banks.

Moreover, results of the studies show varied effects of the corporate governance proxies in terms of significance level and direction of relationship to bank performance. Hence the subject remains a topic for further investigation to enable identify pertinent governance mechanisms that require due attention. Healthy financial sector is fundamental for sustained growth. And good corporate governance ensures that banks are sound and stable (Ebrahim, 2014).

Research studies exclusively on the effect of corporate governance on banks' financial performance are few in developing countries and in Ethiopia even if some research had been conducted as reliable and appropriate like only descriptive statistics, by using mean and standard deviation for ordinal types of data or variable. Those studies which were undertaken by different researchers were conducted by using few years data (five to seven) and the statistical methods used were not as relevant for the particular problem and in most of the researches conducted only top management related issues considered but in this study relevant factors concerning ordinary customers' attitude towards the corporate banks such as indicators of trust, commitment, competence, communication and conflict handling were included. So in this study had identified relevant factors affecting the profitability of the corporate private banks not only top management issues but also customer related factors were included. The customers' information was included in the study to strengthen findings so that primary information which can affect the profitability of corporate banks easily depicted.

Relationship is crucial in banking industry in these days. Because a fierce competition all over the world and the effect of globalization, being reluctant to accept relationship will cost the organization a big deal of lose in many directions especially in corporate bank system; losing a potential customers and market share, letting down the reputation of the organization, lagging behind industry leaders, shortage of information from customers that could give big advantage, failure of employees to understand customers nicely and many more was the negative impact banks as their very survival depends on the ability to attract and retain valuable customers; it is not yet changes their process to do so (Mattewas and Bharat thankkar, 2012).

The finding of those researchers indicated that board size and existence of audit committee in the board and its size had statistically significant negative effect on bank performance; whereas bank size had statistically significant positive effect on bank performance. Similarly, capital adequacy ratio, as a measure of external corporate governance mechanism had statistically significant positive effect on bank performance and there were many insignificant factors and the statistical methods that they used was multiple linear regression model by taking into consideration issues related to management; like board size, audit committee and size, capital adequacy, gender disparity, number of meeting per or per quarter etc. In all the above mentioned research findings the main concern was on the effect of different management department roles on the performance of corporate commercial banks.

The performance and profitability of the corporate private banks doesn't affected only by management related factors mentioned above but there are a number of factors like demographic factors, trust of customers towards the banks, competence related factors, communication of customers with the employees of the bank related issues and conflict handling issues. So the gap that this study tried to fill was also consider the above mentioned factors as influencing factors of profitability of the corporate private banks in addition to management related factors. In the previous research findings the role of higher officials like directors, auditors, and top managers were considered as the only influential bodies in the bank but in this study the role of customers also considered since the customers of the bank indirectly affect profitability of the banks.

The aim of the researcher was to analyze corporate governance's effect on private corporate commercial banks' profitability and secondly since the business world is full of change by different factors the researcher want to analyze corporate effect governances on the banks profitability with current data to provide more reliable information for the user. In addition the previous studies include government owned banks whom their primary motive is not more profit, instead they more of emphasize on other performance measures like outreach not on profit specifically where profit is single measure of performance. Therefore, to fill this gap, the researcher emphasized on private corporate commercial banks which have shareholders with a real profit motive that shows more about the effect of corporate governance mechanisms by considering the role of higher managers and ordinary staffs and customers on private banks profitability in Ethiopia. The following research questions were addressed at the end of the study.

Research questions:

- Is the bank top management has an effect on private commercial banks profitability in Ethiopia?
- Is the educational level of bank management team has effect on private commercial banks profitability in Ethiopia?

- What is the effect of board members' and audit committee members, gender diversity on private commercial banks profitability in Ethiopia?
- What is the effect of customers trust on the bank, communication, competence, conflict handling and commitment on profitability of corporate banks in Ethiopia

1.3 Objectives of the study

1.3.1 General objective

The general objective of this study is to portray the effect of corporate governance on profitability of private commercial banks in Ethiopia

1.3.2 Specific objectives

- ✓ To describe the effect of board members size on corporate private commercial banks profitability in Ethiopia.
- ✓ To explain the effect of boards educational background on private commercial banks profitability in Ethiopia.
- ✓ To describe the effect of audit committee size on private commercial banks profitability in Ethiopia.
- ✓ To examine the effect of board gender diversity on private commercial banks profitability in Ethiopia.
- ✓ To assess the effect of trust, communication, competence, conflict handling and commitment of customers on profitability of banks in Ethiopia

1.4 Research hypothesis

Null hypothesis (Ho)

Ho1: There is no relationship between board size and bank profitability

Ho2: There is no relationship between board gender diversity and bank profitability

Ho3: There is no relationship between audit committee members and bank profitability

Ho4: There is no relationship between number of board meetings and bank profitability

Ho5: There is no relationship between number of board committees and bank profitability

Ho6: Customers’ trust, communication, competence, conflict handling and commitment of has no relation with profitability of banks in Ethiopia

1.5 Significance of the study

Shareholders of different companies can use it to identify the best composition of corporate governance and it may pave the way whom to elect in the board members so as to gain sustainable revenue. The researchers who want to conduct further research on similar subjects might use it to identify the knowledge gap and pave the way for their new finding. For those private banks in the country the findings may enable them in identifying the relevant corporate governance management mechanisms and how these governance mechanisms upscale profitability of the bank.

1.6 Scope of the study

This study is delimited to examining the effect of management team corporate governance and some demographic variables on banks profitability by taking evidence from seven private corporate banks in Ethiopia for the period of ten years, from 2010 to 2019. The reason for using this range of period was to increase the accuracy of parameter estimation since as the number of observation increase the accuracy of parameter estimation increases. The dependent variables are delimited to profitability of banks. The independent variables are delimited to some corporate governance characteristics such as board size, board gender composition, directors' educational qualification and size of audit committee and also relationship indicator variables included.

1.7 Limitation of the study

The linear regression model for NIB International bank and united bank were not done since it was impossible to get full information on net income and total assets from banks. The banks’ managers had no willingness to provide information due to confidentiality of some information in the bank system as a result the researcher obtained limited information from the managers.

1.8 Organization of the paper

The research had five chapters, chapter one includes background of the study, statement of the problem, research questions, objectives of the study, definition of terms, significance of the study and scope of the study and limitation. Chapter two covers literatures reviews which are relevant with the subject matter under study. Under chapter three, the methodology part of the study was described in detail. The findings of the study presented, analyzed and discussed in chapter four. Finally, in chapter five summary, conclusions, and recommendations were forwarded based on the study findings.

CHAPTER TWO

REVIEW OF RELATED LITRATURE

2.1 Theoretical framework

2.1.1 History of corporate governance

The foundational argument of corporate governance, as seen by both academics as well as other independent researchers, can be traced back to the pioneering work of Berle and Means (1932). They observed that the modern corporations having acquired a very large size could create the possibility of separation of control over a firm from its direct ownership. Berle observation of the departure of the owners from the actual control of the corporations led to a renewed emphasis on the behavioral dimension of the theory of the firm. Governance is a word with a pedigree that dates back to Chaucer. In his days, it carries with it the connotation “wise and responsible”, which method of governing and it is in the latter sense that it is used with reference to companies.

Over centuries, corporate governance systems have evolved, often in response to corporate failures or systemic crises. The first well-documented failure of governance was the South Sea Bubble in the 1700s, which revolutionized business laws and practices in England. Similarly, much of the security laws in the United States were put in place following the stock market crash of 1929. There has been no shortage of other crises, such as the secondary banking crisis of the 1970s in the United Kingdom, the U.S. savings and loan debacle of the 1980s, East- Asian economic and financial crisis in the second half of 1990s (Flannery, 1996). In addition to these crises, the history of corporate governance has also been punctuated by a series of well-known company failures: the Maxwell Group raid on the pension fund of the Mirror Group of newspapers, the collapse of the Bank of Credit and Commerce International, Baring Bank and in recent times global corporations like Enron, WorldCom, Parmalat, Global Crossing and the international accountants, Andersen (La Porta, Lopez and Shleifer 1999). These were blamed on a lack of business ethics, shady accountancy practices and weak regulations. They were a wake-up call for developing countries on corporate governance. Most of these crisis or major corporate failure, which was a result of incompetence, fraud, and abuse, was met by new elements of an improved system of corporate governance (Iskander and Chamlou, 2000).

2.1.2. Defining corporate governance

Corporate governance has been defined in different ways by different authors. Shleifer and Vishny define corporate governance as the ways in which suppliers of finance to corporations make sure of getting a return on their investment. Gillan and Starks take a broad perspective on corporate governance and define it as the system of laws, rules, and factors that control operations in a company. The Organization for Economic Cooperation and Development (OECD) offer a more comprehensive definition of corporate governance as a set of relationships between management of a corporation, its board, its shareholders and other stakeholders, while also providing the structure through which corporate objectives are set, and the means of attaining those objectives and monitoring performance are determined. According to Kim &Rasiah, Corporate governance is the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation. It includes the relationship among the many players involved (the stakeholders) and the goals for which the corporation is governed (Kim & Rasiah, 2010). From these definitions, it may be stated that corporate governance frameworks establish systems of accountability and responsibility between the company and its major constituencies by defining the nature of the relationship.

2.1.3. Corporate governance in Ethiopia

There are a number of companies that are being formed by sale of shares to the wider public unlike most share companies in the past which were formed among founders. The emergence of publicly held share companies in Ethiopia gives rise to a multitude of issues on corporate governance. Typically, ownership separates from the control of dispersed shareholders and goes into the hands of few managers, which in turn creates the principal-agent relationship. In such situations, agents (managers) may misappropriate the principals‟ (shareh they have more information and knowledge than the shareholders. Where there exist few block holders in share companies, minority shareholders could be exploited in the hands of such block holders. The agency problems that could occur between dispersed shareholders and manager and/or block holders of share companies in Ethiopia, therefore, necessitate good corporate governance laws and institutions. Some scholarly works have been published recently on company law in general and corporate governance in particular by Ethiopian academics.

Minga Negash (2008) observes that the status of corporate governance in Ethiopia is disappointing and Commercial notes Code of that1960does "t not provide adequate legislative response to complex governance issues of the day, and the new draft corporate law has not yet and been finalized;" further international states conventions, that codes and k standards are not ratified or adequately incorporated in the Proclamations" and that "i^th and Directives lack coherence and foresights Petros (2010) underlines the growing separation between ownership and control in Ethiopia, and he submits some empirical evidence in this regard. Relying on the data and literature on corporate governance, he shows the deficiency of the Commercial Code in protecting the rights of minority shareholders in the context of publicly held companies. He raises crucial issues such as: "what is does the power board have? Who is it accountable to? How is it organized? What are its standards of liability?" Among others. Fekadu further addressed most of the issues in corporate governance related to board of directors.

Tewodros Meheret (2011) discusses the legal regime applicable to governance of share companies in Ethiopia. He explores the theoretical background and legal framework of corporate governance and examines the rules of governance in light of available standards. In particular, he discusses the structural choice, appointment and removal, powers, duties and responsibilities, remuneration, and the working methods and mechanism for controlling the boards of directors.

The study conducted by the Addis Ababa and Ethiopia Chambers of Commerce and Sectoral Associations on corporate governance in Ethiopia suggests the introduction of a voluntary code of corporate governance in the country. It r should consider key development policy aspec poverty reduction and wealth creation." This article takes the aforementioned works further and makes a distinction between corporate governance and corporate management, and examines whether the same should be stipulated in the relevant laws with a clear articulation of the powers of non-executive board members.

2.1.4 Theory of corporate governance

2.1.4.1. Agency theory

According to Habbash (2010) agency theory is the most popular and has received greater attention from academics and practitioners. The agency theory is based on the principal agent relationships. The separation of ownership from management in modern corporations provides the context for the functioning of the agency theory. In modern corporations the shareholders (principals) are widely dispersed and they are not normally involved in the day to day operations and management of their companies rather they hire mangers (agent) to manage the corporation on behalf of them (Habbash, 2010). The agents are appointed to manage the day to day operations of the corporation. The separation of ownership and controlling rights results conflicts of interest between agent and principal. To solve this problem or to align the conflicting interests of managers and owners the company incurs controlling costs including incentives given for managers.

Control of agency problems in the decision process is important when the decision managers who initiate and implement important decisions are not the major residual claimants and therefore do not bear a major share of the wealth effects of their decisions. Without effective control procedures, such decision managers are more likely to take actions that deviate from the interests of residual claimants. Individual decision agents can be involved in the management of some decisions and the control of others but separation means that an individual agent does not exercise exclusive management and control rights over the same decisions (Fama& Jensen, 1983 p.304).

The concept of corporate governance presumes a fundamental tension between shareholders and corporate managers (Jensen & Meckling, 1976). While the object shareholders is a return on their investment, managers are likely to have other goals, such as the power and prestige of running a large and powerful organization, or entertainment and other perquisites of their position. Managers‟ superior access powerless position of the numerous and dispersed shareholders, mean that managers are likely to have the upper hand (Fama & Jensen, 1983).

Therefore, shareholders monitor and control managers through their representatives such as board of directors. Boards of directors are considered as an important device to protect shareholders from being exploited by managers and help to effectively control managers when they try to maximize their self-interest at the expense Jensen (1983) argues that in order to minimize agency problem that emanates from the separation of ownership and control the corporations need to have mechanisms that enables to separate the authority of decision management from decision control. This would reduce agency costs and ensures maximization of shareholders wealth by effectively controlling the power and self-centered decisions of management.

From agency theory view point, corporate governance improves corporate performance by resolving agency problems through monitoring management activities, controlling self-centered behaviors of management and inspecting the financial reporting process (Habbash, 2010). Moreover, corporate governance is able to alleviate agency costs by aligning the conflicting interests of management and shareholders through monitoring management and using different corporate governance mechanisms. Therefore, corporate governance mechanism such as boards of directors and audit committees enables shareholders to closely monitor the activities of managers. Ineffective board and audit committee may give confidence for managers to pursue their own interests but effective board and audit committee can reduce deceptive behavior of managers by detecting fraudulent financial report and actively monitoring.

According to the assumptions of agency theory corporate governance affect financial performance. As a consequence, enhancing corporate governance should result in improved financial performance. Taking agency theory into consideration, the study variables were identified with the aim of examining the impacts of corporate governance mechanism on financial performance. Board structure has relied heavily on the concepts of agency theory, focusing on the controlling function of the board (Habbash, 2010). The corporate governance mechanism variable considered in this research include board size, board frequency of meeting, board gender diversity, educational qualification of board members, other general and industry specific experience of board members and chief executive compensation.

2.1.4.2. Stake holders theory

Stakeholder theory is an extension of the agency theory, where the agency theory expects board of directors to protect only the interests of shareholders. However, stakeholder theory extends the narrow focus of agency theory on shareholders interest to stakeholders to take into account the interests of many different groups and individuals, including interest groups related to social, environmental and ethical considerations (Freeman *et al*., 2004). According to Freeman et al. (2004), stakeholder theory begins with the assumption that values are necessarily and explicitly a part of doing business. It asks managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. It also pushes managers to be clear about how they want to do business, specifically what kinds of relationships they want and need to create with their stakeholders to deliver on their purpose. According to stakeholder theory the purpose of the firm is to serve and coordinate the interests of its various stakeholders such as shareholders, employees, creditors, customers, suppliers, government, and the community. According to Habbash (2010), stakeholder refers to any one whose goals have direct or indirect connections with the firm and influenced by a firm or who exert influence on the firms goal achievement. These include management, employees, clients, suppliers, government, political parties and local community.

According to this theory, the stakeholders in corporate governance can create a favorable external environment which is conducive to the realization of corporate social responsibility. Moreover, the stakeholders in corporate governance will enable the company to consider more about the customers, the community and social organizations and can create a stable environment for long term development. According to stakeholders theory the best firms are ones with committed suppliers, customers, and employees and management. Recently, stakeholder theory has received attention than earlier because researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders (Kyereboah-Coleman, 2007). Companies are no longer the instrument of shareholders alone but exist within society. It has responsibilities to the stakeholders. However, most researchers argue that it is unrealistic task for managers (Sundaram & Inkpen, 2004b; Sanda et al., 2005). The stakeholder theory has not been subjected to much empirical study.

The common criticisms for stakeholder theory is that how to align the stakeholders conflicting interests since the difficulties result from how to administer different stakeholders with various needs and demands. It is not possible to treat all stakeholders equally (Habbash, 2010). Moreover, it is not practical for all stakeholders to be effectively represented in corporate governance recommendations as this may undermine the welfare of company (Habbash). The other critique of the stakeholder model is that mana reasons to justify poor company performance (Maher &Andersson, 1999).

2.1.4.3. Resource dependency theory

Whilst the stakeholder theory focuses on relationships with many groups for individual benefits, resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm (Abdullah & Valentine, 2009). According to this theory the primary function of the board of directors is to provide resources to the firm. Directors are viewed as an important resource to the firm. When directors are considered as resource providers, various dimensions of director diversity clearly become important such as gender, experience, qualification and the like. According to Abdullah and Valentine, directors bring resources to the firm, such as information, skills, business expertise, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Boards of directors provide expertise, skills, information and potential linkage with environment for firms (Ayuso & Argandona, 2007). The resource based approach notes that the board of directors could support the management in areas where in-firm knowledge is limited or lacking. The resource dependence model suggests that the board of directors could be used as a mechanism to form links with the external environment in order to support the management in the achievement of organizational goals (Wang, 2009).

However, whether boards perform such functions effectively is still a controversial issue (Ferreira, 2010). Within a corporate governance framework, the composition of corporate boards is crucial to aligning the interest of management and shareholders, to providing information for monitoring and counseling, and to ensuring effective decision-making (Marinova *et al.*, 2010). The dual role of boards is recognized. However, board structure has relied heavily on agency theory concepts, focusing on the control function of the board (Habbash, 2010).

2.2 Empirical studies

Adopting better corporate governance mechanisms such as an enhanced board and audit committee improves monitoring of management and reduces information asymmetry problems (Aldamen *et al.*, 2011). There is a significant literature that links size, gender diversity, and other characteristics of the board of directors and audit committees to improved firm performance (Klein, 1998; Aldamen *et al*, 2011). There are different mechanisms that reduce agency cost whereby corporate governance can be measured in an organization. In the corporate governance literature board characteristics (board size, board gender diversity and educational qualification and experience) and audit committee size were used as corporate governance mechanisms.

According to Bathula (2008), corporate governance principles focus on the importance of corporate governance for long-term economic performance and strengthening of international financial system. A strong board can play a decisive role in improving firm financial performance. The important role of boards is to act as an internal governance mechanisms and monitoring of management (Shleifer & Vishny, 1997). An effective board is likely to help the firm achieve better performance by effectively undertaking their monitoring duties (Bathula, 2008). Board of directors is an important corporate governance mechanism (Aljifri & Moustafa, 2007). Boards of directors are the agent of the shareholders and their primary task is to monitor and control firm management on behalf of shareholders to reduce agency problem. In modern corporations boards of directors are charged with the task of monitoring the activities of top management to ensure that the managers act in the best interests of shareholders (Jensen & Meckling, 1976). From the agency theory point of view boards have play decisive role in alleviating agency problems that arising from the separation of ownership and control of firms (O‟Connell& Cramer, 2010).

The effectiveness of the board is influenced by factors such as board composition and quality, size of board, , board diversity, board committee effectiveness such as audit committee and information asymmetries ultimately this affects the board oversight performance (Uadiale, 2010). When the board is effective it is expected to drive the company towards better financial achievement (Andres & Vallelado, 2008). When financial markets are not well developed as an efficient external control mechanism and when the shareholders are not well protected due to weak legal system and poor law enforcement the role of the board of director becomes highly significant as an internal control mechanism (Gonz´alez & Garay, 2003). Boards of director are the heart of corporate governance. However, the effectiveness of the board of directors as shareholders‟ monitoring mechanism can only composition and sub-committee (Lawal, 2012). The audit committee is a sub-committee of the board of directors and its primary role is to monitor and review financial statements (Yammeesri & Herath, 2010). An audit committee has a particular role of ensuring that the interests of shareholders are properly protected in relation to financial reporting and internal control (Habbash, 2010).

2.2.1 Board size

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

2.2.2 Board gender diversity

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

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

According to Erhardt *et al*. (2003), diversity of the board of directors and the subsequent conflict that is considered to commonly occur with diverse group dynamics is likely to have a positive impact on the controlling function and could be one of several tools used to minimize potential agency issues. From stakeholders' theory, diversity also provides representation for different stakeholders of the firm for equity and fairness (Keasey *et al.*, 1997). From resource dependency perspective, the board is a strategic resource, which provides a linkage to various external resources (Walt & Ingley, 2003).

2.2.3 Educational qualification

Director's educational qualifications are central to effectively interpret and utilize the information generated by the management of particular types of business enterprise. Educational qualification is potentially important since the ability to seek and interpret appropriate information is essential for the efficient operation of the modern corporation and the effective control or guidance of management by boards of directors. Educational qualification affects the oversight and monitoring role of boards of directors (Gantenbein & Volonte, 2011).Board of directors is vested with the response not wasted, shareholders have a serious interest in ensuring that the board is staffed with well-educated and experienced directors (Gantenbein & Volonte, 2011). The human capital provided by its board of directors is vital given the corporate board is one of the mechanisms for overseeing the firm and it can arguably provide the knowledge needed to function in the new environment.

Ashenafi, Kelifa, & Yodit (2013) examined the internal and external corporate governance mechanisms and their impact on performance of commercial banks in the absence of organized stock exchange. Multivariate regression with a random effect model was used to analyze 7-year data of 7 private and 2 state-owned Ethiopian banks. Return on assets and return on equity was the dependent variable while board size, existence of audit committee, capital adequacy ratio, loan loss provision, capital ratio, loan to deposit ratio, and square of capital adequacy ratio were the independent variables. Results indicate that capital adequacy ratio has a positive effect on ROA and it is statistically significant at 5%. Board size and the existence of audit committee are 34 statistically significant at 5% and have negative effect on ROA. Loan loss provision and loan to deposit ratio are found to have no significant effect on bank performance. The square of capital adequacy ratio is statistically significant at 1% and has a negative effect on ROA.

Manini and Abdillahi (2015) examined the impact of corporate governance mechanisms on banks' profitability of forty-two sample banks in Kenya for a period of one year. Multiple regression analysis was used to test the relationship between the independent variables of audit committee size, board gender diversity, board size and the dependent variable of return on asset. The regression results show that there is no statistically significant relationship between board gender diversity, audit committee and bank profitability. There is statistically significant negative linear relationship between board size and banks' performance and a statistically insignificant negative linear relationship between board gender diversity and financial performance.

Bussoli, Gigante, and Tritto (2015) investigated the impact of corporate governance on bank performance and loan quality. 48 sample banks in Italy for a period of three years were analyzed using multivariate OLS regression model. Return on asset, return on equity and non-performing loan ratio are the dependent variables; board size, presence of women directors, number of board committees are the independent variables. Results indicate that there is statistically insignificant negative relationship between the number of committees and bank performance. There is statistically insignificant positive relationship between the board size and bank performance. There is a statistically insignificant positive relation between women directors and bank performance. Bank size used as a control variable has a significant negative relation with return on asset.

Olani and Berhanu (2015) examined the determinants of the financial performances of commercial banks in Ethiopia from an internal corporate governance practices perspective. Data for the study was collected for a 6-year period for 10 sample banks (2 state owned and 8 private).Board size, number of board meetings, percentage of female directors, percentage of qualified directors in business-related backgrounds, percentage of directors with prior experience in banking, CEO pay, number of shareholders, presence of audit committee, existence of risk management committee and ownership dispersion were the independent variables while return on assets and return on equity were the dependent variables. Control variables were leverage and ownership type. Multiple linear regression analysis was used for the panel data. The parameter coefficients indicate that there is positive and significant relationship for frequency of board meeting, directors who have prior experience in banking, existence of risk management committee and bank leverage to return on assets.

Qualification of directors and ownership dispersion has significant positive and negative relationship with financial performance of banks. Board size, female director in the board, and the existence of audit committee in the board did not have a statistically significant effect on bank performance, with negative, positive, effects respectively. Ben, Patrick and Caleb (2015) investigated the effect of corporate governance on money deposit bank performance in Nigeria with data period of 8 years. The independent variables were capital adequacy ratio, loan to deposit ratio, non-performing loan to total loan ratio, liquidity ratio, deposit money banks lending rates, cash reserve ratio, board size, and audit committee; return on asset was the dependent variable.

2.3 Customers related reviews

2.3.1 Trust

Trust attracts new customers on each individual network and helps in retaining customers for a longer period. To support this notion, trust has been posited as a major determinant of customer loyalty. Thus, creating trust in customers' minds is of great importance for companies to achieve customer loyalty and to increase bank profitability (Ball, Coelho, & Machás, 2004). Trust plays a significant role in interactions; it actually drives word of mouth and customer loyalty. Developing, improving and practicing trust are considered important aspects of investing in a dyadic and affective relationship between the parties in the relationship. Increased trust between the customer and the business (corporate banks) is cited as critical for relationship success (Kara, Lonial, Tarim, & Zaim, 2005). Customers prefer to continue interacting with organizations and services they trust. (Harrison, 2000) urges financial institutions to increase their trustworthiness in the eyes of their customers in order to improve relationship with them.

2.3.2 Commitment

While some scholars contend that there is no difference between commitment and loyalty (Henning and Klee, 1997) the majority of researchers suggest that these two constructs are related but different and that commitment is vital in building successful relationships, which ultimately leads to loyalty (Berry, Carbone, & Haeckel, 2002). Commitment indicates the motivation to maintain a relationship. When customers are committed, their turnover decreases (Gounaris, 2005). Commitment has therefore been considered as one of the key factors affecting customer loyalty and banks profitability in business sectors (Rauyruen & Miller, 2007). Commitment is another important determinant of the strength of a marketing relationship, and a useful construct for measuring the likelihood of customer loyalty and predicting future purchase of deposit product frequency.

2.3.3 Communication

Communication is defined as the formal as well as informal exchanging and sharing of meaningful and timely information between bank employees and customers (Sin et al, 2002).Communication refers to the ability to provide timely and trustworthy information. Today, there is a new view of communications as an interactive dialogue between the company and its customers, which takes place during the pre-purchasing, purchasing, and post purchasing stages. Communication in relationship marketing means keeping in touch with valued customers, providing timely and trust worthy information on service and service changes, and communicating proactively if a delivery problem occurs. It is the communicator’s task in the early stages to build awareness, develop customer’s preference, convince interested customers, and encourage them to make the purchase decision.

2.3.4 Competence and conflict handling

Competence is defined by perceptions of each of the party relationship amount of skills; abilities and knowledge needed the opposite party to effective function (Smith and Barclay, 1996). Conflict can be healthy and normal in an organizational perspective, lack of tension is ultimately dull and stagnant and unlikely to foster creativity and growth. According to Evans & Beltramini (1987), in a negotiation setting, cooperative versus competitive intentions have been found to be linked to satisfactory problem solution. In short, good conflict resolution will result relationship quality positively.

2.4 Conceptual Framework

The following diagrammatic framework is developed to show how profitability of corporate commercial banks related with different predictors such as indicators of trust, commitment communication and conflict handling and other governance related factors like audit committee members, number of directors, board size, boards' and director educational qualification.

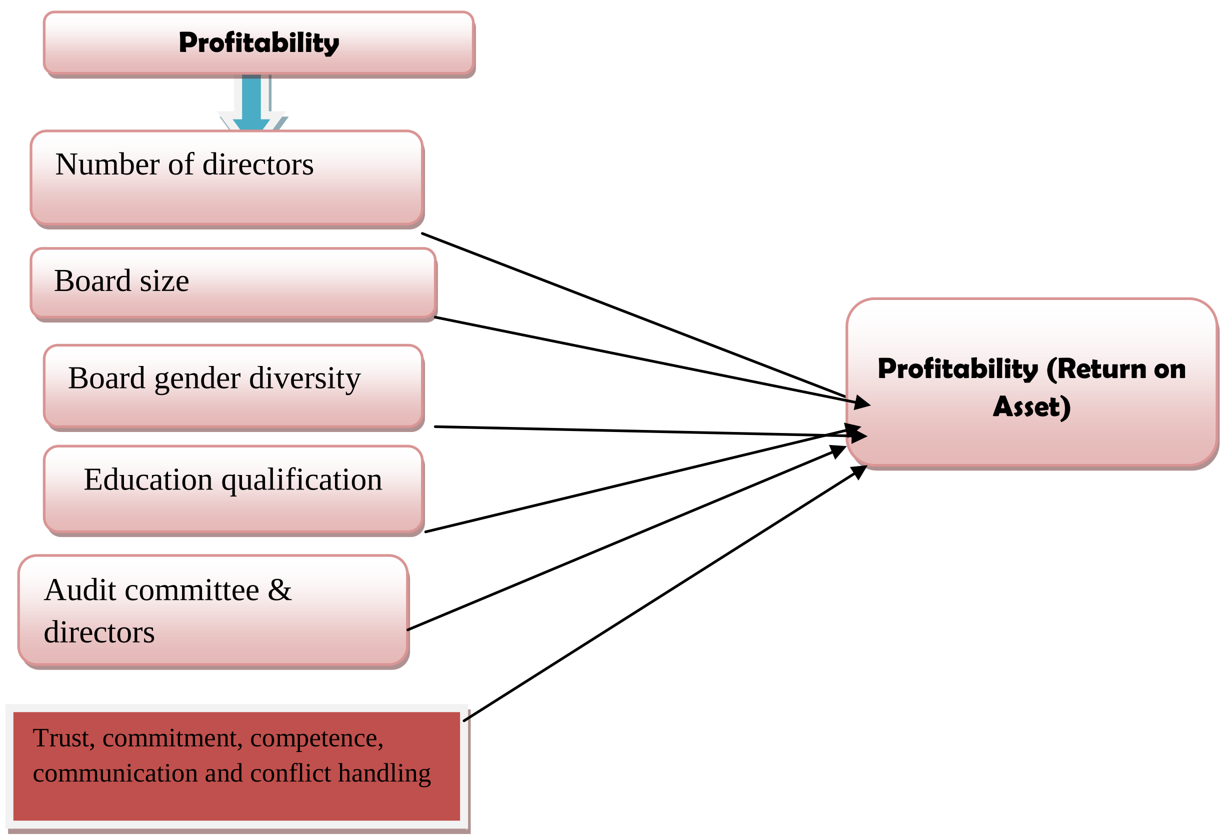


Fig.2.1 Conceptual framework

2.5 Research gap

Better knowledge on how corporate governance impacts performance of banks is important as it has implications on shareholders, depositors, bank management, employees, various other stakeholders and on how regulators formulate and improve policies. Theoretical literature indicates that some of the corporate governance mechanisms can have either positive or negative effects on bank performance; either direction of relation having valid justifications. Identifying the cut-off points will enable balance the effects of the variables in obtaining favorable outcome for the various stakeholders. Ashenafi *et al*. 2013; Assefa & Megbaru, 2014; Yenesew 2012; and Kibrysfaw 2013, have conducted studies in Ethiopia. All the studies have included state owned banks in their sample; their results hence include effect of banks in varying platforms of operation and number of observation has also been limited to five years or seven years data and primary data were not included in the studies. The current study outcome may contribute a lot by giving direction to make amendments of previous study outcomes and formulation of policies and directives of corporate governance that consider the effect of customers on banks profitability so that corporate private bank owners monitor, control and guide operation to benefit various stakeholders.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Research design and research approach

According to Chopra *et al*. (2012), research design is the conceptual structure within which research is conducted. They specifically indicated that a research design is the arrangement of condition for collecting and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. A research design is the arrangement for a precise statement of goals and justification. The research design is a cross-sectional research design in which the data was obtained at a particular point in time special for primary data and the secondary data were extracted from existing source. The samples of corporate private banks customers in Ethiopia from seven selected banks interviewed and different information were gathered regarding the effect of different factors on the profitability of the banks.

This study established causal relationship between variables. It was causal research type, causal research to explain the relationship between the dependent and independent variables. The model was multiple linear regressions using profitability as dependent variable expressed by return on asset and different independent variables like board size, director number; number of audit committee members, number of meetings, gender diversity of directors, etc. were as determinant factors.

The aim of this study was to identify the effect of corporate governance on Ethiopian private commercial banks profitability. To achieve this objective descriptive and explanatory type of research design with a mixed approach, more of quantitative research type was employed. The explanatory type of research design helps to identify and evaluate the causal relationships between the different variables under consideration (Marczyk *et al*., 2005). So, in this study the cross-sectional research design was employed to examine the relationship of the dependent and independent variables.

Research approaches are plans and the procedure for research that spans the step from broad assumption to detailed methods of data collection, analysis and interpretation. (Creswell, 2003). This study used mixed methods research because the research incorporated elements of both qualitative and quantitative approach. In any research, quantitative, qualitative or mixed methods approach can be applied to study the problem. Quantitative research design is used to examine the relationship between variables and test theory. The main emphasis of quantitative research is on deductive reasoning, which tends to move from the general to the specific. Quantitative research provided to be suitable for the research's that used structured questionnaires to collect data depend on small sample size and results presented and analyzed using statics method. Quantitative research plays greater emphasis on the numerical data and statically test to achieve conclusion that can be generalized (Saunders, 2012).

Qualitative research approach is applied for exploring and understanding the meaning of individuals or groups ascribe to a social or human problem. Followers of this approach support honors an inductive style, a focus on individual meaning and the importance of rendering the complex (Creswell, 2014). Mixed methods research approach involve collecting and integrating both quantitative and qualitative data and using distinct design that may involve philosophical assumptions and theoretical frameworks in order to provide more complete understanding of a research problem.

3.2 Source and type of data

The data were collected by using convenience sampling method from seven selected banks using questionnaire i.e any customer came to the banks on data collection day was included in the sample and interview methods also used to gather additional information from managers and directors. The data for linear regression model was obtained from internet that was uploaded by each of the seven private corporate banks on their websites.

3.3 Target population

The study population was the business and premium customers in the whole corporate private banks in Ethiopia and the target population was business and premium customers in seven selected banks at Addis Ababa and the study population of interest was third and fourth rank branches of the seven selected corporate private banks in Addis Ababa.

3.4 Sampling procedure and sampling techniques

According to Douglas *et al* (2006), a sample is a tool to infer something about a population or sample is a portion or part of the population of interest that can represent the characteristics of the whole population. There are many practical reasons why one prefers to select portions or samples of a population. Some of the reasons for sampling are: the time to contact the whole population may be prohibitive, the cost of studying all the items in a population may be prohibitive, and the physical impossibility of checking all items in the population, the destructive nature of some tests and the sample results are adequate. So in this study sample of corporate private banks' customers used since studying the population was impossible due to availability of extremely large target population as a result data collection and compilation process would had been time consuming and very costly if the whole population had been used.

The key tools for data collection were questionnaires administered through the help of customers of selected corporate private banks in Ethiopia and quantitative data were obtained from the websites (internet) of the corporate privates banks which were used for multiple linear regression model. Sampling technique is a method of selecting sample from entire population. For this study simple random sampling was used to select representative sample from a total population of customers in the selected corporate private banks at the study area.

3.4.1 Sample size determination

The researcher used convenience sampling method technique to select district of private corporate bank branches from where the sample respondents of 256 samples were addressed. The response rate of the questionnaire was 97.4%, out of 265 distributed questionnaires 258 were returned and since 256 samples were adequate the researcher included only 256 respondents. Target population of the study was customers from seven private corporate banks. The simple random sampling was used since the characteristics of the customers and work strategy of the corporate private banks assumed to be homogeneous as a result the simple random sampling was considered as an appropriate sampling method in order to get adequate and representative sample size from the population.

In the banking industry there are three types of customers almost in all banks. The first one is ordinary customers who used the bank for day to day services rather than transact huge amount of money or capital. These kinds of customers use corporate privates' banks mainly for basic and immediate uses and only transact small amount of money, less than 200,000 birr. The second type of customers is business customers who transact two hundred thousand to one million birr from one bank other banks. The third types of customers are called premium customers, customers who transact more than one million birr in the banks. In this study business customers and premium customers from seven private corporate banks were included. The researcher preferred these two types customers because they transact huge amount of money in the banks at least they know the concepts of most of the questions included in the questionnaires as a result better information could be obtained and would be better for data collection since such kinds of customers usually and more likely available at banks during data collection time.

In this study third and fourth ranked banks from seven corporate private banks found in Addis Ababa were included. The main interest of the researcher on the third and fourth ranked banks was not only to minimize the size of study population but also to get more reliable information for the questions included in the questionnaire and more adequate data on the corporate banks available at these third and fourth ranked banks. The number of third and fourth ranked banks with their number of customers around Addis Ababa is given here under seven selected corporate private banks.

The problem in identifying and knowing exactly the number of customers in these seven corporate private banks was one customer can has more than one bank book account from two or more than two banks so it is difficult to know the exact number of population in the study since there is overlapping sampling frame in the list. So the total number of population was approximate rather than exact. The approximate numbers of sampled customers in the seven banks of third and four ranks banks were given in the table below.

$$n = \frac{Z^2{}_{\alpha/2}pq}{d^2},\quad n=\frac{(1.96)^2}{(0.06)^2}(0.6)(0.4)=256, \text{ approximately}$$

Where n the total number of sample required

Z=the critical table value of the confidence level (z=1.96)

p=the population variability (p=0.6)

q=the probability of the population not to be occurred (q=1-p=0.4)

d=the maximum allowed error i.e. (e =0.06)

Accordingly in the study 256 respondents were randomly selected from corporate private banks. Even if the population size is not exactly known since it was difficult to get list of customers' identification card (ID) number and their unique account number since one customer can has more than one bank account from different branches of the same bank a total population size of 7314 was obtained as shown in table 3.1 below. The following table contains the number of business and premium customers from third and fourth rank branches in seven corporate private bank branches included in the study. Rather than generalizing the result based on the response of the customers only, interview method also employed simultaneously from branch managers of the seven selected corporate banks in order to strengthen the analysisresult that wascollected from customers, so that consolidating the response of the managers and customers has made the finding of the study concrete.

Table 3.1 lists of sample banksselected for the study

S.N	Name of bank	Year of establishment	Ownership	No of customers
1	Awash International Bank (AIB)	1994E.C	Private	1478
2	Dashen Bank S.C (DB)	1995E.C	Private	1698
3	Bank of Abyssinia S.C (BoA)	1996E.C	Private	987
4	Wegagen Bank S.C (WB)	1997E.C	Private	1236
5	United Bank S.C (UB)	1998E.C	Private	689
6	Nib International Bank S.C (NIB)	1999E.C	Private	658
7	Cooperative Bank of Oromia S.C (CBO)	2004G.C	Private	568
	Total population			7314

Source: From the seven banks data base, 2020

Both primary and secondary data were used in the research. Primary method of data collection was made using 4 point likert scale questionnaire. Secondary data were collected from the books, publications, articles, journals and websites etc regarding the corporate private banks in the study area.

3.5 Data collection methods

The study depends on the primary data and secondary data that collected through standard questionnaires and interviews. Questionnaires applied for descriptive, which identify and describe the variability in different phenomena or explanatory research, which examine and explain relationships between variables (Saunders, Lewis, & Thornhill, 2009). The questionnaire and interview prepared in line with the objectives of the study mentioned above and it was organized in two sections. The first section designed to obtain the demographic information of the respondents and the overall customer attitude towards governance system of corporate banks. The second section concerned on how managers perceive about the effect governance on the profitability of corporate banks. The third section dealt with data obtained from secondary sources like annual reports of the banks and different bulletins and websites of the banks.

3.6 Method of data analysis and Statistical model specification

With regard to data analysis, the study was carried out using descriptive statistical analysis, and regression analysis, and correlation analysis. The qualitative data analyzed by consolidating the responses of the branch managers and customers of the banks. Descriptive statistics used mainly to organize and summarize the demographic data and likert scale variables collected from the customers of the banks. Multiple linear regression model used to identify the effect of different governance related factors like, actual total number of board, total number of board directors, gender diversity exist in board members, number of times the board conduct meeting in a year and total number of audit committee members on the profitability of the banks. Here the dependent variable profitability was expressed using return on asset since profitability has no direct measurement. The value of return on asset obtained using total income divided by the total asset in each of the corporate private banks for ten years data and the model multiple linear regressions model fitted for each of the seven banks included in this study.

In general the collected data analyzed using both descriptive and inferential analysis. The descriptive statistics frequency and percentage were applied to see the overall characteristics the data and multiple linear regression models were used to identify the effect of different governance related factors on the profitability of corporate private banks in the study area using Statistical Package for Social Scientists (SPSS) 20.0 version.

3.6.1 Multiple linear regression

Multiple linear regressions are regression model that have more than one regressor (independent variable). The primary objective of regression is to develop a regression model, to explain the relation between one or more variables in a given population. Multiple linear regressions contain two or more independent variables and one dependent variable. The general model for multiple linear regression analysis in which a response is related to a set of quantitative independent variables (x_is) and dependent variable (Y).

Multiple linear regression analysis is used to estimate models to describe the distribution of a response variable with the help of a number of predictor variables. In multiple linear regression analysis, we have several explanatory variables (X's) and one dependent variable Y, and assume that the relationship between Y and X's is linear, then the model that indicate the linear relationship between Y and X's is given by:

$$y_i = \beta_0 + \beta_1 x_{1i} + \cdots \ldots \ldots \ldots + \beta_k x_{ki} + \varepsilon_i i = 1,2 \ldots \ldots \ldots \ldots n$$

Where, y_i is the i^{th} observation of response variables, profitability of banks expressed using return on asset.

$x_{1i} \ldots \ldots \ldots .. x_{ki}$ are predictor variable corresponding to i^{th} observation are gender diversity, total number board, total number of board directors, total numbers of Audit committee and number of times the board conduct meeting per year and the dependent variable was profitability of the corporate commercial banks which was measured using return to asset i.e total income divided by the total asset of seven banks included in our study for ten years data.

β_0 is the value of mean response when all predictor variables are set to zero

$\beta_1 \dots\dots\dots\dots\beta_k$ is the change in average response for each unit change in corresponding predictor variable.

Mathematical model mathematically, the model is stated as follows:

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \text{- - -} + \beta_k X_{ki} i=1, 2. . .n$$

Where β_0 is the and $\beta_{1,}$ β_2……………β_k are coefficient of the variable $X_{1,}$ $X_{2,}$ . . .,X_k respectively. But in this research paper five independent variables and one dependent variable were used.

That means

$$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3 X_3 +\beta_4 X_4+ \beta_5 X_5 +€_i$$

i=1, 2. . . 5

Where Y=profitability of corporate banks, expressed using return on asset

3.6.2.1 Linear regression model assumptions

The model based on several simplifying assumptions, which are as follows:

1. The regression model dependent variable and coefficients of explanatory variables is linear.

2. The error term is normally independent with mean zero and constant variance or $e_i \sim N(0, \delta)$

3. For given X's, the variance of ei constant or homoscedastic, aVar (e_i) = δ^2

4. The error term has multivariate normal distribution with mean zero and constant variance.

5. There is no exact linear dependence among independent variable.

6. Explanatory variables (factors) are non-stochastic.

7. Explanatory variables are uncorrelated (no multicollinearity).

3.6.1.2. Estimation of model parameters

The parameters of regression are estimated by ordinary least squares (OLS) method. OLS parameter estimates can be obtained by minimizing the sum of the squared residuals:

$\sum ei^2 = \sum (y_i\text{-}\beta o\text{-}B_1X_{1i}\text{-}\beta_2X_{2i}\text{-}\ldots\text{-}\beta_KX_{Ki})^2$

The Estimated model is given by**:** $Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3 X_3 +\beta_4 X_4+ \beta_5 X_5 + \beta_6 X_6 +€$

Where X_1 is board size, X_2 is number of directors, X_3 is number of gender diversity exist in board members, X_4 is actual total number of board, X_5 total number of audit committee members and X_6 number of times the board conduct meeting in a year

3.6.1.3. Overall goodness of fit test

The R-sq adjusted takes in to account the fact that R tends to overestimate the amount of variation account for in the population .that is if we apply the regression equation derives from one sample to another independent sample we will almost always get a smaller R in the new sample than in the original, R^2= SSR/SST. The coefficient of multiple determinations: is the amount of variation explained by the regression model.

3.7 Definitions of variables

i. Independent variables: The independent variables included in this study were: variables related to governance issues such as gender diversity in board, number of board members who had college degree or higher, number of sub-committees exist under the board of the bank, the actual total number of board meetings held per year, total number of board of directors, total number of audit committee members**,** total number of directors who have degree and above**,** total number of directors who works in the same institution before joining your organization and number of times the board members conduct meeting in a year for ten years.

ii. Dependent variable: The dependent variable was the profitability (expressed using return on asset) of the corporate banks considered in the study area. The dependent variable was profitability of corporate private banks which was expressed using return on asset for linear regression models and based on perceptions or judgment of respondents for logistic regression model. The dependent and independent variables with their measurements were shown in the table below:

Variables	**Measurement**
Dependent: Profitability	ROA= Net income before tax /Total Assets
Independent:	
Gender diversity exist in board members	number
Boards committee	number
Actual total number of board	number
Total number of board directors	number
Total number of audit committee members	number
Number of times the board conduct meeting in a year	number

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the data analysis results, using both descriptive and inferential statistics methods. In the first section of the chapter demographic profiles or variables obtained from surveyed respondents presented and discussed using descriptive statistics, like frequencies and percentages briefly. The second part of the chapter dealt with the analysis of different data obtained using questionnaire on likert scale variables and the third part was inferential statistics like multiple linear regression model used to check whether candidate independent variables had significant effect on the outcome variable, profitability of the corporate banks. All the model assumptions and interpretations of model results were briefly explained and discussed obtained from multiple linear regressions and logistic regression models results one by one.

4.2. Descriptive statistics

4.2.1 Background information of respondents

The following section had presented the profile of respondents' surveyed in this research; like gender, age, duration of time respondents spent as customer in the bank, marital status of customer, religion, education level, and likert scale variables which can assumed to be have effect either directly or indirectly on the profitability of the corporate commercial banks. The data were collected from seven corporate commercial banks found in Addis Ababa which includes: Dashen bank, Wegagen bank, Awash bank, Nib International bank, United bank, Abyssinia bank and Cooperate bank of Oromia. The researcher used convenience sampling technique to select district random sample respondents of 256. The response rate of the questionnaire was 88.4%, out of 300 distributed questionnaires 265 were returned and since 256 samples were adequate the researcher used only 256 respondents as study participants. As the table below showed a total of 256 respondents' information on the factors of profitability of the seven corporate commercial banks were assessed based customers responses.

The first question asked for the customers was to specify bank that they are currently using from seven private corporate commercial banks considered in the study and according to the responses of customers, 59 (23%) of the respondents were from Awash bank, 41 (16%) of them were from Dashen bank, 28 (10.9%) of them were from Wegagen bank, 47 (18.4%) of the were from bank of Abyssinia, 35 (13.7%) were from cooperative bank of Oromia, 24 (9.4%) of them were from United bank and the rest 22 (8.36%) were from Nib International bank. Concerning age distribution of the respondents in the sample data, 28 (10.9%) of them were less than 20 years old, 71(27.7%) were from age of 20 to 30 years old, 91 (35.5%) of them in the age interval of 31 to 40 years and the rest 66 (25.8%) were above 40 years old. Form the analysis result one can understand that most of the banks customers were found in the age interval from 20 to 30 (27.7%) and 31 to 40 (35.5%) which is the youth and adults age group which is working age. The gender distribution of the customers in the seven private commercial banks was also analyzed and the result showed that there was a little difference in the number of male and female customers in the banks, 120(46.9%) of the respondents were female and 136(53.1%) of them were male customers. In general most of the respondents obtained from Awash bank and least number of respondents were from Cooperative banks of Oromia and most of the respondents were found in youth and adult age group. The gender distribution of the respondents didn’t show big difference.

The other important demographic factor considered in this study was the educational level of the respondents in corporate commercial banks in which it was categorized into illiterate, elementary, diploma, high school, degree, and above degree. Based on the result of descriptive statistics analysis, 6(2.3%) of the respondents were illiterate, 36(14.1%) of them were elementary, 54(21.09%) of them were high school complete, 51(19.9%) of them were diploma holders, 57(22.3%) were degree holders and the rest 52 (20.3%) were above degree. Concerning the duration of time that customers spent as customer in their corporate commercial banks, the researcher classified it into five groups or categories: less than one year, from one to three years, four to six years and above six years. Accordingly 22(8.8%) of the respondents from the study sample served less than a year, 55(21.5%) of them stayed one to three years, 88(34.4%) of them stayed in the banks for four to six years and the rest 91(35.5%) of the respondents had been the banks customers for more than six years. The other important variable which were considered as a factors for profitability of private commercial banks were the marital status of customers in which about 74% of the respondents single and married and regarding the religion of the customers included in this study about 65% of the were Orthodox and Muslims (see table 4.1 below).

Table 4:1. Demographic characteristics of respondents

Variable with its Category		Frequency	Percent
Banks	Awash	59	23.0
	Dashen	41	16.0
	Wegagen	28	10.9
	Abisinia	47	18.4
	Cooperative bank of Oromia	35	13.7
	united bank	24	9.4
	Nib bank	22	8.6
Sex	Male	120	46.9
	Female	136	53.1
Age	below 20	28	10.9
	20-30	71	27.7
	31-40	91	35.5
	above 40	66	25.8
Education Level	Illiterate	6	2.3
	Elementary	36	141
	High school	54	21.09
	Diploma	51	19.9
	Degree	57	22.3
	Above degree	52	20.3
Duration of time as a customer in the banks	Less than one year	22	8.6
	1-3 years	55	21.5
	4-6 years	88	34.4
	Above 6 years	91	35.5
Marital status	Single	77	30.1
	Married	112	43.8
	Divorced	56	21.9
	Widowed	11	4.3
Religion	Orthodox	93	36.3
	Muslim	74	28.9
	Protestant	50	19.5
	Others	39	15.2

4.2.2 Profitability indicators using likert scale variable

Under this subtopic different factors which were assumed to have an effect on the profitability of private corporate commercial banks were analyzed and discussed using frequencies and percentages. The likert scale variables were obtained from the responses of respondents for different questions related to the private commercial banks activities done to upgrade and satisfy the customers' needs so that the profit of the corporate commercial banks would be maximized. The questions were mostly linked with activities related to increase trust of customers, way of communication between customers and the private commercial banks, competence of the banks with other customers, the commitment that the banks had to serve their customers and the banks system to handle conflicts or disagreements happened between the customers and the banks.

4.2.2.1 Trust and competence indicators on roles of the banks

Increased trust between the customer and the business (corporate banks in this case) is cited as critical for relationship success (Kara, Lonial, Tarim, & Zaim, 2005). Customers prefer to continue interacting with organizations and services they trust. (Harrison, 2000) urges financial institutions to increase their trustworthiness in the eyes of their customers in order to improve relationship with them. Trust is the belief that a partner's promise is reliable, and a party will fulfill his/her obligations in the relationship. Trust is an important construct in relational exchange because relationships characterized by trust are so highly valued that parties will desire to commit themselves to such relationships and are likely to stay as loyal customer for long period of time in the system and as a result more customers will come to the business after they look and check how the system is working. Competence is the other important factor that can encourage business profitability since the firm or company cannot stay in the market unless it is competent enough and win the opponents. In the subsequent tables results obtained from question related to trust indicators, communication indicators, competence indicators and conflict handling indicators responded by customers of sample data were presented using frequencies and percentages. The indicators were obtained using likert scale ratings based on the respondents feeling towards different those indicators. The indicators were rated using: strongly agree (SA), Agree (A), disagree (D), and strongly disagree (SD) based on the perception of the respondents.

Table 4:2: Trust Indicators in the Seven Private Commercial Banks

No	Variable or Questions	SA		A		D		SD	
		Freq	%	Freq	%	Freq	%	Freq	%
1	The staffs are identifying customer needs by studying their profile	60	23.4	95	37.1	58	22.7	43	16.8
2	Bank highly concerned on safeguarding and transparent record keeping of customers deposit	107	41.7	95	37.1	35	13.7	19	7.5
3	Transaction and Account related information is protected adequately	100	39.1	102	39.8	40	15.6	14	5.5

As the table above depicted there were three important indicators of trust; whether the banks were identifying customer needs by studying their profile every time or not, whether banks highly concerned on safeguarding and transparent during record keeping of customers deposit accounts or not and whether transaction and account related information was protected adequately or not by using likert scale classification of customers perception. It is assumed that the above mentioned tasks are common to all corporate commercial banks and have effect on the profitability of the corporate commercial banks too.

From table above 60 (23.4%) of the respondents highly agreed, bank workers were identifying customer needs by studying their profile every time, 95 (37.1%) of them were agreed, 58 (22.7%) of them were disagreed and 43 (16.8%) of them were highly disagreed. This result showed the role of the bank to identify customers' needs by studying their profile was in good manner since the majority of the respondents argument was positive, 60.5% of them were said the banks were doing according to the customers' interest rather based on the banks' interest. The other indicator analyzed under trust was, whether bank highly concerned on safeguarding and transparent record keeping of customers' deposit and of the total respondents, 107 (41.7%) of them strongly agreed, 95 (37.1%) of them were agree, 35 (13.7%) of them were disagree and 19 (7.6%) of them were strongly disagree that bank highly concerned on safeguarding and transparent record keeping of customers' deposit. Concerning the adequacy of transaction and account protection related information issues, 39.1% of the respondents were strongly agreed, 39.8% of them agree, 15.6% were disagree and only 5.5% of the respondents were strongly disagreed.

In general, according to the customers' responses, most of them had positive attitude towards the role of the corporate commercial banks on identifying customer needs by studying their profile every time, safeguarding and transparent during record keeping of customers deposit accounts and transaction and account protection related information issues. Only small number of respondents had disagreements, less than 25% of them were disagreed, this might because bad personal behaviors of some staffs at some branches of the corporate commercial banks.

Table 4:3: Competence indicators in the three private banks using likert scale rating

No	Variable or Questions	HA		A		D		HD	
		Freq	%	Freq	%	Freq.	%	Freq	%
1	Staffs are quite knowledgeable about all products provided	107	41.8	95	37.1	43	16.8	11	4.3
2	The clarification provided by the branches about different product/service is explicit	82	32	91	35.5	54	21.1	29	11.8
4	The bank system extends banking hours to cater for customer needs	91	35.5	90	35.2	54	21.1	21	8.2
5	Available of information for customer on new branch nearby	73	28.5	98	38.3	57	22.3	28	10.9

As the table showed there were five important competence indicators; whether staffs of banks are quite knowledgeable about all products provided by the corporate banks, clarification provided by the branches about different product/service in the banks explicitly, whether the bank provide free ATM charges for customers of your bank or not, availability of information for customer if new branch nearby opened, and whether the bank system extends banking hours to cater for customer needs were included using four likert scale rating.

Of the total respondents 107 (41.8%) were strongly agreed that staffs of banks were quite knowledgeable about all products provided by the corporate commercial banks at the study area, 95 (37.1%) of them agreed, 43 (16.8%) were disagreed, and lastly only 11 (4.3%) of the respondents were strongly disagreed on the issue that staffs working in the bank were quite knowledgeable about all products provided by the bank. The other important competence indicator included in this study was clarification provided by the bank workers about products or services found in the bank explicitly. Based on the result obtained from analysis, 32% of the respondents were highly agreed, 35.5% of them were agree, 21.1% were disagree and lastly only 11.3% of them highly disagreed, so according to the respondents response more than 57% of them were agreed on the clarification on the bank products given by the bank workers.

he other factor which was assumed to be affect profitability of corporate commercial banks was extending banking hours to cater for customer needs. Based the result, 35.5% of the respondents were said that they were strongly agree that the bank extend the banking time in such a condition, 32.5% of them also agreed, 21.1% of them were disagreed and 8.2% of them were strongly disagreed. Similarly most of the respondents were strongly agreed on the availability of information for customer for new branch nearby opened so that the customers can easily access and use banking the place where it found nearby their homes rather than going far from their home (table 4:3 above).

4.2.1.2 The communication and conflict handling at corporate commercial banks

Communication of customers with the corporate commercial banks was one of the factors that considered as influencing profitability of corporate commercial banks at the study area.The researcher tried to express communication of customers using different statements which can possibly indicate ways of communications; whether the staffs are usually calling customers regularly basis to check their account and cheques' information, whether bank provides up to date information to customers for review on their accounts, whether bank employees inviting customers to discuss about in build-up of relationship with bank and service problems, whether the bank strongly value customers and devoted to respond the questions of customers when there is a change in the policy of the bank and conflict handling systems are briefly discussed one by one.

The first important factor considered under communication of customers was whether the staffs were usually calling to customers on regular basis to check their account and cheque information. 22.7% of the customers were highly agree, 35.5% of them agreed, 27.7% of them were disagree and 14.1% of them were highly disagree. Regarding the issue of bank employees' roles in inviting customers to discuss about in build-up of relationship with bank and service related problems, most of the respondents were satisfied by banks' action in building up the relationship with the customers since it is crucial factors these private corporate commercial banks in particular and in any business in general all over the world.78(30.5%) of the respondents highly agreed that the bank employees had willingness to invite customers to discuss on in buildup of relationship with bank and on problems occurred in giving service, 86 (33.6%) of them were agree, 63 (24.6%) of them were disagree, 29(11.3%) of were strongly disagree. In general majority of the respondents had positive attitude towards the communication of customers and the private commercial banks.

Similarly the respondents were strongly agree and agree (82%) on the issues of banks' communication with the customers in the cases when there is a change in the policy of the bank, and whether the bank strongly value customers and devoted to respond the questions of customers timely and correctly, which are very important and crucial component to build good marketing relation with customers in any business area in order to compete and win the business so that the profit of the banks optimized (table 4:3 below).

The conflict handling in the private corporate commercial banks is crucial and fundamental task that should be carryout in order to get good and optimum profit from banks. Conflict handling in private corporate commercial banks was one of the factors that considered as a factor affecting profitability of the corporate commercial banks and it was one the major concern of our study. The investigator tried to express of conflict handling between customers at the seven private banks using different indicators; such as the banks make customers feel safe and encourages them to raise complain, whether staffs were good at listening & solving problems as of in customers interests and whether there exist better problem resolving habits in the banks.

Based on the analysis result 29.7% of the customers highly agreed that the banks made customers to feel safe and encourages them to raise complaints, 34% of them were also agree, 19.5% of them were disagree and 16.8% of them were highly disagree. When we see whether staff are good at listening & solving problems as of in customers' interests, 32.8% of the respondents were highly agree, 34.8% of them were agree, 20.3% of them were disagree only 12.1% were highly disagree. The final factor of profitability included in the above table was whether there exist better problem resolving habits in the bank system, and most of the respondents highly agreed and agreed, that there exist good habit and experience in the seven banks at the study area in which they used to solve any problem happed in the banks (table 4:3 below). In general most of the respondents were agreed on the conflict management system of the corporate banks considered in this study since highest percent of the respondents response was favored highly agree and agree options (look at table 4.3 below).

Table 4.3 Communication and conflict handling at corporate commercial banks

No	Variable or Questions	HA		A		D		HD	
		Freq	%	Freq	%	Freq	%	Freq	%
1	staffs are calling customers on their account & checking cheques regularly	58	22.7	91	35.5	71	27.7	36	14.1
2	The bank Invite customers to discuss and buildup of relationship	78	30.5	86	33.6	63	24.6	29	11.3
3	The bank Strongly value customers and devoted to respond the questions of customers	119	46.5	91	35.5	30	11.7	16	6.3
4	During policy change the bank or any other relevant issue, the bank communicates to customers on time	104	40.6	91	35.5	38	14.8	13	5.1
5	Bank encourages customers to raise complaints	76	29.7	87	34	50	19.5	43	16.8
6	Bank staffs are good in listening and solving problem	84	32.8	89	34.8	52	20.3	31	12.1

7	Availability of better problem solving habits in the banks	93	36.3	87	34	50	19.5	26	10.2

4.2.1.3 The overall satisfaction of customers in the private banks

The researcher tried to express the satisfaction of customers using different phrases and expressions, whether courteousness of frontline staff of the banks satisfy customers or not, whether customers' relationships with the bank encourages them to refer someone to bank or not, whether one's relations with bank lead to a person's loyalty with the bank or not, whether banks has a reputation for using skilled employees or not and whether the bank provides me quality services.

The arguments of the customers towards courteousness of frontline staff of the banks most customers were agreed and highly agreed that frontline workers were courteous and very polite in treating their customers, accordingly, 35.9% of the respondents were highly agree on the courteousness of the frontline workers, 36.7% of them were agree, 17.6% of them were disagree, and only 9.8% highly disagreed. Regarding whether the customers' relationships with the bank encourages them to refer someone to bank, 38.3% of the respondents were highly agree, 39.5% were agree, 12.9% were disagree and only 9.4% were highly disagree. Similarly the responses of the respondents towards the quality of services provided by bank in most cases depict positive response i.e 35.2% and 34% of them highly agreed and agreed respectively, 17.6% and, 13.3% disagreed and highly disagreed respectively. In table below, the fourth and fifth satisfaction measure were whether banks had a reputation for using skilled employees and whether bank regularly visit customers respectively and most of the customers said that the banks worker were skilled with highly qualified but regarding to whether banks visit customers or not most of the customers (64%) were disagreed and highly disagreed (look at table 4.4 below).

Table 4:4 Rating of satisfaction of customers at corporate commercial bank

No	Variable or Questions	HA		A		D		HD	
		Freq.	%	Freq.	%	Freq.	%	Freq.	%
1	Courteousness of frontline staff of the banks satisfy	92	35.9	94	36.7	45	17.6	25	9.8

	customers								
2	customers' relationships with the bank encourages to refer someone to bank	98	38.3	101	39.5	33	12.9	24	9.4
3	The bank provides quality services	90	35.2	87	34	45	17.6	34	13.3
4	Bank has a reputation for using skilled employees	68	26.6	84	32.8	58	22.7	46	18
5	Bank regularly visit customers	30	11.7	60	23.4	69	27	97	37.9

4.3 Corporate commercial banks managers interview result

The managers from the seven corporate banks were asked for different kinds of question in order to strengthen study result by comparing and contrasting responses obtained from customers. In these seven corporate commercial banks at different branches of banks a number of managers were interviewed by asking them a number of questions. The questions asked or interviewed were similar for all of the managers but the response obtained from the managers had little bit different from bank to bank and also from branches to branches and the researcher tried to incorporate their response by compiling together here under in the following paragraphs.

The first interview or question was: what proportion of your new customers are individuals switching from competitors? If known, why do these customers change banks? For this question most of the managers responded that only very small number or proportion of the competitors or customers switched from our banks and still the problem was not as such series but for those customers who are switched from our banks the main reasons raised were lack of enough currency that can fulfill or accommodate their needs and the delay of their request i.e the response for their request usually not on time as a result the business that they want to accomplish would be out dated. The managers said that they had good system to solve and handle conflict occurred among the customers and workers or in between the customers themselves or staffs with staffs. Arbitration and mediation were some of conflict solving methods in their banks and also the banks have very strict rules and regulations which used to protect occurrences of conflict between or among any individual in the banks. The managers stated that the main reasons are lack of currency, dollars and some hindering bank rules and regulation and also legal system from federal government is also somehow obstacle that hinders our customers from doing business for long period of time with us, so our system problems were not the main reason for our customers for not doing business with us for long period of time and we recommend for the commercial bank of Ethiopia to have very relaxed system in order to encourage us, especially in facilitating for enough liquid assets.

As most managers explained, they want to do business with few selected value creating customers since in every business time factor is determinant to win the competition, so preferring few selected value creating customers can bring change in business with short period of time but this is not always good in business since those customers who small money might change their banks unless we taker of them. And the final question was, do you change your working procedures in order to adapt to your customers needs? Please explain why, giving examples where applicable. Yes exactly, said most of them because unless the bank fulfill the customers' needs and interest the bank easily loss its customers.

4.3.1 Managers interview for yes or no question with explanation

The responses of all managers for the questions do the presence of female board of directors (in terms of board diversity) helps improve the banks operation and performances? were yes and they reason out that female have especial talent that make them different from male in looking to the problem and searching for the solution of the problem and finally reach at the more faster solution. The second question was on significance of educational level and the managers agreed on that the educational qualification had significant effect on profitability because in today's high competition business world it is impossible to survive in the business unless highly educated managers and workers are involved in the banking system, especially staffs working at business facilitating software installation and high level operation.

Regarding effect of number of internal board sub-committees on banks' financial performance most of the managers agreed that internal board sub-committees are the crucial agents of any bank systems and if the number of internal sub-committees is very small it was difficult to handle huge amount of performed by them as a result the whole performance of the bank will decline and distorted. But few number of the managers responded that it doesn't matter whatever the number of internal sub-committees is small, it is all about quality and agreements the committees bring difference rather than they are many in number. Regarding increasing the frequency of the board meeting impact on bank financial performance, most of the managers responded that frequency of meeting nothing to do for financial performance rather it spend more time on unnecessary things, so the frequency of meeting must be reduced and wise use of time encouraged.

In relation to the effect liquidity asset on private bank financial performance, they said that high liquidity may or may not affect financial performance of bank; there is a time that high liquidity is important for banks, for example during sudden problem happened in country high liquidity may be needed but in some other normal time high liquidity is not important since in business very or small liquidity is not recommended rather medium liquidity is good in business. Increasing the percentage of holding by board members had significant effect on their monitoring and controlling efficiency according to most of the managers' responses, because decreasing percentage of holding means decreasing investment, so investment decreased is the same as efficiency of the banks decreasing. According to managers' responses almost in all private corporate commercial banks larger amount of money was gained from depositors, if the amount of deposit is less the bank will not get interest from loan as a result the corporate banks was highly influenced so depositors role is very in their banks.

Regarding importance of female board of directors' in terms of board diversity to improve the banks operation and performances, the managers responded that the effect of presence of female in directors helps to improve the banks operation and performance i.e if there is diversity different ideas generated and used to solve different problems according to their responses. The managers also agreed on those workers who came from other companies contribute a lot for the bank even if their contributions were not as such different from the already serving workers and some of the managers agreed on increasing audit committee increases banks effectiveness by reducing extra vagrant expense and by controlling some illegal workers in the banks.

4.4 Inferential statistics

In this study the important inferential statistics method used was linear regression model. This model is important statistical models to analyze the effect of independent variable on the dependent or outcome variable. In linear regression model both dependent and independent variables must be continuous variables.

4.4.1 Linear regression model analysis

The main purpose of regression model is to determine how the average value of the dependent variable, y varies with the value of a predictor x. Regression analysis also allows us to assess how accurately an independent variable predicts a dependent variable. Specifically, it enables us to determine the proportion of the variation in the dependent variable that can be accounted for by the variation in the independent variable. Regression analysis can also tell us whether or not a particular relationship is statistically significant. An essential first step in regression analysis is to draw appropriate graphs of the data. In this study profitability was used dependent variable which was measured or obtained by net income divided by total assets. The data obtained from the corporate banks annual report for ten years, 2010-2019. There were a number of independent variables like board size, number of board meetings, and gender disparity in director's position and so on.

4.4.1.1 Assumptions of linear regression model

Linear relationship between the dependent variable (y) and explanatory variable (X), the outcome variable (y) should be normally distributed for each value of explanatory variable (x), standard deviation of y should be approximately the same for each value of x, and all the observations should be independent.As it is known profitability of corporate commercial banks was used as dependent variable in this study. The dependent variable was obtained indirectly from return on assets and given by net income divided by total assets and from all of the seven corporate commercial banks total net income and total assets data were collected for ten years (2010-2019). Whereas the independent variables were gender diversity exist in board members, numbers of committee members exist under board of the bank, actual total number of board, total number of board directors and total number of audit committee members. The variables, both dependent and independents in this linear regression model were quantitative variable, so the first assumption of linear regression model fulfilled.

In the following tables different descriptive statistics, linear regression model result, Pearson correlation coefficients, model summary, ANOVA (overall model result), and residual statistics were shown. The charts shown next to the tables were used to show the fulfillments of the assumption of linear regression model. The scatter plot used to confirm the existence of linear relationship between the dependent variable and each of the independent variables, The P-P plot and histogram used to show the fulfillment of normality assumption (error terms are normally and independently distributed) and the charts showed us the assumption were confirmed, so we can proceed to interpret the result. For each of the banks separate and independent linear regression models were fitted since the banks had independent and incomparable profit characteristics and also the total assets and total incomes that the banks had were too much different from one bank to the other.

4.4.2. Linear regression model result on Awash International Bank

In linear regression model after we obtained the analysis result, the significant factors and insignificant factors; all the assumption of linear regression model checked, the next step is interpreting the results. Accordingly the model summary tables, the overall model fit and the charts showed assumption of linearity between dependent and each of the independent and normality were checked and they satisfy the population from which the sample obtained was normally and independently distributed, so we proceed to interpret our model result.

The following table show the linear regression model analysis result on Awash International bank, in the model the profitability of the bank was dependent variable and gender diversity, total number board, total number of board directors, total numbers of Audit committee and number of times the board conduct meeting per year were independent variables. Boards committee members, total numbers of board, total number of audit committee members and number of times the board conduct meeting per year were statistically significant factors in the model since the p-values were less than the level of significance at 5% level, so four factors out six independent variables were the determinants of the profitability of Awash international bank at the study area.

In the model boards committee member, actual number of boards and number of times the board conduct meeting per a year had negative coefficients in the model implied that as the factors increased by one unit the profitability of the bank decreased by one times the value of the coefficients whereas total number of audit committee members had positive value of regression coefficient implied that it had positive effect on the profitability of the bank and as the number of audit committee increased by one the profitability increased by the coefficients times one. The negative linear regression model coefficients depicted that as the value of the independent variable increased by one the profitability of the banks would decreased by the coefficient times unit increment in the independent variable whereas the positive regression coefficient showed us that the unit increment on the independent variable would bring increment on the dependent variable by the coefficient times keeping the effects all other variables constant.

In the model below all the assumption of the linear regression model were checked and satisfied the requirement of the model. The assumptions of linearity between dependent and all of the independent variables, the absence of collinearity (the independent variable had no significant correlation with each other), normality assumption were checked and verified. The entire model summary, ANOVA, descriptive statistics, R-squared and different charts were given after tables.

Table 4.5 Linear regression model result on Awash International Bank

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	4.280	0.340		12.60	0.001		
Gender diversity exist in board members	0.023	0.020	0.146	1.156	0.331	0.634	1.577
boards committee	-0.370	0.042	-1.586	-8.907	0.003	0.317	3.151
actual total number of board	-0.151	0.040	-0.527	-3.773	0.033	0.516	1.938
total number of board directors	-0.018	0.020	-0.250	-.890	0.439	0.128	7.831
total number of audit committee members	0.048	0.013	1.116	3.619	0.036	0.106	9.448

number of times the board conduct meeting in a year	-0.129	0.038	-0.503	-3.437	0.041	0.469	2.130

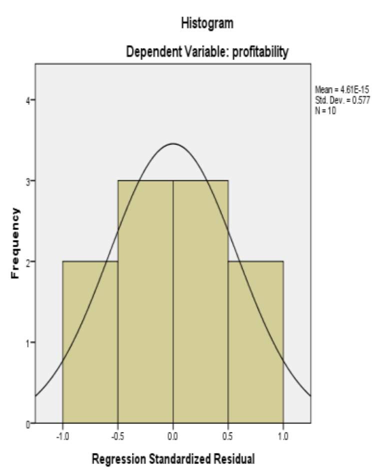
The table below showed the summary of model adequacy checking methods like R-square and ANOVA table. From ANOVA table the overall model was significant since the null hypothesis was rejected implied that at least one independent variable is significant using F-statistics. The computed R^2 value for our model was 0.869 (R^2=0.97) showed fitness of good of model and the explanatory power of our model (97%) about ninety seven percent of the model is explained by the predictors.

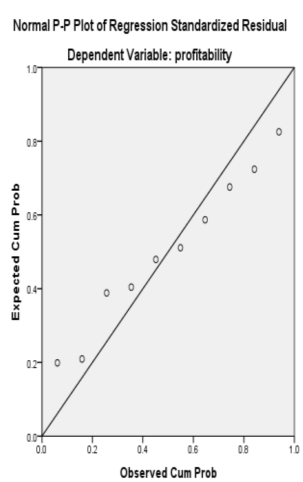
Table 4.6 Model summaries and ANOVA table

	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.985	0.970	0.909	0.1012

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.997	6	.166	16.056	0.022
	Residual	.031	3	.010		
	Total	1.028	9			

Charts





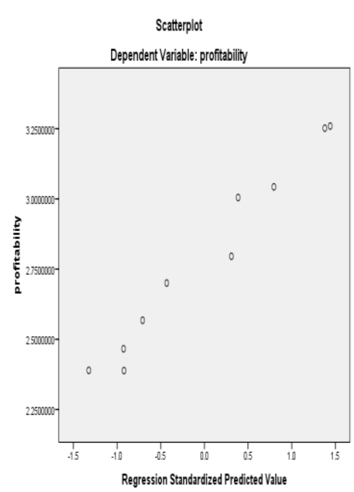


Fig. 4.1 Histogram, p-p plot and scatter plot

4.4.3 Linear regression model result on Wegagen Bank

The following table showed the linear regression model analysis result on Wegagen bank, in the model the profitability of the bank was dependent variable and total number board, total number of board directors, total numbers of Audit committee, gender diversity and number of times the board conduct meeting per year were independent variables. In the regression model all of independent variables were statistically significant, since the p-values were less than the level of significance at 5% level, so all of the factors were the determinants of the profitability of Wegagen bank at the study area.

In the model except total number of audit committee members all the other independent variables had negative beta coefficient implied they had significant indirect effect on the profitability of the bank but total number of audit committee members had positive or direct effect on the profitability of the bank. The negative linear regression model coefficients depicted that as the value of the independent variable increased by one unit the profitability of the bank would decreased by the coefficient times the unit increment in the independent variable whereas the positive regression coefficient showed that the unit increment on the independent variable would bring increment on the dependent variable by the coefficient times the unit increase of the independent variable keeping all other variables constant. In the model below all the assumption of the linear regression model were checked and satisfied the requirements.

Table 4.7 Linear regression model result on Wegagen Bank

Model	Unstandard. Coefficients		Standard. Coefficients	T	Sig.	Co linearity Statistics	
	B	Std. Error	Beta			tolerance	VIF
(Constant)	5.454	.308		17.708	0.000		
total number of board directors	-0.011	.004	-0.534	-3.237	0.032	0.256	3.9
total number of audit committee members	0.097	.023	0.922	4.247	0.013	0.148	6.8

number of times the board conduct meeting in a year	-0.101	.023	-0.378	-4.375	0.012	0.932	1.1
gender diversity exist in board members	-0.132	.026	-0.648	-5.163	0.007	0.443	2.3
numbers of committee members exist under board of the bank	-0.297	.048	-0.972	-6.212	0.003	0.285	3.5

The following tables depicted the summary of model adequacy checking methods like R-square and ANOVA table. From ANOVA table the overall model was significant since the null hypothesis was rejected implied that at least one independent variable is significant using F-statistics. The computed R^2 value for our model was 0.93 (R^2=0.93) showed fitness of good of model and the explanatory power of our model (93%) about ninety three percent of the model is explained by the predictors.

Table 4.7.1 Model summary and ANOVA table

		SS	df	MS	F	Sig.	Rs	RA
	Regression	1.713	5	0.343	27.895	0.003	0.97	0.93
	Residual	0.049	4	0.012				
	Total	1.763	9					

Charts

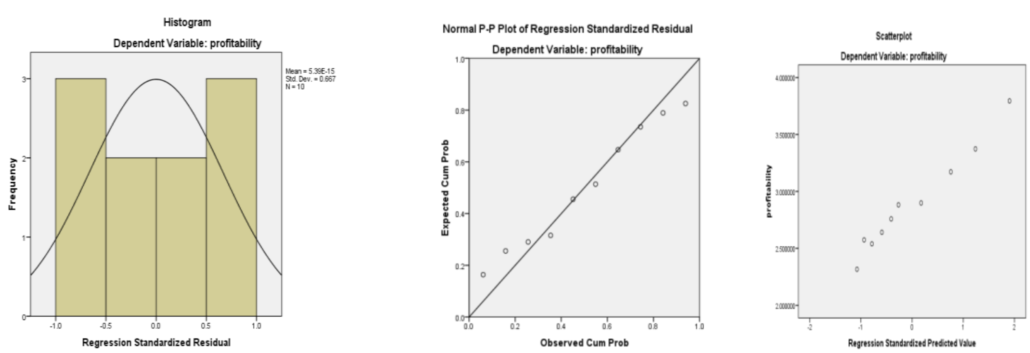


Fig. 4.2 Histogram, p-p plot and scatter plot

4.4.4 Linear regression model result on Abyssinia Bank

In the following table the linear regression model analysis result on Abyssinia bank was shown by taking profitability of the bank as dependent variable as the previous two models and total number board, total number of board directors, total numbers of audit committee and number of times the board conduct meeting per year were independent variables. In the regression model the independent variables such as number of times the board conduct meeting in a year, total number of board directors and total number of audit committee members were statistically significant, since the p-values were less than the level of significance at 5% level, so these three factors were the determinants of the profitability of Abyssinia according to our analysis result.

In the model total number of audit committee member had positive beta coefficient implied that it had significant direct effect on the profitability of the bank so as the number of audit committee increased the profitability of the bank also increased but number of times the board conduct meeting in a year and total number of board directors had indirect effect on the profitability of the bank. The negative linear regression model coefficients depicted that as the value of the independent variable increased by one unit the profitability of the would decreased by the coefficient times the unit increment in the independent variable whereas the positive regression coefficient showed us that the unit increment on the independent variable would bring increment on the dependent variable by the coefficient times the unit increase of the independent variable keeping all other variables in the model constant.

In the model below all the assumption of the linear regression model were checked and all the requirement of the model were satisfied. The assumptions of linearity between dependent and independent variables, the absence of collinearity, and normality assumption were checked.

Table 4.8 Linear Regression Model Result on Abyssinia Bank

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	3.150	.222		14.206	0.000		
actual total number of board	0.006	0.007	0.091	0.775	0.482	0.415	2.408

total number of board directors	-0.037	0.009	-0.471	-4.295	0.013	0.470	2.128
total number of audit committee members	-0.046	0.006	-0.963	-7.355	0.002	0.330	3.029
number of times the board conduct meeting in a year	0.089	0.029	0.368	3.114	0.036	0.406	2.462
numbers of committee members exist under board of the bank	0.016	0.054	0.037	0.293	0.784	0.349	2.864

R-square and ANOVA table were shown below. The computed R^2 value was 0.977(R^2=0.977), showed fitness of good of model and the explanatory power of our model (97.7%) about ninety eight percent of the model is explained by the predictors.

Table 4.8.1 Model Summary, ANOVA Table and descriptive statistics

Mode l	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.989	0.977	0.949	0.0752

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.977	5	0.195	34.516	0.002
Residual	0.023	4	0.006		
Total	1.000	9			

Charts

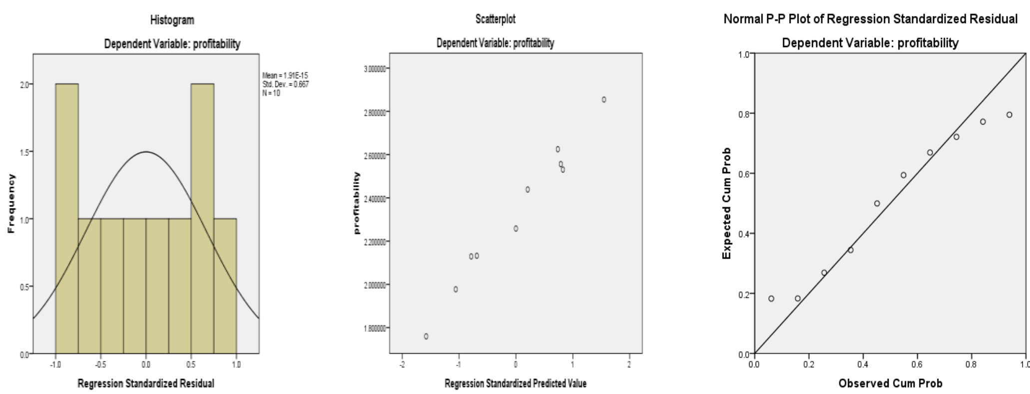


Fig. 4.3 Histogram, p-p plot and scatter plot

4.4.5 Linear regression model result on Dashen Bank

In the table below the linear regression model analysis result on Dashen bank was shown by taking profitability of the bank as dependent variable and all the other variables as independent variables. In the regression model the independent variables such as number of times the board conduct meeting in a year, actual total number of board and numbers of committee members exist under board of the bank were statistically significant at 5% level, so the three factors were the determinants of the profitability of Dashen bank as our analysis result showed.

In the model number of times the board conduct meeting in a year actual and total number of board members had positive beta coefficient which implied that they had significant direct effect on the profitability of the bank, so as the number of times the board conduct meeting in a year and total number of board members increased the profitability of the bank also increased but numbers of committee members exist under board of the bank had indirect effect on the profitability of the bank since the regression coefficient was negative. The negative linear regression model coefficients depicted that as the value of the independent variable increased by one unit in its range the profitability of the bank would decreased by the regression coefficient times the unit increment in the independent variable whereas the positive regression coefficient showed the unit increment on the independent variable would cause increment on the dependent variable by the coefficient times the unit increase of the independent variable keeping all other variables constant in the linear regression model.

Table 4.9 Linear Regression Model Result on Dashen Bank

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	2.240	1.168		1.919	0.127		
total number of board directors	-0.121	0.067	-0.210	-1.820	0.143	0.811	1.233
numbers of committee members exist under board of the bank	-0.352	0.094	-0.398	-3.738	0.020	0.956	1.046
actual total number of board	0.709	0.089	1.069	7.964	0.001	0.600	1.667

total number of audit committee members	-0.042	0.035	-0.131	-1.227	0.287	0.947	1.056
number of times the board conduct meeting in a year	0.495	0.129	0.529	3.833	0.019	0.569	1.758

Charts

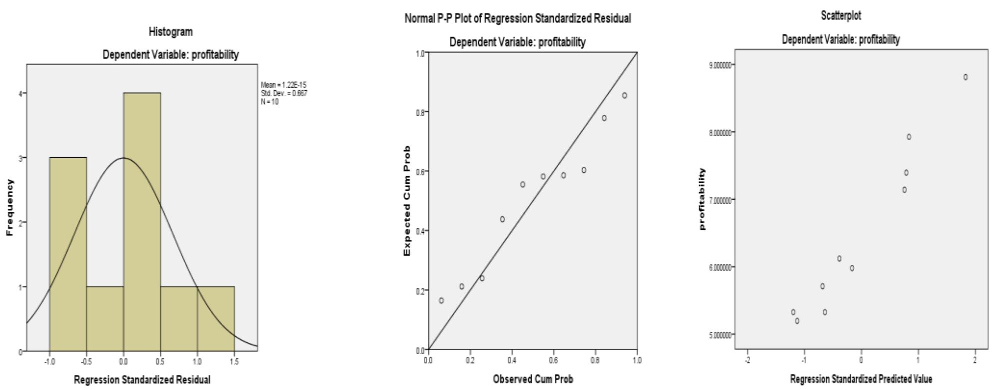


Fig. 4.4 Histogram, p-p plot and scatter plot

4.4.6 Linear Regression Model Result on Cooperative Bank of Oromia

In the following table the linear regression model analysis result of cooperative bank of Oromia was shown by taking profitability of the bank as dependent variable in similar manner as other banks and total number board, total number of board directors, total numbers of audit committee and number of times the board conduct meeting per year were independent variables. In the regression model the only independent variables statistically significant was number of times the board conduct meeting per a year as the p-values 0.048 was less than the level of significance at 5% level. All the rest independent variables were statistically insignificant.

In the model number of times the board conduct meeting in a year had positive beta coefficient which implied that it had significant direct effect on the profitability of the bank so as the number of times the board conduct meeting in a year increased the profitability of the bank also increased. But number of times the board conduct meeting in a year and total number of board directors had indirect effect on the profitability of the bank. Positive regression coefficient showed that the unit increment on the independent variable would bring increment on the dependent variable by the coefficient times the unit increase of the independent variable keeping all other variables constant. In the model below all the assumption of the linear regression model were checked and all the requirement of the model were satisfied.

Table 4.10 Linear Regression Model Result on Cooperative Bank of Oromoia

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.904	2.396		0.377	0.725		
actual total number of board	-0.052	0.069	-0.221	-0.752	0.494	0.764	1.309
total number of board directors	0.153	0.079	0.567	1.947	0.123	0.780	1.283
total number of audit committee members	-0.088	0.173	-0.135	-0.509	0.638	0.935	1.069
number of times the board conduct meeting in a year	0.520	0.184	0.915	2.818	0.048	0.627	1.595
gender diversity exist in board members	-0.088	0.123	-0.202	-0.715	0.514	0.831	1.204

Charts

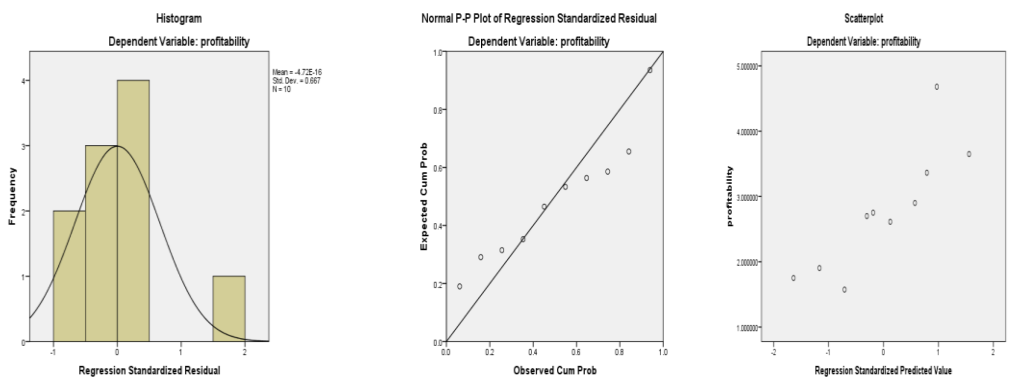


Fig. 4.5 Histogram, p-p plot and scatter plot

4.5 Summary of major findings and discussion

This study aimed to identify the effect of corporate governance on bank profitability in the case of seven private corporate commercial banks in Ethiopia. Under this subtopic summary of major findings of the study and other research findings related to the current research had been discussed briefly in order to strengthen the research output. The findings of the study from each part of the analysis have been presented in short and precise manner so that the main findings are easily shown. The conclusions also included to ease the coming chapter's presentation. In the first part of this sub topic descriptive statistics results discussed and in the second part the inferential parts discussed.

Descriptive statistics result on demographic characteristics of respondents showed that most of the respondents of study participants were taken from Awash bank and least number of respondents were from Cooperative banks of Oromia and most of the respondents were found in youth and adult age group. The gender distribution of the respondents had not shown big difference between female and male respondents. Most of the respondents' marital status was single and married and also most of them were Orthodox and Muslims. More than 96% of the respondents' education level was elementary and above and about 70% of the customers used the private banks more than four years.

The other result obtained was the trust of customers on their banks in relation to governance of the banks issues and the bank workers. The result showed the role of the banks to identify customers' needs by studying their profile was in good situation and the majority of the respondents' argument was positive, 60.5% of them said the banks were working according to the customers' interest. Most of customers had positive attitude towards the role of the corporate commercial banks in identifying customer needs by studying their profile every time, safeguarding and transparent during record keeping of customers deposit accounts and transaction and account protection related information issues and only small number of respondents had disagreements, less than 25% of them were disagreed.

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

Herath, 2010). In line with the aforementioned study findings in this study also the linear regression model for Awash International bank showed that, boards committee member, actual number of boards and number of times the board conduct meeting per a year had negative coefficients in the model implied that as the factors increased by one unit the profitability of the bank decreased by one times the value of the coefficients whereas total number of audit committee members had positive value of regression coefficient implied that it had positive effect on the profitability of the bank as the number of audit committee increased by one the profitability also increased by the coefficients times one. The results in study were in line with the study results mentioned above.

In the linear regression model for Wegagen bank all the factors were statistically significant and except total number of audit committee members all the other independent variables had indirect effect on the profitability of the bank. Similarly for Abyssinia bank total number of audit committee member was significant and had direct effect on the profitability but number of times the board conduct meeting in a year and total number of board directors had indirect effect and the other independent factors were insignificant whereas model result obtained from dashen bank showed that number of times the board conduct meeting in a year and total number of board members had positive effect on the profitability of the bank but numbers of committee members exist under board of the bank had indirect effect. In similar manner the model for cooperative bank of Oromia, the number of times the board conduct meeting in a year had direct effect on the profitability of the bank but number of times the board conduct meeting in a year and total number of board directors had indirect effect on the profitability of the bank and the rest factors. These results are in line with the study by Olani and Berhanu (2015).

Olani and Berhanu (2015) examined the determinants of the financial performances of commercial banks in Ethiopia from an internal corporate governance practices perspective. Board size, female director in the board, and the existence of audit committee in the board did not have a statistically significant effect on bank performance. These findings were in line with the current study result as the linear regression model showed that factors such as: total number of audit committee members had significant effect on the profitability of Wegagen bank. Audit committee member, number of times the board conduct meeting in a year and total number of board directors had indirect significant effect on the profitability of the bank as analysis for

Abyssinia bank showed whereas boards committee member, actual number of boards and number of times the board conduct meeting per a year had significant effect on the profitability of Awash International bank.

Ashenafi, Kelifa, & Yodit (2013) examined the internal and external corporate governance mechanisms and their impact on performance of commercial banks in the absence of organized stock exchange. Multivariate regression with a random effect model was used to analyze 7-year data of 7 private and 2 state-owned Ethiopian banks. Return on assets and return on equity was the dependent variable. Board size and the existence of audit committee are statistically significant at 5% and have negative effect on ROA in similar manner in our linear regression model the total number of audit committee members had direct significant effect on the profitability of Wegagen bank. Audit committee member, number of times the board conduct meeting in a year and total number of board directors had indirect significant effect on the profitability of Abyssinia bank whereas boards committee member, actual number of boards and number of times the board conduct meeting per a year had significant effect on the profitability of Awash International bank.

Manini and Abdillahi (2015) examined the impact of corporate governance mechanisms on banks' profitability of forty-two sample banks in Kenya for a period of one year. Multiple regression analysis was used to test the relationship between the independent variables of audit committee size, board gender diversity, board size and the dependent variable of return on asset. The regression results show that there is no statistically significant relationship between board gender diversity, audit committee and bank profitability but these are not in line with our analysis result since our cases the above mentioned factors were statistically significant. Bussoli, Gigante, and Tritto (2015) investigated the impact of corporate governance on bank performance and loan quality. 48 sample banks in Italy for a period of three years were analyzed using multivariate ordinary least square regression model. Results indicate that there was statistically insignificant relationship between the number of committees, board size and bank performance. There is statistically insignificant positive relationship between the board size and bank performance. Bank size used as a control variable has a significant negative relation with return on asset, the same result was obtained in our study as gender diversity was insignificant. But in the linear regression model for Awash International bank, boards committee member, actual number of boards and number of times the board conduct meeting per a year had negative coefficients.

According to Erhardt *et al*. (2003), diversity of the board of directors and the subsequent conflict that is considered to commonly occur with diverse group dynamics is likely to have a positive impact on the controlling function and could be one of several tools used to minimize potential agency issues. From stakeholders' theory, diversity also provides representation for different stakeholders of the firm for equity and fairness (Keasey *et al*., 1997). In this study the total number of audit committee members had indirect effect on the profitability of the bank in linear regression model for Wegagen bank and in Abyssinia Bank, total number of audit committee member had direct effect on the profitability of the bank but number of times the board conduct meeting in a year and total number of board directors had indirect effect on the profitability of the bank and the other independent factors were statistically insignificant.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The following part of the research contains conclusions of the main findings of the study:

- ✓ Large number of respondents was surveyed from Awash international bank and Dashen banks since the numbers of customers in these two banks were large as compared the other five banks.
- ✓ About 70 % of the customers had used the private banks at least three years, implied how the private corporate commercial banks handled and taker of their customers properly.
- ✓ Most of respondents had positive and good perception towards the corporate banks based the result on the four trust indicators.
- ✓ Most of the respondents were satisfied on the conflict management system of the corporate commercial banks considered in this study as higher percentage of the respondents' response was favored highly agree and agree options in likert scale questions.
- ✓ Boards committee member, actual number of boards and number of times the board conduct meeting per a year had indirect significant effect on the profitability of the bank whereas total number of audit committee members had positive significant effect on profitability of Awash international bank.
- ✓ All independent variables except total number of audit committee members had negative effect on the profitability of Wegagen bank but total number of audit committee members had direct effect.

- ✓ Audit committee member had significant direct effect on the profitability of Abyssinia bank but number of times the board conduct meeting in a year and total number of board directors had indirect effect on its profitability.

5.2 Recommendations

- ✓ Most of respondents had positive responses on trust indicators, so the concerned bodies should give due emphasis to keep the trust of customers.
- ✓ Most of the respondents were agreed on the conflict management system of the seven corporate commercial banks, so the banks should keep continue their conflict management system so that more customers can come to their banks and they can retain their existing customers in their banks in future.
- ✓ Boards committee member, actual number of boards and number of times the board conduct meeting per a year had indirect significant effect on the profitability of the bank whereas total number of audit committee members had positive effect on Awash International bank, so the bank must reestablish management structure of boards committee member, actual number of boards and number of times the board conduct meeting per a year to be competent enough with other banks and to maximize its profit.
- ✓ The result on Wegagen bank showed all independent variables except total number of audit committee members had negative effect on its profitability, so the bank must revisit its committee member formation so that the bank profitability maximized.
- ✓ Audit committee member had direct effect on the profitability of the Abyssinia bank and number of times the board conduct meeting per a year and total number of board directors had indirect effect, so the bank management must give attention for these crucial factors in order to increase corporate commercial bank's profitability.

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APPENDIX I

JIMMA UNIVERSITY

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DEPARTMENT OF ACCOUNTING AND FINANCE RESEARCH

QUESTIONNAIRE

Dear Respondent, I am attending MA in Accounting and Finance program at Jimma University. Right now I am conducting a research on the title the effect of corporate governance on banks‘ profitability; a study on private commercial banks in Ethiopia as partial fulfillments of the requirements for the Masters of Accounting and Finance. This questionnaire is crafted to collect data on Corporate Governance and its effect on Financial Performance of Ethiopian Private Commercial Banks. The data to be collected through the questionnaire is highly valuable to meet the objectives of this study. Therefore, you are kindly requested to fill in and return the questionnaire.

The questionnaires expected to be returned as soon as possible. There is no need of writing the name and personal address of the respondents in order to keep the responses confidential and never be exposed for anything (Any information provided was treated with utmost confidentiality). Thank you for your kind and honest response in advance.

Part 1: Demographic Profile (please your choice the one that describe you)

1. Specify your bank (the bank that you are using now) --------------
2. Your Age group? 1. below 25 years 2. 25-35 years 3. 35-45 years 4. Greater than 45 years
3. Gender? 1. Male 2. Female
4. Education level of customer? 1. Illiterate 2. Elementary 3. High school 4. Diploma Degree 5 Masters above
5. For how long have you used bank transaction activities within your bank? 1. < 1 year 2.1-3 years 3.3-5 years 4. Greater than 5 years
6. Marital status of the customer 1.Single 2. Married 3.Divorced 4. Widowed

7. Religion of the customer 1. Orthodox 2. Muslim 3.Protestant 4. Other

Part II: In your point of view, how satisfied are you with the following provisions at your banks? Please tick the level of satisfaction you are having from the banks below the numbering rate given: Highly agree, Agree, Disagree and Highly disagree

No	Questions	Highly agree	Agree	Disagree	Highly disagree
1	The staffs are identifying customer needs by studying their profile every time				
2	The staffs are usually calling customers regularly on their account information				
3	The bank provides up to date information to you for review on your accounts				
4	The bank is having telephone calls and text message to verify cheques that have been issued to you				
5	Providing ATM's at filling stations and malls for easy cash withdrawals				
6	Providing free ATM charges for customers of your bank				
7	Providing free drinks at banking halls for waiting customers				
8	The bank system extends banking hours to provide for customer needs				
9	There is information to the customer for the new branch nearby				
10	There are better problem resolving habits in the bank system				
11	There is a formal channel for any complain and was solved timely				
12	Are you fully satisfied about the service of the bank				
13	The politeness of frontline staff of your bank are working well to satisfy customers				
14	The relationships you have with the bank encourages you to refer someone to your bank?				
15	The bank provides quality of services to you				
16	Are started using this bank since there is friendship relationship with certain banks' employees				
18	I think one's relations with the bank will lead to a person's loyalty with the bank?				
19	The bank provides timely and trustworthy information				
20	The bank tries to avoid potential conflict				
21	The bank tries to solve manifest conflicts before they create problems				

22	The bank has the ability to openly discuss solutions when problems arise				
23	I consider the bank as first choice among other bank in Ethiopia				
24	The bank that first comes to my mind when making purchases decision on bank services				
25	The bank is very concerned with security for my transactions				
26	The bank fulfill its obligations to customers				

APPENDIX II

Managers interview questions

1. What proportion of your new customers are individuals switching from competitors? If known, why do these customers change banks?
2. How do you resolve conflicts with your customers? Please give an example if possible.
3. What are some of the reasons that customers no longer conduct business with your bank? Are you aware of any indicators for this?
4. Do you prefer to work with a few selected "value-creating" customers or try to encourage as many new customers as possible? Why?
5. Do you change your working procedures in order to adapt to your customers needs? Please explain why, giving examples where applicable.

Part II: General Questions

1. Does the presence of female board of directors (in terms of board diversity) helps improve the banks operation and performances? Yes □ / No □ Why? -- --- --- ------------------------------------.
2. Does the educational qualification of directors have any significant effect on their monitoring and controlling efficiency? Yes □ / No □ Please give your reasons------------------- --- -- ------------------------------------.
3. Do you believe that number of internal board sub-committees affects banks financial performance? Yes □ / No □ How? Please justify it-- ------------------------------------- --- -------.
4. Do you believe that increasing the frequency of the board meeting has impact on bank financial performance? Yes □ / No □ How? ---

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5. Does high liquidity asset has effect on private bank financial performance? Yes □ / No □ How? -- --.
6. Does increasing the percentage of holding by board members has significant effect on their monitoring and controlling efficiency? Yes □ / No □ Corporate Governance and its Effect on Financial Performance of the Ethiopian Private Commercial Banks 91 Please give your reasons-- ---------------
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7. Do you believe that depositors can influence the private banks financial performance? Yes □ / No □ How? Please justify it-- ------------- ---.
8. Do you believe that high legal reserve deposit has effect on bank financial performance? Yes □ / No □ How? --- --------------- --
9. Do you believe that board size affects banks performance? Yes No How? Please justify it---- -- --------------------------- -- ------------------------- -- ----------------------.
10. Does the presence of female board of directors' in terms of board diversity helps Improve the banks operation and performances? Yes No Why? Please justify it ---------------------------- --- -- --- --- -- ------------------------------------.Does the educational qualification of directors have any significant effect on their monitoring and controlling and their efficiency? Yes No Give your reasons--- --- --- --- -- -- --.
11. Are there any board members who had previous working experience on banking business now in your organization? Yes No In what ways do these members contribute better than other directors? --------------------------- --- --- -- --- --.
12. Do you believe that increasing the size of audit committee improve their effectiveness? Yes No How? Please justify it -- ----------- -- ------------- -- --------------- --.
13. Do you believe that more frequently meeting can generate higher financial performance? Yes No Please justify it? --- ----------- -- ------------- ---.

Part III: Please fill the number for each period for questions listed below

Question	2010	2011	2012	2103	2014	2015	2016	2016	2017	2018	2019
Does gender diversity exist in board? If yes, how many female directors exist in the board?											
No of board members who had college degree or higher?											
No of sub-committees exist under the board of the bank?											
The actual total number of board meetings held per year?											
Total number of board of directors											
Total number of audit committee members											
Total Number of directors who have degree and above											
Total Number of directors who works in the same institution before joining your organization											
How many time does the board members conduct meeting in a year											

Appendix IV

Table 4.6.2 Descriptive statistics

Variables	Mean	Std. Deviation	N
Profitability	2.786	0.3379	10

gender diversity exist in board members	14.50	2.173	10
boards committee	4.10	1.449	10
actual total number of board	3.50	1.179	10
total number of board directors	13.30	4.668	10
total number of audit committee members	20.80	7.786	10
number of times the board conduct meeting in a year	4.20	1.317	10