



ISSN Print: 2394-7500  
ISSN Online: 2394-5869  
Impact Factor: 5.2  
IJAR 2016; 2(8): 551-557  
www.allresearchjournal.com  
Received: 21-06-2016  
Accepted: 22-07-2016

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## Corporate Governance and Financial Performance: A study with reference to Commercial Banks in Ethiopia

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### Abstract

The objective of this study is to determine the effect of corporate governance on financial performance of Ethiopian commercial banks. The annual reports of sample commercial were the sources of data. The proxies used for financial performance are return on equity and return on asset. Content analysis was applied to determine the level of disclosure using un-weighted checklist. Accordingly, the level of disclosure practice is measured by the ratio of disclosure score of a commercial bank to its total obtainable score. In addition, correlation and regression analyses were made to determine the relation between corporate governance and financial performance. The results indicate that disclosure practice, board size, board gender diversity and ownership type have no significant impact on the financial performance of Ethiopian commercial banks. However, asset size and capital structure have significant effect on both on the return on equity and return on asset.

**Keywords:** Corporate Governance, Disclosure, Financial Performance, Board Structure

### 1. Introduction

Commercial banks perform very important functions to the growth of capital formation and investment in Ethiopia. They mobilize deposits from the public and extend loans and advances to customers. They also contribute to the development of the country by participating in the financing of public projects. They buy the bond issued by the government for the construction of the Great Renaissance Dam. In this regard, the National Bank of Ethiopia has issued a directive in 2011 that requires commercial banks to purchase bonds (the great renaissance dam saving bond) equivalent to 27% of new loan disbursement issued at a concessionary rate of three-percent (Lelissa, 2014). Furthermore, commercial banks in Ethiopia undertake many kinds of activities that can be considered as activities of corporate social responsibility.

The proper functioning of commercial banks and their good performance is therefore, quite important for Ethiopia. Taking in to account their roles, national bank of Ethiopia regulate them by issuing directives. However, regulations may not be enough to ensure good corporate governance in the banks. Hence, banks themselves put in to practice some corporate governance mechanisms to ensure the shareholders and other stakeholders' interests. To this end, exploring the relation between corporate governance and financial performance is worthwhile. Hence, the main objective of this study is to determine the effect of corporate governance variables on the financial performance of commercial banks in Ethiopia.

### 2. Review of Literature

#### 2.1 Governance Disclosure

There are empirical evidence about the relationship of corporate governance information disclosure and financial performance. For instance, Rouf (2011) [34] reported that a firm profitability is positively associated with its corporate governance disclosure level. In the same vein, Samir *et al.* (2003) argue that higher profitability has positive association with the voluntary disclosure. In the same vein, Abdo & Fisher (2007) [1] reported that there is a strong

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positive association between reported governance disclosure and firm performance. Sharif & Lai (2015) <sup>[36]</sup> found a positive effect of corporate disclosure practices on company performance. Hence, the prior empirical evidence predicts that disclosing more information by companies leads to higher company performance. Wangari (2014) <sup>[40]</sup> found a positive relationship between financial, forward looking and board and social disclosure and ROE. Also, agency theory suggests a strong link between leverage and disclosure (Jensen & Meckling, 1976) <sup>[21]</sup>. In highly levered firms' there is a higher demand for and supply of information and creditors themselves produce information about the borrower. Furthermore, as a result of monitoring by informed creditors and strict debt covenants, the debtor firm has to commit itself to the discipline of debt payments and cannot as freely expropriate the free cash flow (Jensen M. C., 1986). HO<sub>1</sub>: Corporate governance disclosure has no effect on financial performance of commercial banks

### 2.1 Board size

Board size has a theoretical affect on the efficiency of the board control function. John & Senbet (1998) <sup>[23]</sup> noted that board size is one aspect that determines board effectiveness in its monitoring function. Indeed, the effectiveness of board does not solely depend on board size. The effectiveness of a board could be also affected by many other variables like its composition in terms of outside directors, female directors and people with finance background. So far, there is no clear consensus on the size of the board. To this end, there are arguments both for smaller and larger boards to be effective in controlling managers. There is an argument that larger board of directors gather more human capital and this in turn boost its effectiveness both in terms of monitoring and advising management. But, the critics is when a board gets too big it becomes difficult to co-ordinate, encourages free riding and poses problems. On contrary, smaller boards might reduce the possibility of free riding and increase the accountability of individual directors (Stepanova & Ivantsova, 2012). Lehn, Patro, & Zhao (2009) <sup>[29]</sup> stated that the relationship between board size and performance may differ not just by firm specific characteristics but also by national and institutional characteristics. Empirical evidences have indicated mixed results with respect to the effect of board size on performance. To this end, there are studies that affirm larger boards led to better performance such as John & Senbet (1998) <sup>[23]</sup>, Dalton *et al.*, (1999), Kiel & Nicholson (2003), Adams & Merhan (2008) <sup>[6]</sup>, Uadiale (2010), Javed *et al* (2013) Poudel & Hovey (2013). On contrary, there are also a number of studies that document smaller boards bring better performance such as Jensen M. C. (1993), Hermalin & Weisbach (2003) <sup>[14]</sup>, Staikouras, Staikouras, & Agoraki (2007); Adnan, Htay, Rashid, & Meera (2011) <sup>[2]</sup>, Ranti (2011), Alabdullah, Yahya, & Ramayah (2014) <sup>[3]</sup>. In this regard, Jensen (1983) suggests that a board should have a maximum of seven or eight members to function effectively. Jensen (1986) <sup>[19]</sup> also suggests that smaller boards enhance communication, cohesiveness and co-ordination, which make monitoring more effective. Besides, Andres & Vallelado (2008) <sup>[6]</sup> found inverted U-shaped relation between bank performance and board size. Furthermore, there are also studies that claim board size has no significant association with firm's performance (Adams and Merhan 2005; Horváth & Spirollari, 2012; Htay, 2012; T. Velnampy, 2013) <sup>[16, 17, 39]</sup>.

Therefore, previous empirical results are inconclusive on the relationship between board size and firm performance.

HO<sub>2</sub>: Board size has no effect on financial performance of commercial banks

### 2.2 Board Gender Diversity

Women are increasing in number among corporations' boards of directors, yet their representation is far from uniform across firms (Hillman & Cannella, 2007). One of the board diversity qualities measurements is the sex premise. In other words, board diversity captured by the percentage of women in each board in prior studies. There are theories backing the commitment by female executives on better usefulness for board on critical issues. In conjunction, gender diversity in top corporate positions has got consideration in the recent decade due legislative changes, financial scandals and crisis. As a matter of fact, the presence of women on boards of directors is limited, even if the literature reveals a slow but steady rise in the female presence on corporate boards throughout the world (Dutta and Bose, 2006 cited in Romano *et al*, 2012) <sup>[33]</sup>. Researchers find that females are viable on their monitoring part and they are considered as a vital corporate governance device (Lakhal, Aguir, Lakhal, & Malek, 2015)

The empirical results are mixed and inconclusive on the effect of board gender diversity and financial performance. For example, Pathan *et al.* (2011) <sup>[30]</sup> found a positive association between gender diversity and bank performance. Similarly, Julizaerma & Sorib (2012) <sup>[24]</sup> report a positive association between gender diversity and firm performance on Malaysia publically listed firms. Besides, Carter *et al.* (2003) <sup>[9]</sup> found a significant positive relationship between fraction of women and firm values. On contrary, there are also empirical evidences showed no significant relationship between board gender diversity and performance (e.g, Horváth & Spirollari, 2012 and Salehnezhad & Abbasi, 2013) <sup>[16, 35]</sup>. In this study, the proxy for board diversity is the proportion of women in banks boardroom.

HO<sub>3</sub>: Board gender diversity has no effect on financial performance of commercial banks

### 2.4 Capital Structure

In relation to corporate governance indebtedness is one of the principal mechanisms of financial structure as it calls upon creditors to more supervise managers. Financing through debts is an efficient appropriation method practiced by monitors who "load" the company with debts (Ali, 2010). Accordingly, there are studies that argue indebtedness has a power to mitigate agency costs (Jensen, 1986; Stulz, 1988) <sup>[19]</sup>. Debt is enrolled as an instrument to heighten work ethic and performance of management; however an increase in the proportion of debt causes the firm to experience higher financial distress (Harris & Raviv, 1991). Corporate governance theory predicts that leverage affects agency costs and thereby influences firm performance. Leverage reduces the agency costs of outside equity and increases firm value by constraining or encouraging managers to act more in the interests of shareholders (Berger, 2002). Free cash flow theory (Jensen, 1986) <sup>[19]</sup> leverage can act as a monitoring mechanism and thereby reduces the agency problem hence increasing firm value by reducing the agency costs of free cash flow. There are some consequences derived if a firm is employing higher leverage level in that managers of such firm will not be able to invest in non-profitable new projects,

as doing so the new projects might not be able to generate cash flows to the firm, hence managers might fail in paying the fixed amount of interest on the debt or the principal when it's due. It also might cause the inability to generate profit in a certain financial year that may result in failing to pay dividends to firm shareholders. Leverage might not only be able to reduce the agency costs of free cash flow, but also can increase the efficiency of the managers. This is due to the debt market that might function as a more effective capital market monitoring. In addition, in order to obtain the debt financing, managers must show their abilities and efficiencies in managing the firm. Moreover, companies with weak corporate disclosure practices prefer to use debt to finance their projects in order to retain control rights and absolute ownership (Haque *et al*, 2009).

HO<sub>3</sub>: Capital structure has no effect on financial performance of commercial banks

### 3. Methodology

#### 3.1 Population of the Study

The financial system of Ethiopia includes National Bank of Ethiopia as the country's central bank. The total population of the study consists of 19 banks operating in Ethiopia, three of which are state owned and the remaining sixteen are private banks (National Bank of Ethiopia, 2015).

#### 3.2 Sample of the Study

The sampling method used is purposive sampling. Accordingly, two criteria are applied to select the samples from the population. First, the bank included must undertake commercial banking activities and led by board of directors. Based on this criterion one state owned bank is excluded from this study. This bank is the development bank of Ethiopia. It is a specialized financial institution established to promote the national development agenda through development finance and close technical support to viable projects from the priority areas of the government by mobilizing fund from domestic and foreign sources while ensuring its sustainability. Secondly, a commercial bank should at least operate for five years. Accordingly, 14 commercial banks met these criteria and they are considered for the study.

#### 3.3 Data and Sources

To study the relationship between corporate governance and financial performance of commercial banks in Ethiopia secondary data were used. Data were obtained from selected commercial banks and National Bank of Ethiopia. The data was gathered from annual reports. The data on the board size, board gender diversity in commercial banks were collected from directors' report part of the annual reports. Data on capital structure and asset size were picked from the commercial banks' financial statements. Moreover, disclosure practice level is determined by a check list against which information disclosure of commercial banks through annual reports is scored. Additional information was also collected from the websites of commercial banks.

#### 3.5 Variables of the Study

A quantitative research approach was employed to analyze the relation between corporate governance mechanisms and the financial performance of commercial banks in Ethiopia. The details how the variables are measured and used in the

study are described below. The dependent, independent and control variables are considered for the study

**Dependent Variables:** The measures used to capture financial performance of commercial bank are accounting-based measures. These measures are return on asset and return on equity. Such accounting measures were frequently used in previous studies. The choice of these measures is based on the existing literature. For instance, accounting measures of were used by Hermalin & Weisbach (1991); Yermach, (1996), Bhagat & Daily & Dalton (1993a), Hermalin & Weisbach (1991), Black (2002), Bhagat & Black (2002), Abdullah (2004), Lam & Lee (2008), Fanta, Kemal, & Waka (2013), Velnampy (2013) [39].

Returns on assets (ROA) show the profitability of the company's assets in generating profits. In other words, it indicates the effectiveness of the firm's assets in increasing shareholders economic interests (Haniffa & Hudaib, 2006). It also shows the efficiency of management in using its asset to generate earnings. ROA is calculated as follows.

$$ROA = \frac{\text{Profit after tax}}{\text{Total Asset}}$$

Return on equity (ROE) measures the rate of return on shareholders' equity. It shows how well the company uses the shareholders investments to generate earnings. This measures the efficiency of generating profits from each dollar of shareholders equity. A higher ratio indicates a higher return. It is expected that there will be a positive relationship between corporate governance and firm performance. According to Felício and Rodrigues (2014) this ratio is the privileged measure of efficiency for shareholders. It is calculated as follows:

$$ROE = \frac{\text{Profit after tax}}{\text{Total Equity}}$$

#### Independent Variables

The following are the independent variables of the study and the selection of each of the variables is backed by empirical evidence.

DI: The ratio of disclosure scored a bank to its maximum obtainable score of sampled commercial banks

BZ: The total number of directors in the board sampled commercial banks

BGD: The ratio of the number of female directors to board size sampled commercial banks

OT: Ownership type is a dummy variable taking 1 if the bank is private 0 otherwise

CS: Capital structure measured by the ratio of total debt to total equity of sampled commercial banks.

BS: Commercial bank's size is measured by the total amount of assets owned by bank.

#### 3.6 Regression Model

Himmelberg, Hubbard & Palia (1999) argue that many prior cross-sectional studies fail to control for unobserved firm heterogeneity and therefore the relations documented may be spurious. Relying on a panel approach therefore allows to better control for time-invariant firm effects as well as other endogeneity concerns. In addition, Fauzi & Locke (2012) suggest the use of panel data analysis allows the unobservable heterogeneity for each observation in the sample to be eliminated and multi-co linearity among variables to be alleviated. Therefore, a panel regression model was employed in this study to estimate the effect of corporate governance variables on the financial performance

of Ethiopian commercial banks. This approach was used by Romano, Ferretti, & Rigolini (2012).<sup>[33]</sup> The model used for this study is as below.

$$Y_{it} = \beta_0 + \beta_1 G_{it} + \beta_2 C_{it} + e_{it}$$

Where,

$Y_{it}$ : represents financial performance of banks at time t.

$G_{it}$ : is a vector of corporate governance variables.

$C_{it}$ : Control variables.

$e_{it}$ : the error term which account for other possible factors that could influence  $Y_{it}$  that are not captured in the model.

Based on the above linear model two simple definitional regression equations are developed to do the desired analysis: These models are:

$$ROE_{it} = \alpha_0 + \beta_1 DI_{it} + \beta_2 BZ_{it} + \beta_3 BGD_{it} + \beta_4 OT_{it} + \beta_5 DTE_{it} + \beta_6 BS_{it} + \epsilon_{it}$$

$$ROA_{it} = \alpha_0 + \beta_1 DI_{it} + \beta_2 BZ_{it} + \beta_3 BGD_{it} + \beta_4 OT_{it} + \beta_5 DTE_{it} + \beta_6 BS_{it} + \epsilon_{it}$$

Where,

$ROE_{it}$ : ROE of individual bank i at time t.

$ROA_{it}$ : ROA of individual bank i at time t.

$\beta$ : coefficients to be estimated,  $\beta_1$ --- $\beta_6$ .

i: individual banks

t: time periods

**Measurement of corporate governance disclosure:** A comprehensive list of voluntary disclosure items was prepared for scoring the disclosure of each item in the annual reports. The choice of disclosure items were guided by OECD recommendation and Standard and Poor's transparency and disclosure items. A similar approach was used by Alexandrina (2013). The list includes both financial and non-financial items that are relevant to investors and other stakeholders. Accordingly, 47 items were considered. An un-weighted approach is followed to develop the voluntary corporate disclosure index. This approach is most appropriate when no importance is given to any specific user groups(Alexandrina, 2013). After establishing the disclosure list, a scoring sheet was developed to assess the extent of voluntary corporate disclosure by banks. In doing so, if a bank disclosed information on the item of included in the list, it received a score of 1, and 0 if it is not disclosed. Such approach is supported by most prior studies aimed to develop such an index of disclosure, unlike weighted scores, which were rarely used before (Barako et al., 2006). The method of computing the voluntary corporate disclosure index can be expressed as follows:

$$DI = \frac{\text{Score of Commercial Bank}}{\text{Maximum Possible Obtainable Score}}$$

### 3. Methods of Data Analysis

Descriptive statistics and correlation analysis are made to achieve the objective of this study. Also, content analysis was made to assess the level of corporate governance disclosure practices of commercial banks. Descriptive analysis was to describe the corporate governance variables

that were considered. Pearson correlation and regression were used to measure the degree of association between selected corporate governance variables and financial performance.

The preliminary descriptive analysis employed the usual statistics: the minimum, maximum, mean, and standard deviation.

**Table 1:** Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Sta. Deviation
DI	67	.49	.66	.553	.049
BZ	67	6	12	9.06	1.76
BGD	67	.00	.33	.122	.077
OT	67	0	1	.870	.344
DTE	67	.42	21.74	6.8162	3.29
BS	67	8.38	11.39	9.7975	.561

Table 4.1 shows the descriptive statistics of study variables. The average corporate governance disclosure level of commercial banks in Ethiopia is 55 percent with a maximum of 66 percent and a minimum of 49 percent with a standard deviation of 4.9 percent. Observing the minimum and maximum percentage of disclosure, it looks commercial banks in Ethiopia have differences in corporate governance disclosure practice. The average board size is about 9.09 with a minimum of 6, a maximum of 12 directors with a standard deviation of 1.787. Commercial banks in Ethiopia have relatively dissimilar board sizes. On average they had slightly higher than suggested by Jensen (1983). He suggested that a board should have a maximum of seven or eight members to function effectively. However, Kyereboah-Coleman and Biekpe (2006)<sup>[8]</sup> suggested a maximum board size of twelve and a minimum of four. According to their suggestion commercial banks in Ethiopia had relatively moderate board sizes.

The average proportion of women directors is about 12 percent with a minimum of 0 percent and a maximum of 33 percent with standard deviation of 7.8%. Based on the descriptive statistics the boards of commercial banks in Ethiopia are less diverse in terms of gender. They have relatively small number of women directors. In other words, boards are male dominated. Ownership type is a dummy variable taking 1 to denote privately owned commercial banks in Ethiopia and 0 for state owned commercial banks. State owned commercial banks considered are two while private commercial banks are twelve.

### 4.2 Correlation between Corporate Governance and Financial Performance

Pearson Correlation was made to establish association between variables. The following two tables give details about the correlation among variables taking based on the two models, ROE and ROA. The following two tables give details about the correlation among variables.

**Table 2:** Correlation Matrix for Model ROE

	ROE	DI	BZ	BGD	OT	DTE	BS
ROA	1						
DI	.526**	1					
BZ	-.200	.320**	1				
BGD	-.349**	-.159	.194	1			
OT	-.309*	.714**	.356**	.356**	1		
DTE	.767**	.709**	-.159	-.379**	.379**	1	
BS	.670**	.549**	.034	-.399**	.437**	.696**	1

Table 4.2 presents the correlation coefficients of the variables. ROE being the dependent variable is negatively related with three independent variables while it is positively related with the remaining variables. From correlation matrix, corporate governance disclosure level is significantly positively correlated with ROE. However, board size, board gender diversity and ownership type are negatively associated with ROE. Moreover, the two moderating variables, capital structure and bank size are positively associated with ROE.

**Table 3:** Correlation Matrix for Model ROA

	ROA	DI	BZ	BGD	OT	DTE	BS
ROA	1						
DI	.022	1					
BZ	-.089	-.320**	1				
BGD	-.171	-.159	.194	1			
OT	.186	-.714**	.201	.356**	1		
CS	-.025	.709**	-.159	-.379	.646**	1	
BS	.269*	.549**	.034	-.399**	.437**	.696**	1

Table 4.3 presents the correlation coefficients of the variables. The dependent variable, ROA, is negatively related with three independent variables while it is positively related with the remaining variables. From correlation matrix, corporate governance disclosure level is positively correlated with ROA. However, board size, board gender diversity and are negatively associated with ROA. Moreover, the two moderating variables, capital structure and bank size are positively associated with ROA. Based on this model corporate governance variables considered do not have significant association with return on asset.

**4.3 The Effect of Corporate Mechanisms on Financial Performance**

**ROE Model:** The R-squared statistic measures the success of the regression in predicting the values of the dependent variable. The adjusted R –squared of the ROE model is equal to .629, which indicates that 62.9% of the variation in ROE is explained by the regression variables. Hence, the explanatory variables included in this regression are good predictors of ROE. Besides, the standard error of ROE equation is .049949 indicating small statistical noise in the estimates. The F-statistic of the regression is equal to 17.402, so reject the null hypothesis that all slope coefficients excluding the constant are zero with 1% significance level. In other words, the model can be considered as significantly better than would be expected by chance and there is linear relationship of ROE to the independent variables. The coefficients, t-statistics and probabilities of variables are given below in table 4.4.

**Table 4:** Regression Result for Model ROE

Variables	Coefficient	t-statistic	Sig.
DI	.047	.316	.753
BZ	-.150	-1.690	.097
BGD	-.076	-.788	.434
OT	.235	1.899	.063
CS	.638	4.696	.000
BS	.257	2.233	.030

Table 4.4 shows the results of regression of model ROE. Based on the t-statistics, the ratios of the estimated coefficient to its standard error, there are both statistically significant and insignificant coefficients at 5% confidence

level. For instance, the coefficient of disclosure corporate governance disclosure has a t – statistic equal to .316 and a p – value equal to .753, so the null hypothesis that the slope coefficient is zero with 5% confidence level cannot be rejected. This invariably means that the corporate governance disclosure level of commercial banks of Ethiopia had no influence on ROE. Similarly, board size (BZ) has a t – statistic equal to -1.270 and a p – value equal to .097. This coefficient is not statistically significant neither at 5% significance level. Therefore, the hypothesis that the coefficient is equal to zero cannot be rejected, in other words, BZ has no significant impact on ROA. Also, the BGD has a t – statistic equal to -.788 and a p – value equal to .434 leading to the conclusion that this coefficient is not statistically significant neither at a 5% significance level and the null hypothesis that it is equal to zero cannot be rejected. Hence, a higher proportion of women directors in the board room do not have significant impact on ROE. Also, ownership type has a t – statistic equal to 1.899 and a p – value equal to .063 leading to the conclusion that the coefficient of ownership type is not statistically significant at 5% significance level. So ownership type does not affect the ROE. However, capital structure (DTE) has a t – statistic equal to 4.696 and a p – value equal to .000 leading to the conclusion that its coefficient is statistically significant even at a 1% significance level. So capital structure has a significant effect on ROE Ethiopian commercial banks. In the same vein, the control variable, bank size has a t – statistic equal to 2.233 and a p – value equal to .030 leading to the conclusion that this coefficient is statistically significant even at a 1% significance level. This implies that the asset size of commercial banks has a significant positive effect on ROE of commercial banks.

**ROA Model:** The adjusted R-square of the model is equal to .140 which indicates only 14 percent of the dependent variable (ROA) is explained by the variables included in the regression. The corporate governance and control variables altogether explain only 14% of the variation in ROA. The F-statistic of the ROA regression is equal to 2.606 and the associated F-statistic probability is equal to 0.027, so reject the null hypothesis that all slope coefficients excluding the constant are zero with 5% significance level. As a result, the model is considered significantly better than would be expected by chance and there is linear relationship of ROA to the independent variables.

**Table 5:** Regression Result for Model ROA

Variables	Coefficient	t-statistic	Sig.
DI	.021	.091	.928
BZ	-.196	-1.468	.148
BGD	-.087	-.593	.556
OT	.258	1.307	.197
DTE	-.362	-1.617	.112
BS	.550	2.873	.006*

\*Significant at 1%

Table 4.5 shows the results of model ROA. The coefficients of corporate governance disclosure has a t – statistic equal to .091 and a p – value equal to .928, so the null hypothesis that the slope coefficient is zero with 5% confidence level cannot be rejected. In other words, corporate governance disclosure level of commercial banks had no effect on ROA. The rest of the variables included in the regression have no significant effect on ROA. The variable BZ has a t – statistic equal to -

1.468 and a p – value equal to .148. This coefficient is not statistically significant at a 5% significance level. Therefore, the null hypothesis that the coefficient is equal to zero cannot be rejected, in other words, BZ does not have any impact on ROA. Moreover, BGD which refers to the proportion of women directors in the board of directors has a t – statistic equal to -0.593 and a p – value equal to .556 leading to the conclusion that this coefficient is not statistically at a 5% significance level and the hypothesis that it is equal to zero, cannot be rejected. In other words, a higher proportion of women directors in the board room do not have significant impact on ROA. Also, ownership type has a t – statistic equal to 1.307 and a p – value equal to .197 leading to the conclusion that the coefficient of ownership type is not statistically significant at 5% significance level. This implies that ownership type of commercial banks has no significant effect on ROA. Also, the coefficients of BS has a t – statistic equal to 2.873 and also a p – value equal to .006, hence the null hypothesis that the slope coefficients is zero with 5% confidence level can be rejected. In other words, BS has a significant effect on ROA. The coefficients of DTE has a t – statistic equal to -1.617 and also a p – value equal to .112, hence the null hypothesis that the slope coefficients is zero with 5% confidence level can be rejected. In other words, DTE has a significant effect on ROA.

### 5. Implication

The regression analysis revealed that board size of commercial banks has insignificant negative effect on the financial performance of commercial banks in Ethiopia. This result was evidenced from the two models, ROE and ROA. The negative relation goes with agency theory which thoughts that the large board members being the agents, tend to look after their own interests.

The proportion of women director in the board had no significant effect on both the return on asset and return on equity of commercial banks. This might be connected with the smaller proportion of women directors in banks. To the extent that decisions are adopted by the majority and women are in minority position in the boardroom, they are unlikely to influence significantly the board's decisions hence the firm's performance. The finding of this contributes to the literature by confirming that women on bank board do not have a direct link with bank financial performance. Consequently, increasing gender diversity may not necessarily be derived from performance drivers.

Corporate governance disclosure index of commercial banks had no significant effect on their financial performance. But, the direction of the relationship should not be ignored. It is positively associated with return on equity and return on asset. This implies that a higher corporate governance disclosure practice will have a positive influence on the financial performance of commercial banks in Ethiopia. The ownership type had no significant effect on financial performance, on both ROA and ROE. The capital structure and asset size of commercial banks of have significant effect on the financial performance Ethiopian banks measured by return on equity and return on asset. The result is only based on Ethiopian commercial banks, and hence there may be limitations in extending to other countries. Future studies may consider other corporate governance variables

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