

# Impact of Board Composition on Financial Performance of Commercial Banks in Ethiopia

Addisu Gemeda Edeti\*

Mahesh Chand Garg\*\*

, Harayana School of Business,

Guru Jambheshwar University of Science and Technology, Hisar, India

**Abstract:** The major objective of the present study is to examine the impact of internal and external board composition on financial performance of commercial banks in Ethiopia. The samples selected for the present study are twelve commercial banks based on ten years' financial report for the period of 2009-2018. Both primary and secondary data collection methods employed for the study. Primary data for corporate governance (board composition) which is independent variable and secondary data for bank financial performance Return on Asset (ROA), Return on Equity (ROE), and Net Interest Margin (NIM) dependent variables of the present study. Explanatory type of study with a quantitative approach was employed to analyze the collected data. Both descriptive and econometric analyses are used for the current study. Descriptive analysis includes mean, maximum, minimum, and standard deviation, whereas, econometric model includes correlation and regression analysis. Fixed effect and random effect econometric analysis has been made using Eviews-9 Software.

The present study shows that there is a linear relationship between board composition (independent variable) and commercial banks financial performance as measured by Return on Assets (ROA). From this, the researcher reveals that there is a positive and statistically significant relationship between board composition and Return on Assets (ROA). There is negative and statistically insignificant relationship between board composition and Return on Equity (ROE) of commercial banks in Ethiopia. Board Composition is negatively correlated with Net Interest Margin (NIM) and statistically significant at 5 % level of significant. The present study concludes that the higher the board composition leads to better financial performance as measured by Return on Assets (ROA), but in contrastly the higher the board composition of commercial banks in Ethiopia decreases the financial performance as measured by Return on Equity (ROE) and Net Interest Margin (NIM).

**Key words:** Corporate Governance, Financial performance, Board composition, Commercial banks.

## Introduction

The issue of corporate governance becomes international in the early 1980s. Corporate governance plays a vital role for macro and micro economic stability for economic growth as well as society welfare. Therefore, international organizations give more attention and concern to this issue at the micro and macro levels. It is used to make a smooth relationship among shareholders, board of directors, and top management in determining the direction and performance of

the corporation. It is also defined (Abor and Biekpe, 2005) to include the structures, processes, cultures, and systems that engender the successful operation of organizations. The concept of corporate governance of banks and every large firm has been a priority on the policy agenda in the developed market economies for over a decade. The concept is gradually warming itself as a priority in the African continent (Ene and Bello, 2016).

Tomar and Bino (2012) state that corporate governance is about putting in place the structure, processes, and mechanisms that ensure the firm is being directed and managed in a way that enhances long-term shareholder value through accountability of managers and enhancing firm performance. In other words, through such structure, processes, and mechanisms, the well-known agency problem (which results from the separation of ownership from management and leads to a conflict of interests within the firm) may be addressed so that the interests of managers can be aligned with those of the shareholders .

Now-a-days, a most of the shareholders in the firm are seeking to be the board of directors to account for the financial performance of their organization in the business environment. The failure of substantial corporations around the world has paid their attention to the performance and behavior of the board of directors of an organization. Board of directors, found on the top management of the organization, is held responsible for the strategic direction that the organization takes. Effective corporate governance is having very crucial background and affects the success of entrepreneurship.

Various researchers in many countries have made exploration on this area by seeing the importance and the current issues of financial performance in the banking sector. For instance, research was conducted in Ethiopia (Ayano & Ponnala, 2016), corporate governance and firm performance in India (Dalbir, 2017), in Rwanda (Ene & Bello, 2016) and in Nigeria (Fanta et al., 2013).

A number of existing researches has focused on developed countries. However, the importance of understanding the interaction of corporate governance in developing countries is also necessary, because globalization, international investment, and international trade require improved corporate governance (Ali & Magrus, 2012), which will enable developing countries to achieve high and sustainable rates of growth by attracting more investment.

Corporate governance helps in bringing transparency and reliability to business activities in a number of ways. Corporate governance involves harmonizing the interests of a company's stakeholder such as shareholders, senior management executives, customers, suppliers, financiers, the Government, and the community. Therefore, it helps companies to make faithful to investors and society, promote financial capability by constructing a long-term investment opportunity for engaging parties that is why, calls value creation and corporate governance go hand in hand .

Aggarwal (2013) argues that well-organized governance in a corporation fosters good financial performance. The separation of ownership and control in

modern corporations leads to an agency problem where the agent operates the firm in line with their own interests instead of shareholders (Ferede, 2012). The need for corporate governance arises from these potential conflicts of interest among stakeholders such as shareholders, board of directors, and managers in the corporate structure.

The main focus of this study is to examine the impact of corporate governance on the financial performance of commercial banks in Ethiopia. Therefore, the researcher attempts to identify the relationship between corporate governance structure and financial performance of sample commercial banks in Ethiopia. This emphasizes the importance of legal rules and the quality of their enforcement. In Ethiopia, currently the banking sector has become a favorite area of business for many investors and other stakeholders such as creditors, customers, Government and the public as a whole. However, the banking sector in Ethiopia is under good progress, still it is characterized by many problems such as limited range of services, absence of capital markets, and the sector largely remains closed to foreign investors.

## **Empirical Review of Related Literature**

According to proponents of agency theory, effective boards should be made up of a majority of outside directors, who are not employed by the company and have no relation to its employees (Rhoades et al., 2000)". The structure of a board of directors reveals information about the quality of the firm's management and the extent of checks and balances on managerial decisions. Boards are often made up of inside and independent (outside) members. Insiders are major shareholders, founders and executives. Independent directors do not share the draws of the insiders, but they are chosen because of their experience in managing or directing other large companies.

Board composition is the sum of internal and external board members in corporate governance. External director is one who has no accountability for day-to-days functions of the company but involves in making strategic decisions for the firms' implementation. Thus, outside directors do not hold other offices in the firm apart from directorship. Board is the responsible body of the firm in charge of formulating strategic decisions for implementation by management, how these board members are represented and by whom they nominate and its consequences on the financial performance of firms' is a hot issue for different researchers.

According to agency theory, independent directors facilitate effective oversight on board practices as they are able to produce more objective judgments on management performance. This occurs because these managers are less involved in the company's operations and thus they are less dependent on control exerted by the Chief Executive Officer (Jizi, 2017)". The study made by Lee et al. (1992) found that there is a positive link between firm performance and board composition. However, MacAvoy et al. (1983) concludes that there is no relationship between board composition and firm performance. The studies made by Fosberg (1989) and Molz (1988) also show similar results. Rosenstein and

Wyatt (1990) found that if the engagement of external directors is properly differentiated, it led to a rising up in shareholder wealth. Naciti (2001) concluded that the relationship between non-executive members seated in the supervisory board and financial performance measured by Return on Asset (ROA) and Return on Equity (ROE) are negatively correlated. Shungu et al. (2014) reveals that there is an insignificant negative relationship between board independence and Return on Asset (ROA) and Return on Equity (ROE). The studies made by Ene and Bello (2016), Tachiwou (2016), and Gebregeorgs and Kaur (2017) concluded that there is a significant positive relationship between board composition and financial performance.

The studies conducted by Agrawal and Knoeber (1996), Daily and Johnson (1997), Weir and Laing (2001), and Shukeri et al. (2012) state that there is a negative correlation between proportion of outside directors and firms' performance. According to Coles et al. (2004), independent outside board members are more likely to be ineffective in monitoring complex institutions having high potential growth. Rashid et.al (2010) reveals that independent boards of directors are good quality monitors but cannot put in economic value to the firms.

Previous evidence found in studies made by Raheja (2005), Boone et al. (2007), Guest (2008), Lehn et al. (2009), and Farag and Mallin (2017), among others, argue that the structure and composition of the board are determined by the characteristics of the company, its environment, its information needs, and the possible agency conflicts it faces. Board independence and firm performance reveal a positive relationship, which meant that boards of companies that had a higher number of independent directors generally showed better performance results in terms of profitability. The reason for the same is due to the presence of an unbiased opinion in the running of the company. Outside directors tend to provide their expert opinion which is often independent of any vested interest in the company, thereby ensuring better overall corporate governance.

The importance of board composition in corporate governance is widely debated that external independent directors may increase economic value to the firm (Kesner et al., 1986; Adams et al., 2010; Petra, 2005). Previous studies by Guest (2008), Kaplan and Reishus (1990), Byrd and Hickman (1992), Brickley et al. (1994), and Beasley (1996) revealed that appointing external independent directors affects positively the performance of firms, the reason is independent directors are not engaged in illegal acts. In contrast to the above findings, Kesner et al. (1986) concluded that adding separate independent directors cannot diminish a firm's illegal acts. According to Fernandes (2008), the firm with non-executive directors, causes decreasing agency problems and better position of owners and manager interest.

Rosenstein and Wyatt (1990) found that when an additional external director is placed, the firms' share price is rising up. In contrast, Adams and Mehran (2008), and Zulkafli and Samad (2007) disclosed that there is an insignificant relationship between board composition and firm performance of US and Asian

*Impact of Board Composition on Financial Performance of Commercial ...* | Edeti and Garg banks respectively. Similarly, Pi and Timme (1993), and Choi and Hasan (2005) using efficiency measures in addition to traditional profitability indicators found no significant relationship between the number of outside board directors and bank performance for US and Korea respectively. Staikouras et al. (2007) also confirmed that board composition has no significant influence on return on assets and return on equity, although they found a positive association between Tobin's Q and board composition.

Baysinger et al. (1991), and Johnson et al. (1993) argued that there is a powerful operational and strategic advantage related to the higher amount internal on corporate boards' an enhanced pledge to the organization produced by full-time employ attached with intimate knowledge of applicable environments results in a more effective board level decision. Fosberg (1989) found that firms with a large percentage of independent nonexecutive directors on their board are not characterized by better performance as measured by the firms' ROE.

The studies conducted by Hermalin and Weisbach (1991), Klein (1998), Bhagat & Black (2002), Hayes et al. (2004), and Mehran and Schaefer (2004) confirmed that there is no relation between the independence of board members and the firm's performance. There are numerous benefits to board heterogeneity as examined by a combination of executive and independent non-executive managers because of enhanced conclusion making arising from quantity information although this would come at a substantial cost (Sander et al., 2011). Based on the above studies it can be concludes that there is lack of consistency in the finding of the relationship between board composition and firm's financial" performance.

## **Research Methodology**

The methodology of every research work includes the research design, sampling techniques and sources of data, methods of data collection, and methods of data analysis. It is the heart of the study. The quality of every study depends on the methodology applied for the particular study. Therefore, methodology used for the purpose of study must be thoroughly chosen to minimize any chances of bias.

### **3.1 Research Design**

A research design is the arrangement of conditions for the collection and analysis of data in a manner that aims to combine relevance to the research purpose. The research design is the conceptual structure within which the research is conducted. It constitutes the blueprint for the collection, measurement, and analysis of data. As such, the design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of the data (Kothari, 2004).

The choice of research design depends on the objectives of the research to answer the research questions in the research problem. Therefore, explanatory type of study with a quantitative approach was employed to analyze the collected data.

According to Gujarati (2003), explanatory research is devoted to finding causal relationships between dependent and independent variables. Since the research is a cause and effect type, it is more appropriate to use explanatory research type. Panel data analysis which is the combination of cross-sectional and time series data is used for the present study.

### **3.2 Population of the Study**

According to Ngechu (2004), the target population entails an entire group of persons or things which have similar features which are preferred by the investigator. Target population consist of a group of entities or elements which might be considerable than or distinct from the sampled groups from which the researcher draws conclusions about the interested population. According to data from National Bank of Ethiopia, there are 18 banks in Ethiopia as on 2020. Among these, one bank is Development Bank of Ethiopia and the remaining 17 banks are commercial banks. Therefore, the present study's target population is all commercial banks in Ethiopia.

### **3.3 Sample and Sampling Technique**

In research terms, a sample is a group of people, objects, or items that are taken from a larger population for measurement. The sample should be representative of the population to ensure that we can generalize the findings from the research sample to the population as a whole. Accordingly, the researcher has been select 12 commercial banks from a total of 17 commercial banks. The two types of sampling techniques are probability sampling techniques and non-probability sampling techniques. Probability sampling involves random selection, allowing a researcher to make strong statistical inferences about the whole group. This sampling method has equal chance for the total population to be sample. Whereas non-probability sampling involves non-random selection based on convenience or purposively or other criteria, allowing a researcher to easily collect data and has no equal chance for target population to be sample.

The present study used a non-probability sampling technique which is purposively based on ten years audited financial report they have for the years 2009-2018. Therefore, twelve commercial banks are the sample size for the present study. Accordingly, the selected commercial banks Commercial Bank of Ethiopia (CBE), Awash International Bank (AIB), Dashin Bank (DB), Oromia International Bank (OIB), Cooperative Bank of Oromia (COOP), Buna International Bank (BIB), Abysinya Bank (AB), Nib International Bank (NIB), Lion International Bank (LIB), Wegagen Bank (WB), Brihan International Bank (BIB), and Zemen Bank (ZB).

### **3.4 Source of data and Methods of data collection**

The process of acquiring, collecting, extracting, and storing a large volume of data, whether structured or unstructured, for subsequent phases of data analysis is known as data collection. The majority of the data collected is of two types:

*Impact of Board Composition on Financial Performance of Commercial ...| Edeti and Garg*  
qualitative data, which is a collection of non-numerical data such as words, and sentences that focuses on the group's behavior and actions, and quantitative data, which is numerical data that can be calculated using various scientific tools and sampling data. The present study employed quantitative data for both corporate governance variables (independent variables) and financial performance variables (dependent variables).

Both primary and secondary data collection methods are used in the present study. Primary data using questionnaires to survey for the corporate governance variables of selected commercial banks in Ethiopia obtained from managers and secretary of each sampled commercial banks whereas secondary data on financial performance of commercial banks in Ethiopia (audited financial statement report) obtained from National Bank of Ethiopia. Therefore, the present study was employed a quantitative approach and used both primary and secondary sources of data.

### **3.5 Hypothesis of the study**

On the basis of the empirical literature on corporate governance (board composition) and bank financial performance, the following hypotheses have been tested. (Ha: Alternative hypothesis)

Ha1: There is a positive and significant relationship between board composition and financial performance as measured by Return on Assets (ROA) of commercial banks In Ethiopia.

Ha1: There is a positive and significant relationship between board composition and financial performance as measured by Return on Equity (ROE) of commercial banks In Ethiopia.

Ha1: There is a positive and significant relationship between board composition and financial performance as measured by Net Interest Margin (NIM) of commercial banks In Ethiopia.

### **3.6 Method of Data Analysis**

The present study has used both descriptive and econometrics analysis. Descriptive analysis includes mean, maximum, minimum, and standard deviation, whereas, econometric model includes correlation and regression analysis. Fixed effect and random effect econometric analysis has been made using Eviews-9 Software.

### **3.7 Model specification**

Due to the combination of cross-sectional data and time-series data, the Ordinary Least Square (OLS) regression technique is unsuitable analysis (Learner, 1978). The appropriate method of analysis involved panel data regression techniques. The core advantage of working with panel data is that we will be able to control for individual-specific, time-invariant, unobserved heterogeneity, the presence of which could lead to bias in standard estimators like OLS.

There are two frequently used estimation techniques for panel data regression. These are the Fixed Effects Model (FEM) and the Random Effects Model (REM) (Gujarati, 2003). The Fixed effect model assumes that the slope coefficients of the explanatory variables are all identical for all firms. The intercept in the regression model is allowed to differ among individual firms in recognition of the fact that each individual or cross-sectional unit may have some special characteristics of its own. To take into account the differing intercepts, dummy variables may be used. The fixed effect model using dummy variables is known as the Least-Squares Dummy Variable (LSDV) model (Gujarati, 2003). The Random effect model is sometimes known as the Error Component Model (ECM). In ECM, it is assumed that the intercept of an individual unit is a random drawing from a much larger population with a constant mean value. The individual intercept is then expressed as a deviation from this constant mean value.

The researcher adopted a general panel regression model as follows:

$$Y_{it} = \alpha + \sum \beta X_{it} + \varepsilon_{it}$$

Where,

$Y_{it}$  = the value of dependent variables (ROA, ROE, and NIM)

$\alpha$  = the constant value

$\beta$  = the intercept

$X_{it}$  = the explanatory variable (BCO)

$\varepsilon$  = the error term

Hence,

$$\text{Model 1: } ROA_{it} = \alpha + \beta_1 BCO_{it} + \varepsilon_{it}$$

$$\text{Model 2: } ROE_{it} = \alpha + \beta_1 BCO_{it} + \varepsilon_{it}$$

$$\text{Model 3: } NIM_{it} = \alpha + \beta_1 BCO_{it} + \varepsilon_{it}$$

Dependent variables used in model are:

ROA = Return on asset to the bank and period t

ROE = Return on equity for the bank and period t

NIM = Net interest margin for the bank period t

Independent variable used in model is:

BCO = Board composition

Dependent Variables

**Return on Asset (ROA)**, measures how efficient a company's management is generating earnings from their economic resources or assets on their balance sheet. It is shown as a percentage, and the higher the number, the more efficient a company's management is at managing its balance sheet to generate profits.

It can be calculated using the formula:  $ROA = \frac{\text{Net Income}}{\text{Average total Assets}} \times 100$



**Return on Equity (ROE)**, measures the profitability of a corporation in relation to stockholders' equity. It is a ratio that provides investors with insight into how efficiently a company (or more specifically, its management team) is handling the money that shareholders have contributed to it. The higher the ROE, the more efficient a company's management is at generating income and growth from its equity financing.

It is calculated using the formula  $ROE = \frac{\text{Net income}}{\text{Shareholders' equity}} \times 100$

**Net Interest Margin (NIM)** is a measure of the difference between the interest income generated by banks and the amount of interest paid out to their lenders. It shows how successful a bank's investment decisions are compared to its debt situation, relative to the amount of their interest earning assets (Loans and Advances). It is usually expressed as a percentage of what the financial institution earns on loans in a specific period and other assets minus the interest paid on borrowed funds divided by the average amount of assets on which it earns income in that period (the average earning assets). The NIM variable is defined as the net interest income divided by total earnings assets Loans and Advances (Gul, & Zaman, 2011).

It is calculated using the formula  $NIM = \frac{\text{Net interest income}}{\text{Average asset}} \times 100$

## Result and Discussion

### Descriptive Analysis

The major aim of this chapter is to discuss the results using descriptive statistics. Descriptive statistics is the name given to a kind of data analysis that helps to explain, illustrate, or summarize data in an understandable way so that patterns might emerge. Descriptive statistics summarizes the main features of the study variables in terms of mean, maximum, minimum, and standard deviation.

**Mean;** it is the most commonly used method to describe the central tendency. It is calculated by adding all values and then divided by the number of values.

**Minimum and maximum:** minimum is the minimum value of the data and maximum is the maximum value of the data.

**Standard deviation:** standard deviation is the accurate estimation of dispersion. It shows the relationship of the data with the mean of the sample.

**Table 4.1: Summary of Descriptive Statistics for Dependent variables**

Variables	Observations	Mean	Maximum	Minimum	Std. Dev.
ROA	120	3.085833	6.700000	0.000000	0.972724
ROE	120	24.84087	77.71000	0.000000	12.16917
NIM	120	5.198000	14.00000	1.200000	2.483708

Source: Computed results by Eviews-9

Table 4.1 shows that the mean of financial performance of commercial banks measured by ROA is 3.085833 percent (mean=0.030858) with minimum 0.000000 percent and maximum 6.700000 percent. The standard deviation result of 0.973 indicates that for the sample commercial banks ROA varies by 0.973 from the average value of 3.0858.

As shown on table 4.1, the mean value of ROE is 24.84087 percent (mean=0.2484087) with maximum 77.71000 percent and minimum value of 0.000000 percent and standard deviation of 12.16917. This implies that the sample commercial banks in Ethiopia on average earned 24.84087 percent of each birr invested in shareholders’ equity and the standard deviation result shows that it varies by 12.169 from the average value of 24.841. The NIM which is measured by net interest income divided by average asset shows a mean value of 5.198000 percent (mean=0.05198) with maximum 14.00000 percent and minimum 1.200000 percent. The standard deviation 2.483708 percent from its average value shows that NIM differs by 2.484. This implies that the sample banks on average earned 5.198000 percent net interest income of the total loan and advances. Meanwhile, NIM reflects how the bank covers its cost of service and the profitability of the bank, the higher the NIM show, the higher the banks profit and the more stable the bank is.

Based on Table 4.2 the researcher reveals that board composition which is measured by the number of board members, internal and external, and has the mean value 0.550000 which suggests that commercial banks in Ethiopia have fifty-five percent independent directors which implies banks take independent and effective decision making with a maximum percent of 1.00000 and minimum percent of 0.00000. This indicates that 55 percent of the board members are external and the remaining 45 percent of the board members are internal for the present study.

**Table 4.2: Summary of Descriptive Statistics for independent variables**

<b>Independent Variables</b>	<b>Observation</b>	<b>Mean</b>	<b>Maximum</b>	<b>Minimum</b>	<b>St. Deviation</b>
BCO	120	0.550000	1.000000	0.000000	0.499580

Source: Computed eviews-9 results

Table 4.3 shows as there is a linear relationship between the financial performance of commercial banks in Ethiopia measured by Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM) and corporate governance the combination of internal and external board members (board composition).

**Table 4. 3: Correlation analysis of ROE, ROA & NIM with board composition**

	<b>ROE</b>	<b>ROA</b>	<b>NIM</b>	<b>BCO</b>
ROE	1.0000			
ROA	0.4772	1.0000		
NIM	-0.2448	-0.2841	1.0000	
BCO	0.0043	0.1901	0.0309	1.0000

Board composition in the present study concerned on the combination of internal and external which is measured by dummy variable 1 for there is board composition and 0 for no board composition. From the fixed effect regression result in Table 5.16 shows that insignificant relationship between ( $\beta=-0.000484$  P=0.7329).

**Table 4.4: Fixed effect regression results using ROE as a proxy of financial performance**

Dependent variable ROE  
 Method panel EGLS (Cross section weight)  
 Sample 2009 -20118  
 Period included 10  
 Cross section included  
 Total panel (unbalanced) observation 120

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	0.129331	0.041829	3.091903	0.0026
BCO	-0.000484	0.001413	-0.342215	0.7329
R-Squared	0.425139	Mean dependent var.		0.035495
Adjusted R squared	0.328228	S.D. dependent var.		0.012810
SE. of regression	0.006606	Sum squared resid		0.004276
F-Statistic	5.418806	Durbin-Watson stat		1.615004
Prob.(F-Statistic)	0.000000			

Source: Computation of E-Views-9 result

**Table 4.5: Fixed effect regression results using ROA as a proxy of financial performance**

Dependent variable ROA  
 Method panel EGLS (Cross section weight)  
 Sample 2009 -20118  
 Period included 10  
 Cross section included 12  
 Total panel (unbalanced) observation 120

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	0.338560	0.227716	0.608478	0.5413
BCO	0.12330	0.006100	2.004901	0.0477
R-Squared	0.435220	Mean dependent var.		0.783761
Adjusted R squared	0. 346898	S.D. dependent var.		0.322311
SE. of regression	0.017054	Sum squared resid.		0.028501
F-Statistic	9.736488	Durbin-Watson stat		1.253911
Prob.(F-Statistic)	0.000000			

Source: Computation of E-Views-9 result

From the fixed effect regression result in Table 4.5 the coefficient of the BCO is 0.012230 and its p-value is 0.0477. From this, the researcher reveals that there is a positive and statistically significant relationship between board composition and return on assets. This indicates holding other independent variables remain constant as board composition increased by one, the return on assets on average increased by 1.22 percent.

This is due to the fact that an outside director is a member of a company's board of directors who is not an employee or stockholder in the company, in theory



## 6. References

- Abdulazeez, D. A., Ndibe, L., & Mercy, A. M. (2016), Corporate governance and financial performance of listed deposit money banks in Nigeria , *Journal of Accounting and Marketing*, 5(1), 1-6.
- Abdullah, H., & Valentine, B. (2009). Fundamental and ethics theories of corporate governance Middle Eastern Finance and Economics, 4(4), 88-96
- Abdurazak, H., & Harun. (2017), Corporate governance and its effect on financial performance of the Ethiopian private commercial banks, (February). Retrieved from <http://etd.aau.edu.et/handle/123456789/13807>
- Abor, J., & Biekpe, N. (2005) Does corporate governance affect the capital structure decisions of Ghanaian SMEs? In Biennial Conference of the Economic Society of South Africa, Durban, South Africa, September. 1–10
- Abor, J., & Biekpe, N. (2005). What determines the capital structure of listed firms in Ghana?" *African Finance Journal*, 7(1), 37-48.
- Aburime, U. T. (2008), Concentration implication of the bank consolidation exercise in Nigeria Retrieved on November, 10, 2011
- Adams, R. B., & Ferreira, D. (2009), Women in the boardroom and their impact on governance and performance *Journal of financial economics*, 94(2), 291-309.
- Adams, R. B., & Mehran, H. (2008), Corporate performance, board structure, and their determinants in the banking industry FRB of New York staff report, (330).
- Adams, R. B., Hermalin, B. E., & Weisbach, M. S. (2010), The role of boards of directors in corporate governance: A conceptual framework and survey *Journal of economic literature*, 48(1), 58-107
- Aggarwal, P. (2013), Impact of corporate governance on corporate financial performance. *IOSR Journal of Business and Management*, 13(3), 01-05
- Ahern, K. R., & Dittmar, A. K. (2012), The changing of the boards: The impact on firm valuation of mandated female board representation. *The quarterly journal of economics*, 127(1), 137-197
- Ajala, O. A., Amuda, T., & Arulogun, L. (2012), Evaluating the effects of corporate governance on the performance of Nigerian banking sector *Review of Contemporary Business Research*, 1(1), 32-42.
- Akyuz, G., & Erman Erkan, T. (2010), Supply chain performance measurement: a literature review *International journal of production research*, 48(17), 5137-5155
- Alchian, A. A., & Demsetz, H. (1972), Production, information costs, and economic organization *The American economic review*, 62(5), 777-795
- Alemu, G. (2016), Financial inclusion, regulation and inclusive growth in Ethiopia. *Achieving Financial Stability and Growth in Africa* (November), 137-157.
- Ali, A., & Magrus, A. (2012). ἰνμονυἰἰἰἰ 3703748592. Banking, L. O. F., Business, M., Governance, C., No, D., Bank, N., Business, B., ... For, D. (2014). Final DRAFT, 1–15.
- Aljifri, K., & Moustafa, M. (2007). The impact of corporate governance mechanisms on the performance of UAE firms: an empirical analysis. *Journal of Economic and Administrative Sciences*.
- Amdemikael, A. (2012). Factors affecting profitability: An empirical study on Ethiopian Banking Industry (Doctoral dissertation, Addis Ababa University).
- Anderson, C. A., & Anthony, R. N. (1986). *The corporate director*.
- Asuagwu, G. (2013). Implication of corporate governance on the performance of deposit money banks in Nigeria. *Arabian Journal of Business and Management review (OMAN Chapter)*, 2(10).
- Athanasoglou, P., Delis, M., & Staikouras, C. (2006). Determinants of bank profitability in the South Eastern European region.
- Awunyo-Vitor, D., & Badu, J. (2012). Capital structure and performance of listed banks in Ghana.
- Ayalew, Y. E. (2019). The Internet shutdown muzzle (s) freedom of expression in Ethiopia: competing narratives. *Information & Communications Technology Law*, 28(2), 208-224.
- Ayele, H. N. (2012). Determinants of bank profitability: An empirical study on Ethiopian private commercial banks. Addis Ababa University.

- Azeez, A. A. (2015). Corporate governance and firm performance: evidence from Sri Lanka. *Journal of Finance*, 3(1), 180-189.
- Baltagi, B. H., & Baltagi, B. H. (Eds.). (2001). *A companion to theoretical econometrics* (Vol. 1). Oxford: Blackwell.
- Baltagi, B. H., & Rich, D. P. (2005). Skill-biased technical change in US manufacturing: a general index approach. *Journal of Econometrics*, 126(2), 549-570.
- Baltagi, B. H., Song, S. H., & Koh, W. (2003). Testing panel data regression models with spatial error correlation. *Journal of econometrics*, 117(1), 123-150.
- Bathula, H. (2008). Board characteristics and firm performance: Evidence from New Zealand (Doctoral dissertation, Auckland University of Technology).
- Baysinger, B. D., Kosnik, R. D., & Turk, T. A. (1991). Effects of board and ownership structure on corporate R&D strategy. *Academy of Management journal*, 34(1), 205-214.
- Beasley, M. S. (1996). An empirical analysis of the relation between the board of director composition and financial statement fraud. *Accounting review*, 443-465.
- Bebchuk, L., & Grinstein, Y. (2005). The growth of executive pay. *Oxford review of economic policy*, 21(2), 283-303.
- Becker, G. S. (1962). Investment in human capital: A theoretical analysis. *Journal of political economy*, 70(5, Part 2), 9-49.
- Berger, A. N., & Bouwman, C. H. (2013). How does capital affect bank performance during financial crises?. *Journal of financial economics*, 109(1), 146-176.
- Berger, A. N., & Di Patti, E. B. (2006). Capital structure and firm performance: A new approach to testing agency theory and an application to the banking industry. *Journal of Banking & Finance*, 30(4), 1065-1102.
- Bhagat, S., & Bolton, B. (2008). Corporate governance and firm performance. *Journal of corporate finance*, 14(3), 257-273.
- Bikker, J. A., & Hu, H. (2002). Cyclical patterns in profits, provisioning and lending of banks and procyclicality of the new Basel capital requirements. *PSL Quarterly Review*, 55(221).
- Birru, Y. A. (2019). Ethiopian financial sector development. In *The Oxford handbook of the Ethiopian economy*. Oxford University Press.
- Bohren, Ø., & Strøm, R. Ø. (2010). Governance and politics: Regulating independence and diversity in the board room. *Journal of Business Finance & Accounting*, 37(9-10), 1281-1308.
- Choi, S., & Hasan, I. (2005). Ownership, governance, and bank performance: Korean experience. *Financial Markets, Institutions & Instruments*, 14(4), 215-242.
- Conger, J. A., & Kanungo, R. N. (1998). *Charismatic leadership in organizations*. Sage Publications.
- Crowther, D., & Seifi, S. (2011). *Corporate governance and international business*. BookBoon..
- Dahlin, K. B., Weingart, L. R., & Hinds, P. J. (2005). Team diversity and information use. *Academy of management journal*, 48(6), 1107-1123.
- Dalton, D. R., Daily, C. M., Johnson, J. L., & Ellstrand, A. E. (1999). Number of directors and financial performance: A meta-analysis. *Academy of Management journal*, 42(6), 674-686.
- Darmadi, S. (2013). Board members' education and firm performance: evidence from a developing economy. *International Journal of Commerce and Management*.
- Eluyela, D. F., Akintimehin, O. O., Okere, W., Ozordi, E., Osuma, G. O., Ilogho, S. O., & Oladipo, O. A. (2018). Board meeting frequency and firm performance: examining the nexus in Nigerian deposit money banks. *Heliyon*, 4(10), e00850.
- Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *The journal of law and Economics*, 26(2), 301-325.
- Fanta, A. B., Kemal, K. S., & Waka, Y. K. (2013). Corporate governance and impact on bank performance. *Journal of Finance and Accounting*, 1(1), 19-26.
- Gatsi, J. G., Gadzo, S. G., & Akoto, R. K. (2013). Degree of financial and operating leverage and profitability of insurance firms in Ghana. *International Business and Management*, 7(2), 57-65.
- Gebregorgis, N., & Kaur, H. (2017) Board Structure and Financial Performance: A study of state-owned service enterprises in Ethiopia.
- Hadlock, C. J., & James, C. M. (2002). Do banks provide financial slack?. *the Journal of Finance*, 57(3), 1383

- Impact of Board Composition on Financial Performance of Commercial ...* | Edeti and Garg
- Imade, O. G. (2019). Board gender diversity, non-executive directors composition and corporate performance: evidence from listed firms in Nigeria. *African Journal of Business Management*, 13(9), 283–290.1419.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, 3(4), 305-360.
- Johal, S. K., Kaur, S., & Cooper, B. J. (2015). Board characteristics and firm performance: Evidence from Malaysian public listed firms. *Journal of Economics, Business and Management*, 3(2), 239-243.
- Kingdom, U. (2016). Effect of Board Diversity on Corporate Governance Structure and Operating Performance : Evidence from the UK Listed Firms \*, 80, 67–80.
- Manini, M. M., & Abdillahi, U. A. (2015). Corporate governance mechanisms and financial performance of commercial banks in Kenya. *IOSR Journal of Business and Management*, 17(3), 25-40.
- Marashdeh, Z. M. S. (2014). The Effect of Corporate Governance on Firm Performance in Jordan, (September) *Marketing*, 5(1), 1-6.
- Matsa, D. A., & Miller, A. R. (2013). A female style in corporate leadership? Evidence from quotas. *American Economic Journal: Applied Economics*, 5(3), 136-69.
- Parmar, B. L., Freeman, R. E., Harrison, J. S., Wicks, A. C., Purnell, L., & De Colle, S. (2010). Stakeholder theory: The state of the art. *Academy of Management Annals*, 4(1), 403-445.
- Parola, H. R., Ellis, K. M., & Golden, P. (2015). Performance effects of top management team gender diversity during the merger and acquisition process. *Management Decision*.
- Pearce, J. A., & Zahra, S. A. (1992). Board composition from a strategic contingency perspective. *Journal of management studies*, 29(4), 411-438. Performance of listed deposit money banks in Nigeria. *Journal of Accounting and*
- Perrault, E., & Perrault, E. (2015). Why Does Board Gender Diversity Matter and How Do We Get There? The Role of Shareholder Activism in Deinstitutionalizing Old Boys' Networks, (September). <https://doi.org/10.1007/s10551-014-2092-0>
- Rechner, P. L., & Dalton, D. R. (1991). CEO duality and organizational performance: A longitudinal analysis. *Strategic management journal*, 12(2), 155-160.
- Redmond, W. J., & Bohnsack, C. L. (2007). Bank Size and Profitability: One Nation, One Bank?. *International Journal of Business Research*, 7(1), 162-169.
- Rose, C. (2007). Does female board representation influence firm performance? The Danish evidence. *Corporate Governance: An International Review*, 15(2), 404-413.
- Rosenstein, S., & Wyatt, J. G. (1990). Outside directors, board independence, and shareholder wealth. *Journal of financial economics*, 26(2), 175-191.
- Saeidi, S. P., Sofian, S., Saeidi, P., Saeidi, S. P., & Saeidi, S. A. (2015). How does corporate social responsibility contribute to firm financial performance? The mediating role of competitive advantage, reputation, and customer satisfaction. *Journal of business research*, 68(2), 341-350
- Sahu, T. N., & Manna, A. (2013). Impact of Board Composition and Board Meeting On Firms' Performance: A Study of Selected Indian Companies. *Vilakshan: The XIMB Journal of Management*, 10(2).
- Vafeas, N. (1999). Board meeting frequency and firm performance. *Journal of financial economics*, 53(1), 113-142.
- Vafeas, N. (2005). Audit committees, boards, and the quality of reported earnings. *Contemporary accounting research*, 22(4), 1093-1122.
- Wabwile, E. S., Chitiavi, M. S., Alala, O. B., Douglas, M., Khoo, V., Obeid, M., & Islam, M. (2014). Financial Leverage and performance variance among banks: evidence of tier 1 commercial banks listed on Nairobi Security Exchange Kenya. *International Journal of Business and Management Invention*, 3(4), 01-13.
- Wale, L. E. (2017). Board structure and performance in Ethiopian microfinance institutions BOARD STRUCTURE AND PERFORMANCE IN ETHIOPIAN, (November). <https://doi.org/10.22495/cbv11i1c1art2>
- Zee, A., & Swagerman, D. (2009). Upper echelon theory and ethical behavior: An illustration of the theory and a plea for its extension towards ethical behavior. *Journal of Law and Governance*, 4(2).

- Zeitun, R., & Tian, G. G. (2007). Does ownership affect a firm's performance and default risk in Jordan?. *Corporate Governance: The international journal of business in society*.
- Zulkafli, A. H., & Samad, F. A. (2007). Corporate governance and performance of banking firms: Evidence from Asian emerging markets. In *Issues in corporate governance and finance*. Emerald Group Publishing Limited.

***About the Authors***

**Addisu Gemedo Edeti** is Research Scholar in Haryana School of Business, Guru Jambheshwar University of Science and Technology, Hisar, India Email-[addisugemeda@gmail.com](mailto:addisugemeda@gmail.com)

**Mahesh Chand Garg** is Professor in Hararyana School of Business, Guru Jambheshwar University of Science and Technology, Hisar, India E-mail-[mc\\_garg@yahoo.com](mailto:mc_garg@yahoo.com)