THE IMPACT OF CORPORATE GOVERNANCE MECHANISMS ON FIRM'S FINANCIAL PERFORMANCE: EVIDENCE FROM COMMERCIAL BANKS IN ETHIOPIA

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ABSTRACT

Corporate governance has become an issue of global significance and has received new urgency due to various corporate scandals and failure. This paper investigates the impact of corporate governance mechanisms on firms' financial performance using five years data from the year 2007 to 2011 with a sample of eight Ethiopian commercial banks. Three financial performance indicators such as return on asset, return on equity and net interest margin were used. Corporate governance mechanisms considered in this study include board size, board gender diversity, board members educational qualification, board members business management and industry specific experience, and audit committee size. The study controls the effect of size, leverage and growth of banks. The regression results show that large size board and audit committee negatively influences financial performance; whereas board members educational qualification positively associated with financial performance. While industry specific experience of director positively related with return on asset but it has a negative effect on net interest margin. Finally, the percentage of female directors and board members business management experience does not have a significant effect. In general, the findings suggest that banks with effective corporate governance mechanisms improve financial performance depending on the measure used although not all corporate governance mechanisms are significant.

KEYWORDS: Corporate Governance Mechanisms, Agency Theory, Financial Performance Commercial Banks and Ethiopia.