Library Progress International *Print version ISSN 0970 1052*
Vol.44 No.3, Jul-Dec 2024: P.19875-19888 *Online version ISSN 2320 317X*

Original Article *Available online at www.bpasjournals.com*

The Effect Of Ownership Structure And Corporate Governance On The Financial Performance Of Commercial Banks In Ethiopia

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How to cite this article: Andinet Asmelash Fentaw, Aashka Thakkar, (2024) The Effect Of Ownership Structure And Corporate Governance On The Financial Performance Of Commercial Banks In Ethiopia. *Library Progress International,* 44(3), 19875-19888

ABSTRACT

1. Commercial banks are formal financial institutions, whose core business is to encourage saving and easy access to credit by the public to the public. To achieve these objectives commercial banks should have sound ownership structure and corporate governance which enable them to improve their financial performance. Hence, the objective of this study was to identify the effect of ownership structure and corporate governance on the Financial Performance of the commercial banks in Ethiopia for 2013-2022. Due to the quantitative nature of the data, the study used a quantitative research approach and adopted an explanatory research design to examine the cause-and-effect relationship of financial performance and its determinants. Secondary data was analyzed using multiple regression models for the financial performance measured by Return on asset (ROA). Under this study, six independent variables such as ownership concentration, capital adequacy, debt-equity ratio, management efficiency, size of the audit committee, meeting frequency of board, and two control variables such as liquidity management, and size of Banks were included. The random effect model was applied to investigate the impact of explanatory variables on the financial performance of commercial banks in Ethiopia. Out of eight explanatory variables, three variables such as ownership concentration, capital adequacy, and gearing ratio, were positive and had a statistically significant effect on ROA, while the size of the audit committee was negative and had a statistically significant effect on ROA; because their p-value is less than 1%. However, management efficiency and meeting frequency of the board have statistically insignificant effects on ROA because their p-value is greater than 10%. The researcher recommends that Commercial Banks in Ethiopia should determine and better to strengthen such statistically significant variables to improve the performance of the Banks.

Keywords: Financial Performance, Commercial Banks, ownership structure, corporate governance.

1. Introduction:

Financial institutions play a great role in the raising, distributing, and investing of savings of the various economic agents in an economy. For this reason, economic growth, industrialization, and distribution of capital activities of the banking sector have resulted greatly from the effective banking activities and profitability of the banking sector and it is vital at the macroeconomic stage in a given country (Dinberu, 2017).

According to Reza (2018), governance means administrating and monitoring the practice of pressures on providing good procedures and adherence to prearranged characteristics of

standards, and also state Corporate Governance is controlling power targeted to the issue of an organization to create a good rule and implement previously determined principles. According to Dignam & Lowry (2022), Corporate Governance is described as a set of procedures, practices, policies, and laws that guide and show how the corporation is run, managed, or controlled with the main purpose of handling the organization's issues.

Corporate governance has become an issue of global significance and has received new urgency due to various corporate scandals and failures (Yenesw, 2012). Good and stiff corporate governance must be set up for certain companies to progress their operational performance and, development of the economy and to increase the owner's reliance on their equity in the business (Abdurazak, 2017). So good corporate governance solves the challenges facing the firms makes them successful in their objective and ends with fruitful results.

The banks that do not succeed in the implementation of corporate governance and have insufficient and ineffective governance are the banks in line with near liquidation (Reza, 2018). The study is important in concerning good corporate governance in the low developing economy countries especially Ethiopia; because the objective issue is to motivate the banking industry in Ethiopia about the advantages of a good corporate governance system and its consequence on financial performance to benefit all prospects at the national and international level (Yenesew, 2012).

The relationship between ownership and corporate governance is that ownership implies the shareholders of the company who are the foundation of corporate governance while corporate governance is the stepping stone that will place a company either at good financial performance or affect its efficiency (Otieno, 2022).

According to Nahila, (2016) and Benjamin et al (2015) ownership structure is one of the forces in a business firm which is defined as the allocation of equity in addition to the identity of the equity owners and is a system within corporate governance which has influenced firm's continuous performance for every year. Ng'ang'a (2017) states that ownership structure can be seen in two directions; ownership concentration and ownership mix. Ownership concentration refers to the shares of the largest owner while ownership mix refers to the distribution of the firm's shares about the identity of the major shareholders. Ownership identity is related to majority shareholders and those who can influence decision-making among the shareholders in the firm through their voting (Otieno, 2022).

A firm's financial performance refers to the efficiency and effectiveness of the organization's internal as well as external actions/operations. The performance of the firm can be determined from its financial statements which are reported by the company. If the company is performing well it will indicate the management quality of their operations. To get the growth in the organization, it needs to be measured as what the organization is performing currently which will bring out the gap needed to be filled to attain the objectives of the organization (Ali, 2016).

A bank is a financial institution and a financial intermediary that accepts deposits from the depositor and transfers them to the legal borrower. A bank connects customers that have capital deficits to customers with capital surpluses. Banks act as payment agents by conducting checking or current accounts for customers, paying checks drawn by customers on the bank, and collecting checks deposited to customers' current accounts. Banks also enable customer payments via other payment methods such as Automated Clearing House (ACH), Wire transfers or telegraphic transfer, POS, and automated teller machine (ATM). Banks lend money by making advances to customers on current accounts, by making installment loans, and by investing in marketable debt securities and other forms of money lending. (Ali, 2016).

A bank provides vital services by appearing between depositor and borrowers that helps different organizations & individuals contribute to the growth of the economy. How bank sectors operate their business and stabilize financial resources that result in economic health

are the basis of the bank's security and strength.

2. Problem Statement:

The topics of ownership structure and corporate governance have garnered significant attention within the banking industry because of their direct impact on the profitability, or financial performance, of banks worldwide. Given that the stability of the banking sector is crucial to any economy, it is imperative to examine the factors influencing the financial performance of banks (Al-Amarneh, 2014).

A sound ownership structure and effective corporate governance typically lead to enhanced firm value and performance. Conversely, inadequate corporate governance and ownership structures can have adverse effects on bank profitability. Consequently, the exploration of the effects of ownership structure and corporate governance is of great interest to both scholars and business professionals. Thus, the researcher was motivated to delve into this area of study.

Various researchers have delved into the topic both within and outside Ethiopia. In studies conducted beyond Ethiopia, scholars like Al-Amarneh (2014), Arouri et al. (2011), Kiruri (2013), and Kyereboah and Biekpe (2007) have explored the impact of ownership structure and corporate governance on financial performance across different global regions. They have identified factors such as shareholder ownership concentration, institutional ownership, foreign ownership, board size, and CEO duality as influential in the financial performance of the banking sector.

However, this current study differs from those conducted internationally by incorporating five additional variables into its multiple linear regression model. These variables include management efficiency, capital adequacy, liquidity, audit committee size, and bank size. This distinction sets apart this study from research conducted abroad and serves as a key motivation for its undertaking.

However, previous research conducted by Kanbiro & Hymavathi (2019), Reza (2018), and Yilkal (2017) has highlighted several key determinants of financial performance in the Ethiopian banking industry, including management efficiency, capital adequacy, liquidity, board size, audit committee effectiveness, institutional ownership, and bank size. Notably, these studies have focused on individual factors rather than examining corporate governance and ownership structure simultaneously.

In contrast, this current study diverges from previous research in Ethiopia by exploring both corporate governance and ownership structure collectively. While past studies have separately analyzed the impact of corporate governance and ownership structure on financial performance, this study aims to investigate their combined effect. Moreover, there is limited existing research on similar topics in Ethiopia, making this study a valuable addition to the understanding of Corporate Governance and Ownership Structure and their influence on performance.

Hence, this study aims to address the identified gaps by investigating the influence of ownership structure and corporate governance on the financial performance of banks in Ethiopia. It seeks to answer the following research question: What are the proxies of ownership structure and corporate governance and what is the effect of these two on the financial performance of banks operating in Ethiopia?

3. Theoretical Literature Overview and Hypothesis Development:

- Concept of Financial Performance:

Financial performance serves as a crucial metric for assessing how effectively a business utilizes its resources to generate profits, thereby playing a significant role in decision-making for various stakeholders within a firm. These stakeholders include trade creditors, shareholders,

investors, employees, and management, each with their unique considerations regarding the firm's financial standing. There are multiple methods for evaluating financial performance, including Book Value per Share, Earnings per Share, Return on Assets, Dividend per Share, and Return on Equity, among others (Lawala et al, 2018).

Return on Assets (ROA) is a metric that assesses the efficiency of a bank in generating profits relative to its total assets. It indicates the bank's ability to utilize its funding sources effectively to generate income (Ogega, 2014).

- Concept of Ownership Structure:

According to Thomsen & Conyon (2012), the ownership structure of the firms where looked into two distinctive features: the first is ownership concentration which means when a share of the firm is owned by one or few large owners (concentrated) or by multiple smaller owners (dispersed), and the second is ownership identity which refers to the type of owner such as individuals, families, institutions or other firms.

According to Jensen and Meckling (1976), the ownership structure is described by the allocation of equity concerning vote's capital, and also by the equity owners' identity. On the other hand, the ownership structure is one of the key factors that determine the financial performance of the baking industry. To this end, a study (Kiruri, 2013) stated that the ownership structure of the banking industry is a widely accepted issue because it influences operating behavior, the nature of residual claims, and the motivation of the firm's owners.

- An Overview of Banking History in Ethiopia:

The banking sector in Ethiopia has a long history dating back to the early 20th century. Modern banking was introduced with an agreement between Emperor Minilik and representatives of the British-owned National Bank of Egypt in 1905, leading to the establishment of the first bank, Bank of Abyssinia, in February 1906 in Addis Ababa. Since then, the banking industry has experienced rapid growth, paralleling the country's economic expansion.

The current Development Bank of Ethiopia was founded by the Ethiopian government in 1909, following the establishment of the Bank of Abyssinia. After the split of the State Bank of Ethiopia into the National Bank and Commercial Bank of Ethiopia in 1963, seventeen commercial banks have been established in Ethiopia. These include Awash International Bank (1994), Bank of Abyssinia (1996), Wegagen Bank (1997), United Bank (1998), Nib International Bank (1999), Dashen Bank (2003), Cooperative Bank of Oromia (2005), Lion International Bank (2006), Oromia International Bank (2008), Buna International Bank (2009), Zemen Bank (2009), Abay Bank (2010), Berhan Bank (2010), Addis International Bank (2011), Debub Global Bank (2012), and Enat Bank (2013).

The banking sector is considered the backbone of the economy and plays a crucial role in economic development by mobilizing national savings into productive sectors, thereby contributing to economic growth. Profitable commercial banks also play a vital role in stabilizing the financial system of a country (Kanbiro and Hymathith, 2019).

In Ethiopia, all governmental and private banks are regulated and administered by Banking Business Proclamation Number 592/2008 through the National Bank of Ethiopia (NBE). This proclamation encompasses rules governing banking license issuance, business prohibitions, share ownership, and limitations on share acquisition and voting rights. Article 9 of this proclamation prohibits foreign organizations fully or partially owned by foreign nationals from opening banks in Ethiopia or acquiring shares in Ethiopian banks.

- Ownership Concentration and Financial Performance:

Empirical evidence on the association between ownership concentration and bank performance is mixed. The previous study by Al-Amarneh (2014) and Yammeesri (2013) reported a positive relationship between ownership concentration and the financial performance of the bank. The finding by Ogega (2014) revealed that a unit increase in ownership concentration would lead

to an increase in the financial performance of commercial banks in Kenya. This finding was supported by the efficient monitoring hypothesis (EMH), which argues that greater ownership concentration can eliminate the agency conflict between owners and management decrease the costs of management monitoring, and lead to improved performance and productivity. Hence, the researchers expect a positive association between ownership concentration and bank performance and hypothesized the following:

H_1: Ownership concentration has a statistically significant and positive effect on commercial bank financial performance in Ethiopia**.**

- Capital Adequacy Ratio and Financial Performance:

Capital is one of the specific factors that influence the level of financial performance. Financial institution's capital creates liquidity because deposits are most fragile and prone to runs. Moreover, greater capital reduces the chance of distress. The large size of equity is expected to reduce the bank's risk and increase a bank's creditworthiness in reducing its funding cost for a bank with higher equity-to-assets ratios will normally have a lower need of external funding. Kanbiro and Hymavathi (2019) conducted a study on the determinants of commercial banks' profitability during the period 2014-2018 and found that the capital adequacy ratio has a significant and positive effect on commercial bank's profitability in Ethiopia. Ashenafi, Kelifa & Yodit (2013) also found that the Capital adequacy ratio had a statistically significant positive effect on bank financial performance. In line with the above empirical pieces of evidence, it is expected that there will be a positive relationship between financial performance and the equity to debt ratio of the firms. So, the researchers hypothesized the following:

H_2: Capital Adequacy has a statistically significant and positive effect on commercial bank financial performance in Ethiopia.

- Debt to Equity Ratio and Financial Performance:

Financial structure is the explicit mix of long-term debt and common equity that a firm uses to finance its operations. It refers to the balance between all of the firm's liabilities and its equities. Thus, it deals with the total affairs in liabilities plus the equities side of a firm balance sheet. This financial structure is a mix that directly affects the risk and value of a firm.

The study by Desta (2020) and Madiwe (2014) studied the related topic and found that the debt-equity ratio has a positive and statistically significant effect on financial performance. This implies that increases in debt proportion to equity capital lead to increases in the financial performance of banks. Consequently, it can be hypothesized that:

H_3: Debit to Equity Ratio has a statistically significant and positive effect on commercial bank financial performance in Ethiopia.

- Management Efficiency and Financial Performance:

Management efficiency is one of the key factors that determine the financial performance of the bank. According to Kanbiro & Hymavathi (2019), the management efficiency ratio is represented by operational efficiency in managing the operating expense which is another dimension of management quality. According to the regression result of the study, management efficiency has a positive and significant impact on the profitability of commercial banks in south Addis Ababa Ethiopia. Based on this argument, the researchers hypothesized the following:

H_4: Management Efficiency has a statistically significant and positive effect on commercial bank financial performance in Ethiopia.

- Audit Committee Size and Financial Performance:

According to Ashenafi et al (2013) and Yenesew (2012), the audit committee plays a significant role in the monitoring process carried out by the directors of the firm, and auditing is used by firms to reduce agency costs. In addition to that they revealed that most essential board decisions originate at the committee level, and this includes the audit committee. The size of

Audit committees thus, represents another internal governance mechanism whose impact is to improve the quality of financial management of a company and hence its performance.
With reference to the study conducted by Das (2017) and Ashenafi et al (2013), there is a negative relationship between increasing the size of the audit committees and the performance of banks in Ethiopia. As per their suggestion, a certain minimum number of audit committee members may be relevant to the quality of financial reporting. This is why, a study by Aldamen et al (2011) reveals that smaller audit committees with more experience and better education qualifications are more likely to be associated with positive firm performance. Hence, one can expect that there is a negative relationship between increases in audit committees in the banks because there is a cost incurred by the banks for hiring more audit committees despite hiring one qualified auditor. So, it can be hypothesized that:

H_5: The Size of the Audit Committee has a statistically significant and negative effect on commercial bank financial performance in Ethiopia.

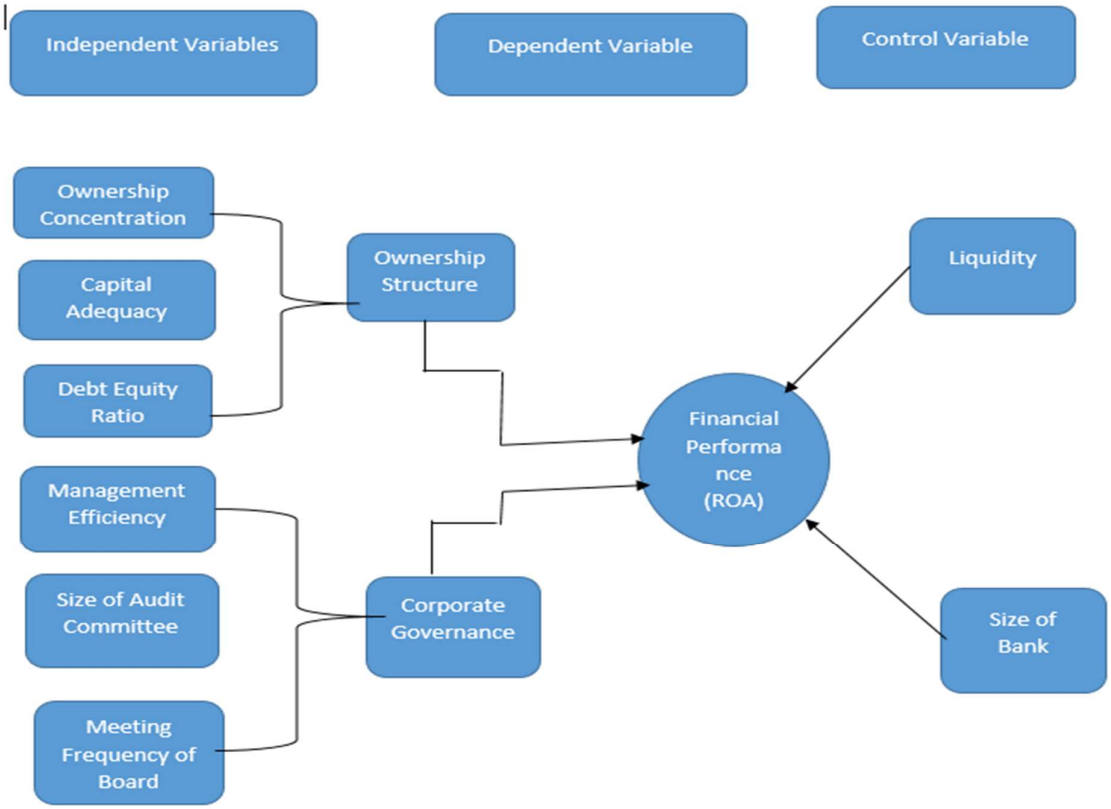
- Meeting Frequency of Board and Financial Performance:

A board of directors is a group of people elected to represent stockholders and to assume responsibility for the overall direction and management of the organization. The law varies from state to state as to how often a board of directors meeting should be held; however, most are held at least once a year. Every company shall hold a minimum of 4 (four) board meetings each year. Here "year" means the calendar year (from January to December) and not the financial year of the company. The gap between two consecutive board meetings: not more than 120 days. The regression result of the study by Anita and Namrata (2018) and Damilola et al (2020) shows a positive association between board meeting frequency and firm performance. Hence, it can be hypothesized that:

H_6: The meeting Frequency of the Board has a statistically significant and positive effect on commercial bank financial performance in Ethiopia.

4. Conceptual Framework:

Figure 1: Conceptual Framework



Source: Own Model, 2022

5. Methodology:

A research design employed was explanatory research design which enables gathering information, usually through secondary data, and explaining the relationship between explanatory variables and dependent variables. The variables were selected based on alternative theories agency and stakeholder theories and previous empirical studies related to corporate governance and firm performance. Its purpose was to generalize from a sample to a population so that inferences can be made and it is also an economical and rapid turnaround in data collection (Creswell, 2003). The research approach used by the researchers was quantitative.

A data type that the researchers used was secondary data. The secondary data had been audited financial Statements gathered from the National Bank of Ethiopia and purposively selected each bank of the report, bulletins, minutes, and documents.

The study was conducted on the ten oldest Commercial Banks in Ethiopian such as Commercial Bank of Ethiopia, Dashen Bank, Awash International Bank, Abyssinia Bank, Co-operative Bank of Oromia, Wegagen Bank, United Bank, Nib International Bank, Lion International Bank & Oromia International Bank. The characteristics of the members of the target population are similar. The population of the study is ten consecutive years' financial statements and ten oldest purposively selected banks (10*10) = 100 number of the observation.

The rationale behind purposefully selecting the sample size is to ensure access to ten years of audited financial statements from the banks. This is necessary because not all banks have a ten-year audited financial history, especially those established less than ten years ago.

In this study, data analysis employed correlation and multiple panel linear regression methods. Multiple panel linear regression analysis was utilized to examine the hypothesis and elucidate the connection between ownership structure, corporate governance variables, and financial performance indicators while controlling for the influence of selected variables. The data underwent analysis using the E-Views 9 statistical software package to ensure the reliability of the findings.

Table 1: Measurement of Dependent and Independent Variables:

Variable	Symbol	Definition
Profitability	ROA	ROA= $\frac{\textbf{\textit{Net income}}}{\textbf{\textit{Total Asset}}}$
Ownership concentration	OC	Percentage of shares held by large shareholders
Capital adequacy ratio	CAR	CAR = $\frac{\textbf{\textit{Equity}}}{\textbf{\textit{Total Assets}}}$
Debt to Equity Ratio	DER	DER = $\frac{\textbf{\textit{Total Debt}}}{\textbf{\textit{Total Equity}}}$
Management Efficiency	ME	**ME** = $\frac{\textbf{Operating expense}}{\textbf{operating income}}$
Audit Committee Size	ACS	$\textbf{\textit{ACS}} = \frac{\textbf{\textit{CYACS} − \textit{PYACS}}}{\textbf{\textit{PYACS}}} * \textbf{100}\%$
Meeting Frequency of Board	MFOB	Natural Log of number of board meetings held throughout the financial year.
Liquidity Management	LM	LM = $\frac{\textbf{\textit{Current Asset}}}{\textbf{\textit{current liability}}}$
Size of Banks	**SB**	measured as the natural logarithm of total assets at year-end

Source: Own Construct Based on Literature Review 2022

- **Model Specification:**

Banks' financial performance, a quantitative metric, is assessed using multiple linear regression models. In this model, the dependent variable is the financial performance, while eight independent variables—Ownership Concentration, Capital Adequacy, Debt-to-Equity Ratio, Management Efficiency, Audit Committee Size, Board Meeting Frequency, Liquidity Management, and Bank Size—are regressed against Return on Assets (ROA). The model can be represented by the following equation:

$$ROAit = \beta 0 + \beta 1OCit + \beta 2CAit + \beta 3DERit + \beta 4MEit + \beta 5ACZit + \beta 6MFOBit + \beta 7LMit + \beta 8SBit + Uit$$

Whereas:

ROA= Financial Performance
β0 = Constant Term
β1, β2, β3, β4…β8 refers to coefficients
OC =Ownership Concentration
CA= Capital Adequacy Ratio
DER = Debt to Equity Ratio
it= the Sampled Bank i for period t.
ME = Management Efficiency
ACZ = Audit Committee Size
MFOB = Meeting Frequency of Board
LM= Liquidity Management
SB= Bank Size
Ü = is error term

6. Results and Discussions:

- **Regression Coefficient:**

Ordinary least squares (OLS) is a method for estimating the unknown parameters in a linear regression model, to minimize the sum of the squares of the difference between the observed responses (values of the variable being predicted) in a given dataset and those predicted by a linear function of a set of explanatory variables. Usually, this is seen as the sum of the squared vertical distance between each data point in the set and the corresponding point on the regression line; the smaller the distances, the better the model fits the data (Kothari, 2004).
The following table shows the Effect of Ownership Structure and Corporate Governance on the financial performance of Commercial Banks operating in Ethiopia.

Table 2: OLS Regression Results on ROA Model

Dependent Variable: ROA				
Method: Panel Least Squares				
Date: 05/10/20 Time: 01:42				
Sample: 2013 2022				
Periods included: 10				
Cross-sections included: 10				
Total panel (balanced) observations: 100				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
Ownership Concentration	0.179841	0.049519	3.610300	0.0005
Capital Adequacy	0.053522	0.007430	7.161040	0.0000
Debt Equity Ratio	0.018556	0.005575	3.308568	0.0013
Management Efficiency	-0.001688	0.002639	-0.635921	0.5264
Size of Audit Committee	-0.512148	0.062342	-8.166587	0.0000
Meeting Frequency of Board	0.001829	0.028085	0.064733	0.9482
Liquidity Management	-0.020494	0.006092	-3.344341	0.0011
Size of Banks	-0.000587	0.000151	-3.870510	0.0002
Constant	0.023424	0.008303	2.804587	0.0062
R-squared	0.701384	Mean dependent var.		0.033113
Adjusted R-squared	0.675132	S.D. dependent var.		0.008309
S.E. of regression	0.004736	Akaike info criterion		-7.781608
Sum squared residual	0.002041	Schwarz criterion		-7.547142
Log-likelihood	398.0804	Hannan-Quinn criter.		-7.686715
F-statistic	26.71741	Durbin-Watson stat		1.723897
Prob.(F-statistic)	0.000000			

Source: E-views result (2022)

As shown in Table 2 above, the R-squared and the adjusted-R-squared statistics of the model were 70.14 percent and 67.51 percent respectively. This result indicates that 67.51 percent of the variation in the dependent variable is explained by the explanatory variables. That means the explanatory variables (such as Ownership Concentration, Capital Adequacy, Debt Equity Ratio, Management Efficiency, Meeting Frequency of Board, and Size of Bank jointly explain about 67.51 percent of the variation in the return on asset. The remaining 32.49 percent of the variation in the financial performance of commercial banks is measured by return on asset explained by other variables that are not included in the model during the study period. From Table 2 above, the researcher found the following estimated regression equation;

ROA = 0.179*(OC) it + 0.053*(CA) it + 0.0185*(DER) it - 0.0017*ME4 - 0.512*(SAC) it+

$$0.0018(MFB)\,it - 0.0205*(LM)\,it - 0.0006*(SOB)\,it + \varepsilon it \quad (1)$$

Besides this, F- statistics (26.71741) which is used to test the overall significance of the model was presented and the null hypothesis was rejected at a 1 percent level of significance, since the p-value was (0.0000) which was sufficiently low, indicating the reliability and validity of the model at 1 percent level of significance.

Based on the results shown in Table 2 above all internal explanatory variables such as Ownership Concentration, Capital Adequacy, Debt Equity Ratio, and Size of the Audit Committee, had a statistically significant impact on the financial performance of banks in Ethiopia measured by return on asset.

On the other hand, Management Efficiency and Meeting Frequency of the Board were variables not statistically significant. Among significant variables, Ownership Concentration, Capital Adequacy, Debt Equity Ratio, Size of Audit Committee, Liquidity Management, and Size of the Bank at a 1 percent significance level since the p-value of the variables were (0.0005), (0.0000), (0.0013), and (0.000) respectively. Finally, Management Efficiency and Meeting Frequency of the Board were not statistically significant even at a 10 percent significance level with p-values of (0.5240) and (0.9482) respectively.

- **Hypotheses Testing:**

The main objective of this study is to analyze the effect of Ownership Structure and Corporate Governance on the Financial Performance of Commercial Banks in Ethiopia. The discussion is first focused on four significant variables Ownership Concentration, Capital Adequacy, Debt-debt-equity ratio, and Size of Audit Committee. This has been shown as follows:

The result of this study shows that support from the existence of Ownership Concentration with a regression coefficient of [β=0.179841] has a positive and statistically significant at a 1% level of significance since (p-value of 0.0005< 0.01). Hence, hypothesis H_1 is accepted. This finding is consistent with the previous study conducted by Al-Amarneh (2014) and Yammeesri (2013) has reported a positive relationship between ownership concentration and the financial performance of the bank.

The result of this study concerning Capital Adequacy with a regression coefficient of [β=0.053522] has a positive and statistically significant at a 1% level of significance since (p-value of 0.000 < 0.01). Hence, hypothesis H_2 is accepted. This finding is consistent with the previous research by Ashenafi, et al (2013) and Kanbiro and Hymavathi (2019) who conducted a study on the determinants of commercial bank's profitability and found that capital adequacy ratio has a significant and positive effect on the profitability of commercial banks in Ethiopia. This implies that there is a positive relationship between a bank's capital and profitability or Return on Assets.

The result of this study concerning the debt-equity ratio with a regression coefficient of [β=0.018556] has a positive and statistically significant effect on ROA at a 1% level of significance since (p-value of 0.0013< 0.01). Hence, hypothesis H_3 is accepted. This finding is consistent with the previous research findings conducted by Desta (2020) and Madiwe (2014) concluded that the debt-equity ratio has a positive and statistically significant effect on financial performance.

The result of this study with regards to the size of the Audit Committee with a regression coefficient of [β=- 0.512148] has negative and statistically significant at a 1% level of significance since (p-value of 0.000 < 0.01). Hence, the researcher accepted hypothesis H_5. This finding is consistent with the previous research findings conducted by Das (2017) and Ashenafi et al (2013) found that there is a negative relationship between increasing the size of the audit committee and the performance of banks in Ethiopia. So it can be concluded that an increase in the size of audit committees has a negative relation with the financial performance of banks in Ethiopia.

Finally, the two remaining independent variables Management Efficiency with a p-value of 0.5264 and Frequency of Meeting of Board with a p-value of 0.9485 do not affect the financial performance of selected commercial banks in Ethiopia; because their p-values are greater than a 10% level of significance. As a result, the researchers rejected H_4 and H_6 respectively.

7. Conclusions:

Based on the findings from the descriptive analysis, the researcher can conclude that banks were averagely generating positive ROA; While findings from the regression analysis of the model, the study result concludes that the financial performance of commercial banks in Ethiopia was best explained by the explanatory variables included in the model.

The summary of the finding result drawn from the first hypothesis was that ownership concentration has a statistically significant and positive effect on ROA; which means an increase in the value of this variable (number of large shareholders) leads to an increase in the financial performance of commercial banks measured by ROA.

Based on the findings related to the second hypothesis, under the summary of the findings was concluded that capital adequacy has a statistically significant and positive effect on ROA; which shows that an increase in the value of this variable (capital of the bank) leads to increase on financial performance of banks measured by ROA.

The conclusion that can be drawn from the findings of the third hypothesis can be conclude that an increase in the Debit Equity Ratio has a statistically significant and positive effect on ROA; which means an increase in the value of this variable leads to an increase in the financial performance of banks measured by ROA.

Based on the findings related to the fifth hypothesis, it can be concluded that an increase in the size of audit committees has a statistically significant and negative effect on ROA, which means that a decrease in the value of this variable (number of audit committees) leads to an increase by ROA.

Finally, two remaining independent variables such as management efficiency with a p-value of 0.5264 and frequency of meetings by the board with a p-value of 0.9485 do not affect the financial performance of selected commercial banks in Ethiopia; because the p-value is more than a 10% level of significance.

8. Managerial Implications:

Based on the study findings, the financial performance of commercial banks measured by ROA was affected by the variables included in this study. Since they were found to be the most significant variables that affect the financial performances of commercial banks measured by ROA were Ownership Concentration, Capital Adequacy, Debt Equity Ratio, and Size of the Audit Committee.

Commercial banks better improve their Ownership Concentration by selling shares to majority public members and modernizing ownership concentration to reduce the conflict of interest between majority and minority groups of shareholders in the banks. The ownership structure is one of the key factors that determine the financial performance of the baking industry because it influences operating behavior, the nature of residual claims, and the motivation of the firm's owners.

Commercial banks better strengthen their capital to make them the best financial performers by selling additional shares to existing members and new entrants to the public. Because banking industry invests and improves its fee-based income by introducing innovative products and services for example mobile banking.

Commercial banks have to increase the size of their debt to make the best financial performance by accepting more deposits from the public. In the banking industry, debt is mostly used as an indication of more investing so it plays an important role in company success and growth. The

primary responsibility of the board of directors is to protect the shareholders' assets and ensure they receive a decent return on their investment. An effective board should satisfy two main functions, the first one is the advisory function by consulting with management regarding the strategic and operational direction of the company. The second one is the oversight function by monitoring the senior management, and company performance and reducing the agency cost. Both together enable the bank to generate improved financial performance.

The finding of the study concerning the size of the audit committee evidenced that an increase in the variable leads to a decrease in profitability. This is why increasing the size of the audit committee requires additional cost that reduces the performance of banks in Ethiopia. As per their suggestion, a certain minimum number of audit committee members may be relevant to the quality of financial Securities and controlling in effect utilization through minimizing fraud and error of financial reporting. Hence, the researcher that there should optimum number of audit committees in the banks due to the fact that there is a cost incurred by the banks for hiring more audit committees despite hiring one qualified auditor.

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