SAINT MARY 'S UNVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF OWNERSHIP STRUCTURE AND CORPORATE GOVERNANCE PRACTICE;

THE CASE OF HIDASIE TELECOM SHARE COMPANY

BY

HABTAMU MULUNEH

ID SGS/0015/2008B

May 2019

ADDIS ABABA, ETHIOPIA

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DECLARATION

I, the undersigned declare that this thesis is my original work, prepared under the guidance of my advisor Tiruneh Legesse (Asst.Prof.). All source of materials used for the thesis have been duly acknowledged. I further confirm that this thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Habtamu Muluneh ________

Name Signature

SAINT MARY UNIVERSITY, ADDIS ABABA May, 2019

ENDORSEMENT

This thesis has been submitted to St. Mary's University, school of graduate Studies for examinations with my approval as a university advisor.

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Advisor Signature

SAINT MARY 'S UNIVERSITY, ADDIS ABABA **May, 2019**

Table of Content

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LIST OF ACRONYMS

HTSC	Hidase Telecom Share Company
SPSS	Statistical package for social science
OECD	Organization of Economic Cooperation and Development
NEDS	Non-Executive Directors
EDS	Executive Directors
BODS	Board of Directors
SOES	State Owned Enterprises
CEO	Chief Executive Officer
AGM	Assembly of General Meeting

List of Figure

List of Table

ABSTRACT

It is the separation of ownership and control that produced the concept of corporate governance. As a result, this research paper was prepared with the objective of assessing and understanding the level of ownership structure and corporate governance practice in HTSC, so as to improve the understanding of various stakeholders and also to shed light on the adoption of best practices and principles into the HTSC"s corporate governance system. For the purposes of this study, I applied a descriptive and exploratory research design. A descriptive study is concerned with determining the frequency with which something occurs or the relationship between variables and explanatory research design for qualitative data presentation. Primary and Secondary data collected from one head of the various departments and districts. In order to establish the relationship between corporate governance and ownership structure for HTSC, self-administered drop and pick questionnaires was distributed among 100 sampled employees currently employed by HTSC. Quantitative data collected and analyzed by used of descriptive statistics using SPSS to do analysis and presented through percentages, means, standard deviations and frequencies. In order to get relevant data from the target population questionnaire and interviews were used the qualitative data (data from interview) were analyzed together with the quantitative one to triangulate the results found from the questionnaire. The finding of the study also disclosed that the board and the management of the HTSC are not effective in discharging their roles and responsibilities. In addition weak legal controls and law enforcement within the industry and weak relationship between executive's managements and employees of the HTSC are possible barriers for the implementation of good corporate governance within the company. As a result, based on the major findings, the study reached a certain conclusion and presented some possible recommendations so as to alleviate the problems.

Keywords: Corporate Governance, Ownership Structure, Organization of Economic Cooperation and Development, Disclosure and Transparency

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

This chapter contains the background of the study, statement of the problem, objective, research questions and scope of the study. This chapter gives the basis for the entire study.

The economic justification for privatization of State Owned Enterprises (SOEs) runs parallel to redefinition of the objectives of a company. According to Jensen and Meckling (1976) a firm exists to maximize shareholder's returns and its market value. In redefining corporate objectives, ownership and governance have become the core drivers of the value creation process. The property rights theory asserts that ownership and control in HTSC is widely separated which makes it difficult for the government to supervise managers and civil servants. The Agency theory infers that the separation of ownership and control gives managers opportunities to pursue their private interests more than that of the shareholders. The theories propose use of private ownership and corporate boards to improve the corporate governance.

The structure of share ownership is one of the main aspects of a corporate governance system, and a key area in investigations of how ownership structure can stimulate or hamper corporate governance systems. Ownership structures depend on the local circumstances of the HTSC. Thus, ownership in developed and mature markets differs from that in developing and immature markets; these differences must be considered when building or improving a local corporate governance system. Corporate governance has attracted the attention of academics, government officers, legislators, practitioners, business executives and investors throughout the business world, as well as the general public. At a national level, most countries have attempted to promote effective and efficient corporate governance practices by issuing local corporate governance regulations, acts and codes such as Ethiopia Concerning ownerships of this institutions, since the middle of 1930s till the military government came to power (1974), evidences indicates that the institutions ownership were having the nature of state, private and foreign ownership types. However, after the military government (1974), it culminated private and foreign ownerships through the process of nationalization which merged and transferred all companies in the country to a unitary system of a state owned company. During this period, the administrations were made through centrally planning organ.

Privatization in Ethiopia was adopted as a In the year 1991, following the collapse of military government, the transition government crafted a new proclamation refereed as proc. No. 183/1994 which permits the participation of private investors with Ethiopian nationality in the ownership of the business organization. Though, private ownerships of the companies were made through publicly sold shares, the absence of secondary stock market may have limited the wide accessibility of the share of these companies. In sum, during the current regime, all private companies are being administrated through the commercial code, regulations, directives, articles and memorandum of association of the HTSC as a tool, to enhance for good corporate governance mechanism. Corporate governance is a multidisciplinary concept that can be described in different ways. In this paper, corporate governance is defined as “An internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities, with good business savvy, objectivity, accountability and integrity. Sound corporate governance is reliant on external market place commitment and legislation, plus a healthy board culture which safeguards policies and processes “by Gabrielle O’Donovan, June 1st 2007. The interest of policy makers currently is to establish whether these reforms jointly or individually influence governance of privatized companies.

1.2 Background of the Organization

Following the decision made by the Federal government to apply new structural change on the Ethiopian Telecommunications Corporation with a view to ensure quality service the telecom industry established, new organizational structural was put in place. This in turn resulted in nearly 4,000 workers to be laid off; out of these 1,000 were early retired and the remaining was laid off. Hidasie Telecom Share Company was established on 10th August 2011 by the help of the government with a view to providing job security for those workers laid off following the structural arrangement applied in Ethio Telecom. The share company engaged in the business with a capital currently standing at Birr 132 million. The company‘s annual sales turnover grows to an average Birr 12 billion in the year 2017/18. Currently, preparations are under way to start establishing mobile assembly and solar lights assembly factories. The share company‘s head quarter is located about 1.5 km from center to south of Addis Ababa, the way Addis to Debrezeit Road, of Kirkos Sub city, at former Tele Garage. Currently the company is operating in all parts of the country. It has 3 district offices in Addis Ababa and 8 district offices out of Addis in Adama, Hawassa, Bahir Dar, Dire Dawa, Jimma, Nekemt, Desse and Mekele regional cities, strategically located in different parts of the country. There are 113 area offices and more than 750 outlets under these areas offices. The company initially engaged about 4500 workers. Currently the total number of sales force comprises 3000.   The majority of the employees are shareholders as well as employee of the share company. Upon its establishment, the company had faced a number of problems as there were individuals who expected that the company wouldn‘t be effective; of course due to economic, social and psychological impact the layoff made, trust on the new company, government support and low level of awareness.

Therefore, given the unique features of the company’ financial structure and the environment in which they operate, there are strong grounds for a separate study on the impact of Corporate performance on profitability of the company but not focus on governance

However, there were not many research directed towards developing countries that saw the applicability of the theories of corporate structure on governance developed from the developed nations.

The assessment of ownership structure and corporate governance of Ethiopian firms is still in underexplored areas in the literature of decision. Therefore, the purpose of the paper is to show the assessment of ownership structure and corporate governance in Hidassie Telecom Share Company.

1.3 Statement of the Problem

Different studies show that one of the many challenges the business world is facing currently is installing sound and proper corporate governance system in an organization. This might lead to irreversible bankruptcies if not managed and addressed properly and timely. The messing up of big international organizations like WorldCom had provided concrete and costly lesson to the business world. The OECD principles on board responsibilities state that the corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

Share Companies represent a significant and influential sector of business and play crucial role in the global economy. Since these companies are complex institutions and may require employees with specialized skills (Philippon & Reshef, 2012), selecting the right executives could give them a significant competitive edge as well as contribute to the growth of the economy. Share companies play a significant role in stabilizing the economy of a nation. This happens when the companies are running smoothly especially in terms of governance. The practices of corporate governance are usually challenged. With these issues in view, it is important to undertake a study on the level of practice of corporate governance in HTSC.

In connection with this, tight corporate governance requirements were imposed on publicly traded firms by regulators and other organizations in different periods. This is a reactive way of addressing the issue of corporate governance across the world; this can be evidenced by most of the guiding principles which have been enacted based on the incidents observed in the business world.

Studies conducted in the area of corporate governance in the context of Ethiopia have a wide professional range basically focused on the adequacy of legal framework rather than evaluating the practice of corporate governance principles and best practices. Most of the papers reviewed for this study deal with adequacy of legislative provisions on governance issues related to the separation of ownership and management responsibilities on the composition, independence and remuneration of board of directors in share companies (Tura, 2012), and also on the overall corporate governance standard adequacy by identifying different factors such as limited legislative framework, inadequate shareholders protection law and ineffective judicial system, absence of an organized share market and discrimination on implementations of regulatory framework on Insurance Companies (Ayele, 2013).

Due to its legal formation, companies are perceived to be prone to agency cost in the context of Ethiopia in which shareholders have no control of their investment on a daily basis. There may be challenges in the sector in terms of adhering to corporate governance rules and international best practices. In different magazines circulated in the country, concerns of malpractices in the industry have been observed and becoming public concern in previous as well as in recent period. There are instances where some of these institutions have been linked with major breaches of the rules and regulations when it comes to conflict of interest and unethical business conduct. Therefore, it is critical to assess the current level of practice and draw some lessons from the study in terms of applying good corporate governance practices in HTSC. The discrepancies from the principles set by international organizations, Ethiopia companies and HTSC directive can be drawn to address the gap observed in the practice.

Thus, the focus of this paper is on major dimensions of ownership structure and corporate governance system which are Shareholders, Board of Directors, Executives, Supervisory Organs and other stakeholders, Risk management and internal control and Disclosure and Transparency. Based on these factors, the study comprehensively assesses corporate governance practice of HTSC.

1.4 Basic Research Questions

The research guided by the following question:

1) What is ownership structure and Corporate Governance of HTSC?
2) What is overall corporate governance practices in HTSC?
3) What are the possible obstacles to the implement good corporate governance within HTSC?
4) How do the Board of Directors carry out their responsibility corporate governance practice?
5) How does HTSC present timely disclose its material information?

1.5 Objectives of the Study

1.5.1 General Objective

The overall objective of the study was to assess the ownership structure and corporate governance practice in HTSC.

1.5.2 Specific Objectives

1) To assess ownership structure and corporate governance of HTSC.
2) To examine and explore the nature and extent of the development of corporate governance practices in HTSC.
3) To assess possible obstacles to, implement good corporate governance HTSC.
4) To evaluate the extent to which the board of Directors discharging their roles and responsibilities
5) To examine whether timely and accurate disclosure is made on all material matters regarding the companies, including governance of the company.

1.5.3 Definition of Terms

Board – means board of directors of HTSC. HTSC administration manual.p.2-4. 1.3-1.3.13 (July, 2013)

Chief Executive Officer – means a person, by whatever title that person may be referred to, who is primarily responsible for the day to day management of the affairs of HTSC. HTSC administration manual.p.2-4. 1.3-1.3.13 (July, 2013)

Corporate Governance – means the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with ultimate objectives of realizing long-term shareholders‟ value, as well as customers‟ and other stakeholders‟ interest. HTSC administration manual.p.2-4. 1.3-1.3.13 (July, 2013)

Employee – means a chief executive officer, a senior executive officer or any other person who is appointed or hired by Company to carry out its day to day operations. HTSC administration manual.p.2-4. 1.3-1.3.13 (July, 2013)

Senior management - means chief executive officer, and any other officials, as may be defined by individual manager, responsible for day-to-day running of the operation. HTSC administration manual.p.2-4. 1.3-1.3.13 (July, 2013)

1.6 Scope of the Study

The scope of this study was limited to the examination of the assessment of ownership structure and corporate governance of core issues of Hidasie Telecom S.C. In 12 Boards of Directors, 13 Executive management in Head office, 13 District Managers ,and employees from all districts and head office and over the period of 7 years (2011 to 2017/18) governance documents included in the research

1.7 Significance of the Study

Assessment of ownership structure and corporate governance of Hidase Telecom Share Company will important to various stakeholders. First, the study helped members of the public appreciate the role that ownership structure on corporate governance play of firms, secondly, the study was guide company in understanding ownership structure and corporate governance decisions of firms and to create polices and measures within the company that ensure the optimum Corporate governance is put in place. Thirdly the research findings served as a point of reference to scholars. In addition, future researchers will be able to formulated further studies based on the recommendations of this study. Finally, the findings also help the government and regulatory agencies in formulating future corporate governance regulations, policies and laws that would aid in regulation of company.

1.8 Organization of the Study

This thesis is organized into five chapters. Chapter one presents research introduction, statement of the problem, objective of the study, questionnaires, scope and limitation, and significance of the study. Following on this, chapter two of the study present review of theoretical and empirical literatures and corporate governance. Chapter three presents the research methodology. Then, chapter four present the results and discussion of the study and finally, chapter five present conclusions and possible recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Corporate Governance

Do firms' corporate governance standards affect firm performance? Are shareholders willing to pay a premium for higher corporate governance standards? The well-known corporate scandals, such as Enron and World-Com triggered awareness of corporate governance and led clients to pressurize fund managers to incorporate corporate governance in their investment processes. This awareness resulted in a disparity between well governed and badly governed public companies. OECD (2004) defines corporate governance as: Corporate governance deals with the rights and responsibilities of a company's management, its board, shareholders and various stakeholders. How well companies are run affects market confidence as well as company performance. Good corporate governance is therefore essential for companies that want access to capital and for countries that want to stimulate private sector investment. If companies are well run, they prosper. This in turn enabled them to attract investors whose support can help to finance faster growth. Poor corporate governance on the other hand weakens a company's potential and at worst can pave the way for financial difficulties and even fraud. (OECD, 2004)

Corporate governance allows decreasing the risk of losing investments, by means of legal protection of investor/shareholder rights and creating such mechanisms of company management that allowing investor or shareholder to be assured that the management uses his (her) investments efficiently and that they would bring him the expected earnings. According to the OECD definition, corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure, through which the company objectives are set, and the means of attaining those objectives and monitoring performance (OECD,1999).Ownership structures are of major importance in corporate governance because they affect the incentives of managers and thereby the efficiency of the firm.

The ownership structure is defined by the distribution of equity with regard to votes and capital but also by the identity of the equity owners. A classic reference is Jensen and Meckling (1976).

These economists tried to develop a theory of the ownership structure of the firm by integrating elements from the theory of agency, the theory of property rights and the theory of finance Ownership structure can be distinguished by the level of concentration of ownership rights as well as by the identity of the owner. In general ownership structure may include inside as well as outside owners. Inside owners are managers and employees, and outside owners are individuals, organizations and state.

Jensen & Meckling (1976) define the principal-agent relationship as an agreement under which principals (shareholders) engage an agent (manager/director) to perform company management on their behalf. As such, if both parties are value maximizes, it is obvious that the directors would not always act in the best interests of the shareholders. Since the relationship between the shareholders and the directors of a corporation fits the definition of a pure shareholder-director relationship, it can be concluded that the issues associated with the "separation of ownership and control" could be related to the agency problem (Jensen & Meckling, 1976). Corporate governance issues are fundamentally linked to the 'principal-agent problem', which exists because directors, in the absence of perfect information and efficient markets, can pursue their personal goals and destroy shareholder value (Berle & Means, 1932 as cited in Ertugrul & Ugur, 2003).

Fama (1980) describes the agency problem as the director having an incentive to get more compensation, such that if management incentives are properly aligned with the shareholders interest, there would be less agency problems.

2.2 History of Corporate Governance

The practice of corporate governance started as far back as 1612, when the world's first listed company was founded, though they didn't use the term directly at that time. The importance of corporate governance became dramatically clear in 2002 as a series of corporate meltdowns, frauds, and other catastrophes led to the destruction of billions of dollars of shareholder wealth, loss of thousands of jobs, criminal investigations of dozens of executives and record-breaking bankruptcy filings. Seven of the twelve largest bankruptcies in American history were filed in 2002 alone. The names Enron, Tyco, Adelphia, WorldCom, and Global Crossing have eclipsed past great scandals like National Student Marketing, Equity Funding, and ZZZZ Best. (Farrar: 1999) analyzed Corporate Governance in light of Agency Problem. This problem is controlled by law and further supported by legislation.

2.3 Board Directors and Management Practices

One of the points under consideration under the research questions is how the Board of Directors carries out their responsibility (Principle IV of OECD). The principles of corporate governance place a heavy responsibility on company boards, even though in practice, many boards do not take this responsibility seriously. The quality of a company can often be judged by its vigilant and quality of the board. The board of directors (BODs) plays the pivotal role in any system of corporate governance. It is accountable to the stakeholders and directs and controls the management. It stewards the company, sets its strategic aim and financial goals, and oversees their implementation, puts in place adequate internal controls and periodically reports the activities and progress of the company in a transparent manner to the stakeholders. (Nam: 2004) suggests some aspects that should be concerned in the internal mechanism of corporate governance, including its independency and structure, function and activity, compensation and other relevant responsibilities of BODs.

There is a relationship between proportion of independent board composition and firm performance. This issue is largely built around the agency theory and addresses the role of the board in shielding shareholders from manager's self-interest (Fama: 1983). Independent directors with no personal or professional relationship to the firm or firm management are more effective in protecting shareholders" interest, resulting in higher performance (Dalton: 1998). Moreover, determining the structure and level of compensation of top executives of the firm is among the task of the board of director. It is known that the board of directors is in charge of representing shareholders‟ interest in ensuring that shareholders have reliable information regarding corporate performance, risks and prospects and that management undertake activities that enhance shareholders interest (Keasey: 2005). Thus it is the official first line of defense against managers, who would act contrary to shareholders‟ interest. The board composition is characterized by the relative proportion of independent outside directors. These independent directors are individuals with no connection to the company other than a seat of nine (9) people on the board and possibly ownership of share. The composition of board members is proposed to help reduce the agency problem (Hermalin: 2003). A positive relationship is expected between firm performance and the proportion of outside directors sitting on the board. Unlike inside directors, outside directors are better able to challenge the CEOs Empirical evidence has grown but the results as (Adams and Mehran: 2003) quoted by (Grove Hugh: 2009) report that firms have a larger board of directors in comparison to manufacturing firms and that a larger board of directors at HTSC companies is positively associated with return on assets. This suggests that the performance of companies with a smaller board do not surpass their counterparts with larger boards.

CEO Duality is when the chief executive officer of an organization concurrently serves as the chairman of the board. Agency theory would suggest that such centralized leadership authority would lead to management dominance of the board and result in poor performance (Shleifer: 1997).

Despite there are many personal benefits for individual board members by sitting on different boards, serving multiple boards lowers the ability of independent directors to perform their duties effectively and reduce time commitment of members of board of directors. Board meetings serve as key forums where executives and directors share information on company performance, plans, and policies.

Frequent meetings allow for better communication between management and directors. The performance of a company generally reflects the quality of its directors and the effectiveness of its board considering the complexity of the business, the high dynamism and volatility of the markets in recent years and the responsibility of HTSC boards in supervising and monitoring as a prerequisite for the sound and prudent management of financial intermediaries (OECD Principles: Principles of Corporate Governance, 2005).(John: 1998) stress the role of committee structure as a means of increasing the independence of the board. They refer to the work of (Klein: 1998) and argue for the need to set up specialized committees on audit, remuneration and appointment. The nominations committee oversees the appointment of board members and ensures that the process is formalized and transparent. The committee also oversees succession planning for the board and ensures that plans for senior executive succession planning are in place for orderly succession to the board and other senior management positions.

2.4 Ownership Structure

Historically, the ownership concept began very simply, and thus its related issues were also simple: the owner provided the money and managed the company. In the early 1930s, Berle and Means developed their Modern Corporation Concept in line with technical developments and its requirements. This concept established a new era of large-scale production technologies that required substantial investment. Berle and Means (1932) segregated people into owners and managers. They made a distinction between the owner action and manager position, which introduced the concept of a separation between ownership and control.

The complexity of separating ownership and control raises some potential issues and problems, defined as agency issues (Jensen & Meckling 1976). This variation in ownership structures also helps to create new agency issues and problems, due to conflicts of interest between the relevant parties. For example, in a dispersed ownership structure, there can be a conflict of interest between managers and owners “agent–principal issues” where the owners’ best interests and managers’ self-interests may contradict each other, with each party concentrating on the benefit to them.

Many studies in accounting finance and economics have described firms’ ownership structures and reflected on attempts to minimize issues among stakeholders (Berle & Means 1932; Knight 1971; Jensen & Meckling 1976; Fama & Jensen 1983; Grossman & Hart 1986; Shleifer & Vishny 1997; La Porta, Lopez-de-Silanes & Shleifer 1999; Coffee 2005; Young et al. 2008; Desender 2009; Nguyen, Locke & Reddy 2015; Aguilera & Crespi-Cladera 2016).

2.4.1 Ownership Structure Definition

Shleifer and Vishny (1997) define ownership structure as the characteristics of equity shareholders and their shareholding capacity in any firm where ownership structure depends on how a company's shares are distributed with regard to voting rights and paid capital. Knight (1971) identifies ownership as the right to control the company or to choose its managers. Ownership can also be defined as "the power to exercise control" (Grossman & Hart 1986, p. 694). However, it is not as simple as this because changes in the meaning of ownership over time have produced new types of ownership and related issues where, for example, ownership and control are not totally separate; in reality the degree of separation is related to the type of ownership structure.

2.4.2 Ownership Structure Types

There are various forms of ownership structures for countries. The type of ownership structure depends on local circumstances in the country and the market (Desender 2009), including the country's economic development and legal systems (Claessens, Djankov & Lang 2000). According to Coffee (2005) and others, ownership structures are divided into dispersed and concentrated (Franks & Mayer 1997; La Porta, Lopez-de-Silanes & Shleifer 1999; Desender 2009). Coffee (2005) used the size of ownership as the basis for dividing ownership structures, so, each structure combines the similarities, characteristics, motivations and interests between shareholders. Coffee (2005) contends that there is no best type because each type suits a different context.

However, it is important to note that most studies have focused on the Anglo-American model of corporate governance that is used in developed, western markets exhibiting dispersed ownership. Second, the Capital Market has concentrated ownership, but the US model, despite its different ownership structure, still influences the corporate governance system. Third, there is a distinct lack of literature about the ownership structure and its impact on the HTSC corporate governance system.

2.4.3 Dispersed Ownership Structure

A dispersed ownership structure is one in which small portions of shares are distributed widely among a large number of shareholders; no individual or group holds a significant percentage of shares. A market can also be called a dispersed-ownership market when it has large numbers of dispersed-ownership companies. Dispersed ownership is relatively uncommon in most world markets, although it dominates developed markets such as the US and UK (Roe 1993; Shleifer & Vishny 1997; La Porta, Lopez-de-Silanes & Shleifer 1999; Coffee 2005; Kirchmaier & Grant 2005). Coffee (2005) indicates that dispersed ownership exists in strong securities markets noted for their rigorous disclosure standards, high share turnover, and high market transparency.

This structure is the optimal models of the Berle and Means concept of ownership, where ownership and control are mostly separate (Means 1931). Based on Means's (1931) scenario and Roe's (2008) view of the relationship between ownership and control. The depicts a scenario of a dispersed ownership structure where the owner provides money to professional managers in return for management achieving the owners' best interests. Managers benefit from managing the company through their salaries and other financial incentives. This scenario indicates that there are two main players: the owners/shareholders/principals and executive management/agent. For the purpose of this thesis, the terms "manager" and "agent" are used interchangeably, as are the terms"principal", "owners" and "shareholders".

In this relationship between manager and owner(s), managers are the strongest party, and can easily become the "rogues of the story" (Coffee 2005), as their positions give them the power to make decisions that affect the company, both positively and negatively (Saunders, Strock & Travlos 1990), and to control company resources (La Porta, Lopez-de-Silanes & Shleifer 1999; Coffee

2.4.4 Concentrated Ownership

A concentrated ownership structure exists when a large portion of company shares are controlled by one or more major shareholders and the remainder are distributed among minor shareholders. Major shareholder(s) combine significant control rights with significant cash flow rights (Shleifer & Vishny 1997); thus concentrated ownership is the most direct way to align cash flow (ownership) and control rights. A market can also exhibit concentrated ownership when most listed companies have a concentrated ownership structure. Coffee (2005) indicates that a concentrated-ownership market is characterized by controlling shareholder(s), a weaker securities market, substantial private benefits of control, and lower standards of disclosure and market transparency, Lopez-de-Silanes & Shleifer 1999). In a concentrated ownership structure, the main players are the major shareholder(s) who combine control rights and ownership, and minor shareholders with small ownership and no control rights (Shleifer & Vishny 1997). There are several types of major shareholders in a concentrated ownership; each has different characteristics, motivations and interests. La Porta, Lopez-de-Silanes and Shleifer (1999) illustrate four types of major shareholders: family ownership, government ownership, ownership by a widely held financial institution and ownership by a widely held corporation.

2.4.5 Corporate Governance System Definitions

The Organization for Economic Co-operation and Development (OECD 2004, p. 11) defines corporate governance as "a set of relationships between a company's management, its board, its shareholders and other stakeholders, and provides the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance determined". The International Finance Corporation (2013) defines corporate governance as "the structures and processes for the direction and control of companies. Corporate governance concerns the relationships among the management, the board of directors, the controlling shareholders, minority shareholders and other stakeholders".

These broad definitions illustrate that corporate governance systems consist of relationships between related parties such as the management team, board of directors, major and minor shareholders and other stakeholders; a company's business objectives (in other words, why it was established); the procedures, tools and methods of achieving these objectives; performance, which includes the structures and processes for directing a company to achieve its objectives; and finally, monitoring all these aspects to avoid obstacles that stop a company from reaching its objectives.

2.4.6 The Role of Corporate Governance Systems

In the presence of opportunistic behavior, agency problems and transaction costs, corporate governance systems matter (Hart 1995). Corporate governance systems are designed to solve any issue resulting from a conflict of interest between different parties in a company. With dispersed ownership, management must perform in the owners' best interests, which means maximizing profits and minimizing costs; with concentrated ownership, the company must satisfy the interests of both major and minor shareholders.

A corporate governance system helps to manage events between different groups not mentioned in the initial contract (Hart 1995). Corporate governance is a controlling system that provides checks and balances to managerial behavior, to limit possible conflicts of interest between related parties (OECD 2004). Therefore, a good corporate governance system is a factor in long-term success because it increases the firm's efficiency and growth, and enhances investor confidence and trust in the economy as a whole (OECD 2004).

2.4.7 Corporate Governance Systems Models

It is important to note that "there is no single model of good corporate governance" (OECD 2004, p. 13), because every system is based on local circumstances that make it appropriate for that particular environment. According to Shleifer and Vishny (1997), a good combination of legal protection and a degree of concentrated ownership is essential for a "good" corporate governance system.

Charkham (2008) notes that it is possible to identify a system as "good" based on its ability to deal with ineffective management due to an agency problem while simultaneously making a corporation attractive to external financiers (Shleifer & Vishny 1997).

With reference to ownership structure, there are two corporate governance systems models: the Anglo-American model where ownership is dispersed and the Continental European and Asian (German–Japan) model where ownership is concentrated.

2.4.7.1 Anglo-American Model

The Anglo-American model is also referred to as the "outsider model", "one-tier system", "market-based model", or "shareholder model". It can be found in common-law countries characterized by highly dispersed ownership structures and strong legal systems (La Porta et al. 1997, 1998, 2000 La Porta, Lopez-de-Silanes and Shleifer 1999; Weimer & Pape 1999; Roe 2003). The legal system in these countries is oriented towards the protection of shareholders. La Porta et al. (2000) argue that the corporate governance system in the Anglo- American model is strongest because there is an effective protection of minor shareholders that reduces or prevents expropriation of the company's resources. Corporate governance in the US and UK markets are examples of the Anglo-American model.

In this model, individual shareholders cannot directly affect the firm's decision making (Keasey & Wright 1993) because corporate boards and management teams operate the company according to the interests of shareholders and to increase shareholder wealth (Weimer & Pape 1999; Fisher & Lovell 2003). The one-tier model of a governing body dictates the monitoring process and executive functions of a company (Hopt & Leyens 2004) because this governing body, the board of directors, involves executive and non-executive directors who create an effective and competitive business environment as part of their role.

Defects in the relationship between management and shareholders lead to agency issues known as vertical agency, or agent–principal problems. In this model, the major defect is a conflict of interest between managers (agents) and shareholders (principals), in a situation where managers/agents with the largest control over company decisions and processes can achieve their own interests at the cost of shareholders/principals. Agent–principal issues occur when there is conflict between the best interests of principals and the self-interest of managers (Jensen & Meckling 1976).

2.4.7.2 The Continental European and Asian (German–Japan) Model

The Continental European and Asian model is referred to as an "insider model", "German- Japan model", "two-tier system", "stakeholder model" or "bank-based model". It can be found in civil law countries that have a concentrated-ownership market and poor legal systems (La Porta et al 1998, 2000; La Porta, Lopez-de-Silanes and Shleifer 1999.

Unlike the Anglo-American model, this system has a small influence on the capital market because the shareholder is just one of the stakeholders, and their interests are only considered when companies are making decisions (Monks & Minow 2001). The Anglo-American model focuses on the shareholder, whereas the Continental European and Asian model focus on the employees and the company as a whole.

2.5 Ownership Structures and Corporate Governance systems

The purpose of this study is to explore the impact of ownership structure on corporate governance systems in Saudi Arabia. Shleifer and Vishny (1997) point out those corporate governance systems are influenced by ownership because the structure of their share ownership influences their design and processes. It also influences a company's objectives and how they are achieved, as well as its tools and the monitoring system it uses.

2.5.1 Family Ownership

Family ownership is determined when a company is owned or controlled by one or more individuals, groups of family members, or cross-generational groups (Anderson & Reeb 2003; Villalonga & Amit 2006). Family relationships may include direct relationships by blood or marriage, such as parents, siblings, children and spouses; or indirect relationships, such as in-laws, aunts, uncles, nieces, nephews and cousins, regardless of their surname (Claessens, Djankov & Lang 2000; Wiwattanakantang 2001; Bertrand et al. 2008) Family ownership has several characteristics that make it very significant. First, most firms around the world are family-controlled companies (Burkart, Panunzi & Shleifer 2003). In Western Europe, for example, more than 40% of large companies have family ownership (Faccio & Lang 2002), and more than half of East Asian corporations are extensively family controlled (Claessens, Djankov & Lang 2000).

Second, the family is “woulding and able to wield power over the corporation” (Melis 2005, p.479), which enables them to act without constraint. Third, founding families are long-term investors because they consider future generations (Anderson & Reeb 2003), and maintain a long-term presence in the firm.

The positive effects are significant. Ownership and control in the hands of family can be advantageous (Demsetz & Lehn 1985) because a family can act to mitigate managerial expropriation (Demsetz & Lehn 1985) by hiring a relative to monitor the hired manager, which can limit most aberrant behavior by managers.

Third, the government maximizes social welfare by providing jobs to relieve unemployment (La Porta, Lopez-de-Silanes & Shleifer 2002). Fourth, the government is in a strong position when it has a monopoly on power or externalities (Shleifer & Vishny 1994; Shleifer 1998). Fifth, the government may intervene in the economy to avoid undesirable consequences such as high inflation rates (La Porta, Lopez-de-Silanes & Shleifer 2002). Sixth, the government ensures the provision of social services (Shleifer & Vishny 1994; Shleifer 1998).Nevertheless; government participation can have negative impacts.

Government intervention in the running of a company can lead to poor corporate governance practices (Bolton & Thadden 1998; Konijn, Kräussl & Lucas 2011). For example, the government may appoint directors and CEOs without the necessary qualifications or experience (Mathew, Elsie & Joseph 2007; Cornett et al. 2010).

2.5.2 Corporate Ownership

Corporate ownership occurs when a large portion of shares in a company are owned or controlled by one or more companies. Corporate ownership can be via financial or non- financial companies, listed or non-listed and widely held or closely held (La Porta, Lopez- de-Silanes & Shleifer 1999). This type of ownership is very complex because it is difficult to detect the source of the influence (La Porta, Lopez-de-Silanes & Shleifer 1999). For example, if a listed company (A) is controlled by another listed company (B), which in turn is controlled by a family member, the family influences the decisions of company B, which then influence company .

Large corporations have similar characteristics to institutional ownership as noted by Borisova et al. (2012) and Ruiz-Mallorquí and Santana-Martín (2011).

These include the availability of resources, the significance of power, lack of information makes it difficult to classify the types of non-listed companies; thus they were placed into the family-ownership category because it is difficult to distinguish their ownership and the relationships between their owners.

Corporate ownership has positive and negative impacts on a controlled company. The first positive impact is that controlling companies are usually experts in the field and business (Pound 1988). Second, the controlled company benefits from the characteristics and features of the controlling company, which can enhance its local and international positions (Borisova et al. 2012). Third, the controlling company can provide sources, skills; services, information and strong business relationships, and it can help increase the capacity of the controlled company when they work in the same field.

Fourth, the controlling company can in some cases act as a monitor (Cornett et al. 2007).

2.5.3 Foreign Ownership

Foreign ownership is when a large number of a company's shares are controlled by foreign investors; this ownership can take the form of either foreign direct investment (FDI) or foreign portfolio investment (FPI) (Boonyawat 2013). There are several characteristics that make foreign ownership important (OECD 2002).

First, foreign investment provides access to additional networks, which can increase distribution, sales and marketing. Second, foreign investors are usually experts at some level, which benefits the domestic company. For example, if a company is from a developed economy, it would provide the newest technologies, bring its internal legal systems and help the domestic company enter new markets. Third, a foreign investor would support the company's position in a competitive environment. Fourth, foreign ownership enhances the company's efficiency because the foreign owner brings its policies, internal reporting systems and principles of information disclosure.

2.5.4 Employee Ownership

The relationship between employee ownership and corporate performance in public companies is ambiguous. From one side the ownership in enterprise stimulates employees to work as efficient as possible, since they gain from the prosperity of enterprise. The main result concluded by The National Center for Employee Ownership (NCEO) (2002) is that when ownership and participative management are combined, substantial gains result.

2.6 The Impact on Corporate Governance Systems

Corporate governance systems can be divided into two broad systems, internal and external (Weir, Laing & McKnight 2002), although there are similarities between them (Demsetz & Lehn 1985; Agrawal & Knoeber 1996; Guo, Lach & Mobbs 2015). This study aims to determine the impact of major shareholders on each element of external and internal governance systems.

As specified earlier, the AHP methodology is used as a structure for all aspects of the research. In this section, the factors in the AHP model are explained and illustrated as major themes.

2.6.1 External Governance Systems

Corporate governance systems are influenced by external factors classified as general and surrounding factors. A corporate governance system is affected first by the general characteristics of the country, such as its economic, social, cultural and political systems (Kirchmaier & Grant 2005).

They can also be influenced by the environment with which the company directly interacts, such as the commercial legal systems, risk management measures, disclosure and transparency, and managers' and directors' responsibilities (La Porta et al. 2000; Udayasankar, Das & Krishnamurti 2008).

2.6.1.1 Legal and Regulatory Framework

The legal system and regulatory frameworks vary from country to country based on local circumstances. Shleifer and Vishny (1997, p. 753) show that “the extent of legal protection of investors varies enormously around the world”. Coffee (2013, p. 1268) show that “different legal rules create different winners and losers”. However, some countries have been influenced considerably by the legal and regulatory frameworks of others. For example, Saudi Arabia and Singapore have been influenced by the American model of corporate governance (Fallatah & Dickins 2012), so there is a relationship between the origins of their legal systems and ownership structure. Corporate governance models are of two main types: the Anglo-American model and the Continental European and Asian model (Short et al. 1998; Jordan & Lubrano 2006; Fallatah & Dickins 2012).

2.6.1.2 External audit

This section explains the role of external audits as an external governance system. An external auditor is mainly responsible for verifying that financial reports reflect the fair and true economic conditions and operating findings of a company. The quality of the audit is very important because a mistake can be crucial (Iionescu 2010). Ownership structures influence governance systems and audit quality (Mersland & Strøm 2009). Due to the agency issue, providing information would reduce any information asymmetry between the manager and absentee owners, and this can increase the demand for external auditing (Lin & Hwang 2010).

Audit responsibility can be divided into financial audits verifying the annual financial statements of a company, and regulatory audits to verify compliance with legal requirements (Hüpkes 2006). Moreover, an external audit can assist the supervisory or monitoring agencies because it is seen as the “extended arm” of the supervisor (Hüpkes 2006). However, there are differences between countries regarding the involvement of external auditors in the supervisory process (Iionescu 2010).

An external audit also raises issues such as independence, disclosure and the role and appointment of an external auditor. The first issue is auditor independence an external audit must be both independent and free to express an independent opinion and the fairness and truthfulness of financial reporting. Owners appoint an external auditor to work as their agent, who is expected to be independent from those who manage the company. Agency theory assumes that it is important to monitor the auditor to ensure their independence and the absence of any conflict of interest with management or the company (Culpan & Trussel 2005).

2.6.2 Internal Governance Systems

A company's corporate governance system can also be influenced by internal factors. Internal systems are the procedures and principles aimed at improving the internal governance systems. An internal control mechanism is designed to ensure optimal firm performance (Walsh & Sweard 1990).

2.6.2.1 Monitoring Systems

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2013, p. 3) defines internal control as "a process affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories; effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations".

The company's internal control system is designed to ensure the efficient management of its corporate and business affairs, to make management decisions that are transparent and verifiable, to provide reliable accounting and operating information, to ensure compliance with the applicable statutes, to protect company integrity, and to prevent fraud against the company and financial markets in general (Bava & Devalle 2012b). According to the Cadbury Report (1992), internal audit systems help to achieve best practice in corporate governance in the company.

The internal control processes in corporate organizations in HTSC internal procedures developed by BODS and other agencies to enhance corporate governance. These internal control systems involve creating a controlled environment that includes the structures, processes and standards that are crucial in developing internal control systems in an organization (Al-Nodel & Hussainey 2010).

2.6.2.2 Board of Directors

The board of directors is one of the main internal governance systems within a company (Pettigrew & McNulty 1995; Garratt 1997). Mizruchi (1983, p. 433) shows that the "board of directors is the ultimate centre of control". For Ethiopian corporate companies, the board of directors is the management organ. It has legal power, which means it is supported with laws and regulations to develop a strategic scheme aimed at implementing supervisory roles. For classical agency problems a board of directors is an effective device for preventing managers from participating in opportunistic behavior (Fama & Jensen 1983). The literature focuses on the role of the board of directors as a monitoring system, which ensures the honesty and consistency of directors and prevents them from pursuing their own interests (Prentice 1993). There are three main objectives for a board of directors (Zahra & Pearce 1989; Johnson, Ellstrand & Daily 1996; Forbes & Milliken 1999): to formulate a company's strategic plans; to monitor and control the management team and their performance; and to provide a senior management team that offers advice and services.

Ownership structure has a massive impact on the board of directors and the strength of their roles and functions. For example, a major shareholder can exert power to appoint directors to the board and management (OECD 2004): "The owners hire boards of directors who, in turn, hire managers to perform these duties" (Walsh & Seward 1990, p. 191).

As mentioned previously, two main corporate governance models have been formed based on ownership structure: market-based and bank-based systems (Fallatah & Dickins 2012). Andres, Azofra and Lopez (2005, p. 198) argue that "[t]he board of directors is widely seen as being one of the most suitable mechanisms to improve corporate governance both in the market-based system and in the bank-based systems".

These two models suggest two structures for board of directors. The first is a unitary (one- tier) board of which both executive directors (EDs) and non-executive directors (NEDs) are members. The directors on this board are elected by shareholders and are responsible for all the firm's activities (Lynch-Fannon 2005; Fallatah & Dickins 2012; Mallin 2012

The second structure is the dual (two-tiered) board, which consists of a supervisory board and an executive management board (Maw et al. 1994; Mallin 2012). Supervisory board members are appointed by shareholders and others to oversee a company's business direction. Management board members are appointed by the supervisory board to run the business. This structure is popular in concentrated-ownership markets in civil law countries such as Germany, France, Austria, Netherland, Denmark and other EU countries and Japan (Mallin 2012; World Bank 2009; Falgi 2009).

The OECD (2004, p. 24) asserts that "where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly". Five factors influence the performance of the board of directors: the audit committee; disclosure and transparency; directors' qualifications; board function and process; and board characteristics.

Several types of committee have been identified in the corporate governance literature, but the most important are considered to be the audit committee, the nomination committee and the remuneration committee (Lorsch & MacIver 1989; Brown, Beekes & Verhoeven 2011).

As defined by the Regulations, the audit committee reviews the company's internal and external audit procedures, and develops control policies that ensure proper disclosure of information to stakeholders (Mihret & Admassu 2011). It also monitors management to ensure that internal control procedures are complied with. The second factor is disclosure and transparency. Information must be available and accessible to directors and shareholders, and it must be accurate, relevant and timely (OECD 2004, p. 22). Information allows the directors and shareholders to make accurate decisions; thus shareholders must have access to "relevant and material information on the corporation on a timely and regular basis" (OECD 2004, p. 22). Based on ownership structure, shareholders can have different access to information.

2.7 Theoretical Framework

The framework on which this thesis is based is derived from the two frameworks of HTSC Corporate Governance Directives No.ht/164/2011,HT administrative manual (July 30 2005 G.C). And OECD principles discussed above. The control role includes oversight of management activities and internal control; while the service role includes advice to management and providing resources to the firm such as information/data and generating business.

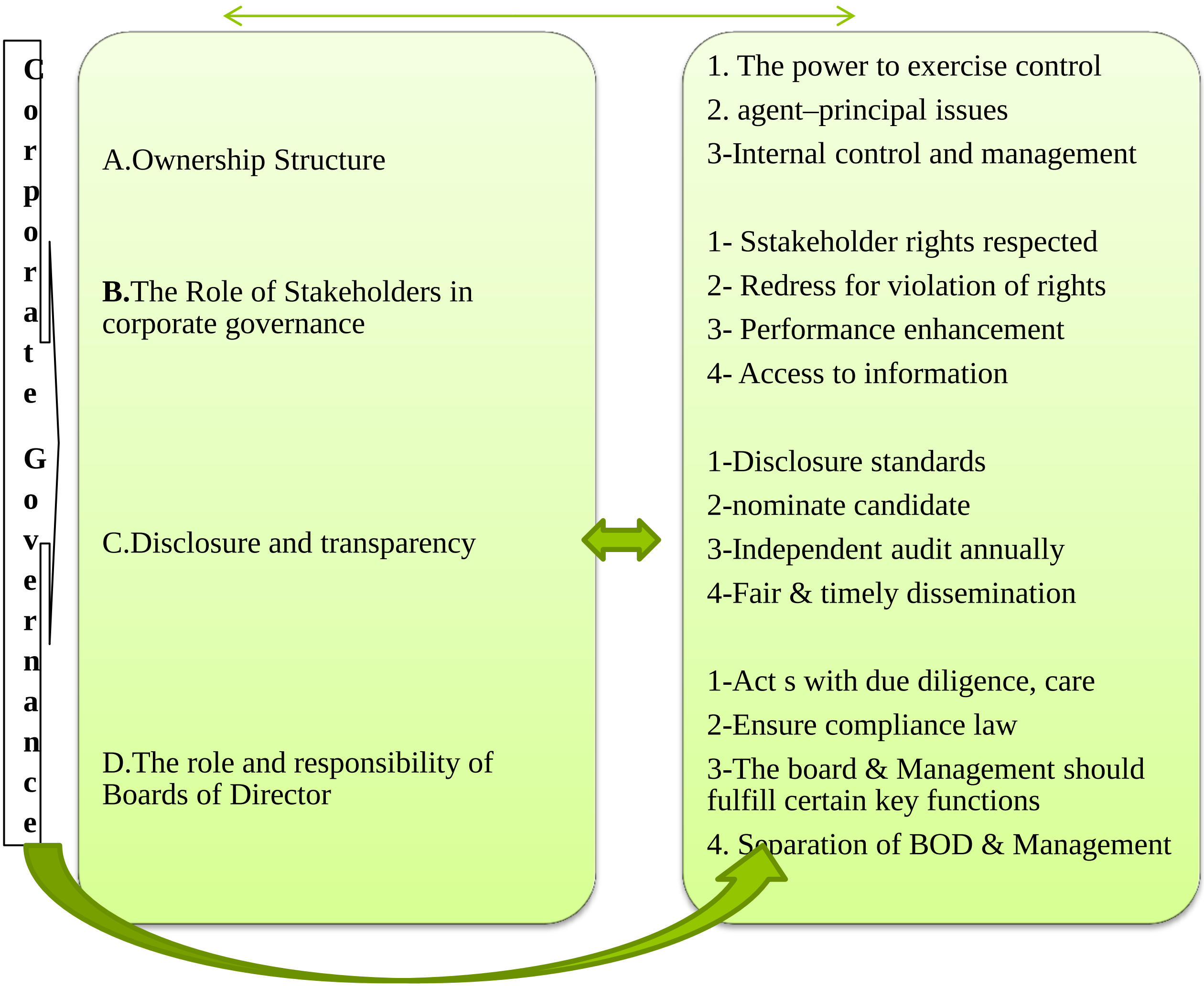
2.8 Empirical Review

A number of empirical studies on outside directors support the beneficial monitoring and advisory functions to firm shareholders. Bhagat and Black (2002) found no significant relationship between board composition and financial performance. Yermack (1996) also showed that, the percentage of outside directors does not significantly affect firm financial performance.

2.9 Conceptual Framework Development

The purpose of this study is to assess ownership structure and corporate governance practice and explain the implications of this practice on HTSC. The conceptual framework (see figure 2.1) illustrates the link between the theoretical framework discussed above and the corporate governance variables investigated in this study. The conceptual framework entails corporate governance as autonomous consistent identified assessment of ownership structure and corporate governance literature to evaluate the practice of the company.

Figure 0-1: Conceptual Frame Work



2.10 Summary

This chapter addressed the theoretical framework used to explain agency issues and different views of agency problems. Agency theory was used to explain the relationship between major and minor shareholders, where the main issue is a conflict of interest between the relevant parties.

In a dispersed ownership structure, conflict is between management and shareholders, where management holds strong decision-making power and actually controls the company.

In a concentrated ownership structure, conflict is between major and minor shareholders, where major shareholders hold power. Moreover, major shareholders are supported by influential elements that enable them to exercise their power, and this exacerbates the conflict of interest. The elements of power, information asymmetry, moral hazard, adverse selection, cost and “comply or explain”, can be used to support major shareholders or oppose minor shareholders.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design and Approach

The type of research design used varies from research to research. The type of research employed for the purpose of this study is descriptive and exploratory research design to analyze the major factors raised by this research. Descriptive study is useful when a researcher wants to look into a phenomenon or a process in its natural contexts in order to get its overall picture instead of taking one or some of its aspects and manipulating it in a simulated or an artificial setting (Seiliger and Shohamy 1989;McDonough, 1997). Thus, the choice of the descriptive study design was be based on the fact that a descriptive study determines and reports the way things are. In addition, in order to achieve the intended objective, the quantitative methods were chosen. The main focus of this study is quantitative. However some qualitative approaches were use in order to gain a better understanding and possibly enable a better and more insightful interpretation of the results from the quantitative study.

Quantitative data were gathered through questionnaire in the first phase of the study; On the other hand qualitative data were collected through interview in the second phase of the study. Finally the collected data was analyzed using descriptive statistics by the help of SPSS statistical software. The descriptive statistics were used to quantitatively describe the important features of the variables using mean, t-test and standard deviations.

3.2 Population and Sampling Technique

The total population of the study would be a population of Ethiopian Regions. Eligible respondents are BOD, District Managers and shareholders employees who are above18 age. This is legally defined age at which a person is considered an adult, with all the attendant rights and responsibilities of adulthood. The sampling frame is the HTSC organizational structures. A population is a group of individual persons, objects or items from which samples are taken for measurement, it is the group the investigator wishes to make inference from. Population of this study is comprised of primary and all secondary sources of HTSC.

The sample size Should consists of 12 boards of directors, 13 executive management , District managers and CEO 14 and 100 shareholders and employees , HTSC directives and regulations and general assembly documents which for the purpose of this study Should form the target population.

Sample for this thesis is calculated using single population proportion, which means by looking HTSC employees and shareholder population as a single domain. Because of this there is no design effect resulted from variability of population characteristics among different domains. The formula is:

$$\mathbf{n_{(HTSC)} = \frac{(Z\alpha/2)^2\, P(1-P)}{d^2}}$$

Where: **Zα/2** = the value of Z in standard normal distribution corresponds to alpha value of 0.05 which is 1.96.

P = Assumed proportion of the Women against Men respondent among the total Population, which is estimated to be 4.5%

d = Precision/margin of error, which is 4%

Hence the calculated sample for HTSC would be :

$$\mathbf{n_{(HTSC)} = \frac{(1.96)^2\, 0.045(1-0.05)}{(0.04)^2} = \underline{99.5 \approx 100}}$$

The sampling procedure followed a **stratified random sampling technique**. The goal of stratified random sampling is to achieve desired representation from various subgroups in the population (Mugenda and Mugenda, 2003). The following procedure used to identify the allocation of sample and number of lower administrative unit, employees. The allocation of total 100 samples would follow the next procedures;

For qualitative key informant interview (KII) non-probability sampling technique used. This is because of deliberate selection of respondents, who are keys for the topic. As a result, there is an element of bias in the selection. Thus, would deploy a purposive sampling

Table 0-1 Sample Detail per District as Of 2011 E.C,

Area/Region	Total Projected Population	Projected Population	Percentage of Against the Population Years and Above	Calculated Sample Size	Actual Sample	Sample area
North District	317	167	8	100	3	District
North East District	407	197	9		4	District
South East District	356	171	8		4	District
North West District	445	210	9		6	District
West District	303	163	7		5	District
South District	513	298	13		5	District
East District	204	139	6		5	District
South West District	291	161	7		3	District
Jigijiga District	98	48	2		1	District
Head office	578	278	13		40	HO
South Addis Ababa district	331	141	6		8	District
North Addis Ababa district	334	129	6		8	District
East Addis Ababa district	323	123	6		8	District
Total		2225	100	100	100	

Source; Own survey, 2019

However, the selection category and respondents would those who are close to the topic. Respondents would been,

1. Board of directors ……………………………………….………12
2. Chief Executive Officer…………………………………………...1
3. District Managers ……………………………….……………..13
4. Executive Management …………………………………………...13

The justification of their selection is mainly because of having an impact on different ways to the organization.

3.3 Source of Data and Tools of Data Collection

3.3.1 Source of Data

To attain the desired study objectives, both primary and secondary data are required. The primary data would be collected using a questionnaire and key informant interview (KII). The study also relies on Secondary data. The secondary data would be collected through different sources such as reports, magazines, books, published and unpublished literature and online information sources.

The questionnaire would be collected from shareholders and employees, whereas KII would be from different groups of the organizations, like BOD, CEO and business leaders.

3.3.2 Tools of Data Collection

3.3.2.1 Primary Data

Questionnaire, According to Robson (2003), questionnaire based survey provides a relatively simple and straight forward approach to the study of attitudes, values, beliefs and motives. The purpose of this technique is mainly to make generalization by using the sample survey from the population and to cross check the data from different angles. To attain relatively reliable data on this thesis would use a total of questionnaires as stated in the above sample allocation proportionally.

Key Informant Interview, Key informants Interviews (KII) technique would be undertaken to collect the necessary information. For this purpose, structured and semi-structured questions would be prepared and interviewed various organs those are related to the topics. A total of 25 from different group would be interviewed.

3.3.2.2 Secondary Sources

Various sources from archives and documentations would be used in order to re-examine the extent to which previous studies have been carried out in the area of corporate governance. It would be involved with scanning and searching of written documents both published and unpublished.

The researcher would consult books, reports, journals, periodicals, online sources, interviews and speeches addressed by actors related to the issues of the thesis; it's just to have a comprehensive and thoughtful understanding on the matter.

3.4 Procedures of Data Collection

Each of respondents should only be those who are eligible. The data collection for both quantitative and qualitative would take place in Amharic and English, as per the respondent's interest. The researcher would prepare a data collection guide for both quantitative and qualitative data.

The key informant interview (KII) made by physical presences from various network referrals and telephone interviewed. The data would be transcribed, tabulated and used in data analysis. The interview would be recorded without consent of interviewees. The quantitative data collection would be made by deploying skilled enumerators through supervision, whereas the qualitative data would be collected by the researcher himself.

3.5 Validity of Instruments

According to Kothari (2004) validity is the degree by which the sample of the test items represents the content the test is designed to measure. The questionnaire in this research went through a number of developmental stages before final distribution. The study questionnaire was examined for content validity by expert in business research and to check for grammar, the wording, sequence and structure of the questionnaire. The suggestions on the content and structure were included to improve the final draft of the instrument.

3.6 Reliability Analysis

In this research, the reliability measure was used to focus on the internal consistency of the set of statements. The researcher used the coefficient alpha score to measure the reliability of the survey questionnaire. Cronbach‟s alpha is the degree to which instrument items are homogeneous and reflect the same underlying construct (Cooper & Schindler, 2006). Cronbach alpha was calculated by application of SPSS for reliability analysis. The reliability analysis value of the alpha coefficient is 0.71. According to Smith et al. (2011) argue that a reliability coefficient of 0. 71 is acceptable, thus result illustrates that all the four scales were reliable as their reliability values exceeded the prescribed threshold of 0.60.

3.7 Methods of Data Analysis

A research design according to (Kumar, 2005) is a plan, structure and strategy of investigation so conceived as to obtain answers to research questions or problems. (Chandran, 2004) describes research design as an understanding of conditions for collection and analysis of data in a way that combines their relationships with the research to the economy of procedures. The study used descriptive and exploratory design statics. The collected data would be coded, edited and enter into the computer. Then after by using the SPSS software data would be processed, cleaned and analyzed. The qualitative data is very important to analyze and explain the opinion, attitude and perceptions of interviewees.

3.8 Ethical Consideration

Before the research was conducted on the HTSC, the researcher informed the participants of the study about the objectives of the study, and was consciously consider ethical issues in seeking consent, avoiding deception, maintaining confidentiality, respecting the privacy, and protecting the anonymity of all respondents

CHAPTER FOUR

RESULT AND DISCUSSION

4.1 Questionnaire Survey Results and Discussion

This chapter presents the research findings derived from the questionnaire employed to answer the research questions of this study. SPSS was used to analyze the survey data. The questionnaire was distributed to the following groups: managers, board members, process directors, team leaders, CEO and employees.

4.1.1 Response Rate

Among the total 100 number of respondents, 90 of questionnaire were completed and returned. Those are 90% from total of response rate. This is in agreement with wit and Schindler (2003) who indicated that a response rate of between 30 to 80% of the total sample size can be generalized to represents the opinion of the entire population Based on the data collected from the survey participants, the data was entered and analyzed using SPSS statistical package using mainly one sample t-test statistical technique.

4.1.2 General Background of Respondents

Table 0-1General background of the respondents

Sex		*Age*				*Educational Level*			
Male	*Female*	*20-25 Years*	*26-35 Years*	*36-40 Years*	*Above 40 Years*	*Diploma*	*Degree*	*Master degree*	*Above Masters*
72	*18*		*27*	*38*	*25*	*2*	*58*	*28*	*2*
80%	*20%*	*0%*	*30%*	*42%*	*28%*	*2%*	*64%*	*31%*	*2%*

Source: Own Survey, 2019

4.1.2.2 Age

Table 4.1 illustrates the distribution of respondents based on age. The results show that there are no respondents less than 25 years old of, while 72% and 28% of the respondents were aged under40 years and above 40 years old, respectively.

4.1.3 Educational Background

Table 4.1.2 presents the highest academic qualification for the four groups of respondents. The majority (65%) of participants had completed their bachelor's degree ,2%of respondents are above MBA . 80% participants had a bachelor's degree, 31% had a master's degree and 2% had a diploma as their highest qualification. This reflects the high education level of the survey participants.

4.1.4 Work Experience

Table 0-2 Work Experience of Respondents

Work Experience				
Less than 1 year	1- 4 years	5-7 Years	8-10 Years	Above 10 Years
0	5	16	28	41
0%	5.50%	17.78%	31.11%	45.56%

Source: Own Survey, 2019

Table 4.1.2 shows that 5.5% of the respondents had less than five years of work experience. 48.89% had 5–10 years of work experience. From those work experience of 1-7 years comprised 23.33% of the sample, while respondents with and from 8- 10 years of work experience comprised 31.11% and 45.56% of the sample, are more than 10 years' work experience.

4.2 Basic rights and equitable treatment of shareholders

Table 0-3 Basic Rights and Equitable Treatment of Shareholders

The basic rights of shareholders	N	Mean	Std. Div.	Test Value = 3				
				t- value	P-value	Mean Diff.	95% Confidence Interval of the Difference	
							Lower	Upper
Voting by Mail allowed	90	2.17	1.073	-7.367	0	-0.833	-1.06	-0.61
Voting by proxy allowed	90	2.21	1.386	-5.399	0	-0.789	-1.08	-0.5
Adequate time given for questions at Shareholders meetings	90	3.33	1.236	2.558	0	0.333	0.07	0.59
Shareholders be informed in Advance the meeting date of Priority Subscription Rights protected	90	3.84	1.271	6.302	0	0.844	0.58	1.11
Equitable treatment of Shareholders practiced	90	3.02	1.349	0.156	0	0.022	-0.26	0.3
Candidates disclosed before shareholders meetings	90	2.73	1.475	-1.715	0	-0.267	-0.58	0.04
Nomination Committee nominate candidates at AGM	90	2.44	1.507	-3.496	0	-0.556	-0.87	-0.24
voting right of non - influential shareholders exercised	90	2.67	1.628	-1.942	0	-0.333	-0.67	0.01
Shareholders be informed in Advance the meeting date of general assembly	90	2.98	1.729	-0.122	0	-0.022	-0.38	0.34

Source: Computation from SPSS analysis

Several characteristics are involved in assessing the basic rights and equitable treatment of shareholders. The table above presents the t-test results for each of the basic rights of shareholders. The respondents‟ agreement level, as to whether these rights were not addressed or evaluated against the moderate level agreement. As one of the supposed rights, voting by mail however is found to be disagreed by the respondents, with the average level of M = 2.17. This is significantly agreement, with t-value =-7.367 and p-value =0.00 < 0.05, within the 95% Confidence Interval (CI) range of -1.06—0.61. Thus, it is found that the right in allowing shareholders to vote by mail is significantly disagreed showing that this right is not addressed. And the right of shareholders in voting by proxy is found to have been agreed with high average agreement level of M = 2.21, this is significantly agreement, with t-value =-5.399 and p-value =0.00 < 0.05 which is within the

95% CI range of -1.08-.05. Thus, it is found that the right in allowing shareholders to vote by proxy is significantly disagreed showing that this right is not addressed other rights of shareholders are also found to have been adequately respected. The top most respected right is that shareholders have the right to know the candidates for board membership. The right that board member candidates are disclosed to shareholders before shareholders meetings is acknowledged by the respondents with an average agreement level of M=2.73, which is significantly above the moderate level agreement (t-value = -1.715, p-value =0.00<0.05) within the 95% CI range of -.58-.04.

Another most respected right of shareholders is that shareholders are informed in advance the meeting date of general assembly, Nomination Committee nominate candidates present at AGM, candidates disclose before shareholder meeting and respecting of voting right of non- influential shareholders those are significantly agreement, with t-value =-0.122,-3.496,-1.715,-1.942 and p-value =0.00 < 0.05 which is within the 95% CI range of -1.08-.05,-0.38-0.34,-0.87-0.24,-0.58-0.04,and-0.67-0.01 respectively . Thus, it is found that the right in allowing shareholders are significantly disagreed showing that this right is not addressed.

Other rights of shareholders are also found to have been adequately respected. Shareholders be informed in advance the meeting date priority subscription rights protected right is found to have been highly agreed and respected with average level of agreement M=3.84; and t-value 6.302 which is within the 95% CI range of 0.58-1.11.Similarly, the right of equitable treatment of Shareholders is practiced with M=3.02 average level of agreement. This equitable treatment is practiced among the corporations to high extent within the 95% CI range of .0.26-.30.Adequate time provision for questions during shareholders meetings, acknowledged with average level agreement of M=3.33. These rights are found to have been exercised within the 95% CI limits of 0.07-0.59.Thus, in HTSC voting by mail and proxy, candidates disclosed before shareholder meetings, nomination committee nominate candidate before AGM, voting right of non- influential shareholders not practiced. The others are practiced.

4.3 The role of stakeholders in corporate governance

Table 0-4 The Role of Stakeholders in Corporate Governance

Characteristics	Not important	Least Important	Slightly Important	Important	Fairly Important	Most Important.	Average	Rank
Media	8	2	20	48	4	8	10.84	
Percentage	9%	2%	22%	53%	4%	9%		4
Chamber of Commerce	11	3	6	38	18	14	11.81	
Percentage	12%	3%	7%	42%	20%	16%		3
Professional Society	21	5	12	32	4	16	8.23	
Percentage	23%	6%	13%	36%	4%	18%		5
The Judiciary	8	4	6	32	26	14	12.41	
Percentage	9%	4%	7%	36%	29%	16%		2
Non-Executive Board of Directors	20	6	4	24	8	28	7.61	
Percentage	22%	7%	4%	27%	9%	31%		7
Minority Shareholders	8	35	13	16	14	4	13.03	
Percentage	9%	39%	14%	18%	16%	4%		1
Institutional Investors	26	2	2	30	8	22	8	
Percentage	29%	2%	2%	33%	9%	24%		6
Outside (Non- Executive) Board of Directors	28	4	12	22	8	16	6.83	
Percentage	31%	4%	13%	24%	9%	18%		8
Labor Unions or Employees	40	0	2	22	12	14	6.8	
Percentage	44%	0%	2%	24%	13%	16%		9
The Legal System	6	0	20	16	10	34	5.24	
Percentage	7%	0%	22%	18%	11%	38%		10

Source: Own Survey, 2019

In assessing the importance of this stakeholder's role in practices of corporate governance, each respondent's response is rated and presented in the table above. The average level of importance of each stakeholder is also computed to set the respective rank of relative importance.

The most important external stakeholder influencing corporate governance is minority of shareholders, the judiciary, chamber of commerce and media which have about 13.3, 12.41, 11.81 and 10.84 average level of importance respectively influencing governance. Only 19.64 % of the respondents felt the (not) important; whereas the majority of the respondents, 80.36%, found this stakeholder has a considerable impotence influencing corporate governance. Labor

Unions/Employees, and Institutional Investors are also found to have an average importance of 6.8 and 8 levels, respectively. Non-executive board of directors and the media assume the rank of 8th and 4th with 6.83 and 10.84 average levels of importance, respectively. Among the least important external stakeholders are the legal system, labor union, non-executive board of director's institutional investors and professional society with 5.24, 6.8, 6.83, 8, 7.61 and 8.23 respectably average level of importance.

4.4 Disclosure and Transparency

Table 0-5 Disclosure and Transparency

Characteristics	Yes	No	Percentage	Rank
Governance Structures	48	42	53.33	4
Explicit Corporate Governance Rules	26	64	28.89	6
Vision, Mission, and Values	82	8	91.11	1
Financial Performance	24	66	26.67	7
Audited Annual Reports	76	14	84.44	2
Resume or Background of Directors	32	58	35.56	5
Code of Conduct on Governance	20	70	22.22	8
Members of Board Sub Committees	62	28	68.89	3

Source: Own Survey, 2019

Disclosure and Transparency in information are critical and key player in corporate governance as this is used as a tool to disseminate information to all stakeholders. The respondents were asked for assuring if certain characteristics existed in their corporations.

All the characteristics listed in table above are found to be favored by the majority of respondents. Among all, 90 of the 100 respondents (i.e. 90% of the respondents) identified suitable resume/background of directors in their corporation. 91.1% of the total respondents also assured that vision, mission and values of their corporation are one of the distinguishing characteristics of their corporation.

Having audited annual financial reports of the corporation is identified by 84.14% of the respondents. Existing Members of Board Sub Committee, governance structure, resume or background of directors, explicit corporate governance rules, and financial performance, and code of conduct of the corporations are said to be features exhibited in their corporations according to 53.33%,35.56 28.89%,26.67, and 22.22%of respondents, respectively.

4.5 The Responsibilities of the Board of Directors

Table 0-6 The Responsibilities of the Board

Board Responsibilities	N	Mean	St. Dev.	Test Value =3 t-value	p-Va.	Mean deff.	95%of Confidence interval of the difference Lower	Upper
As a member of the Board of Directors, I was adequately informed and knowledgeable about my functions and responsibilities	11	4.09	1.221	2.963	0	1.091	0.27	1.91
As a member of the Board of Directors, I used to feel responsible and devote sufficient time to carry out my responsibilities	11	4.09	1.221	2.963	0	1.091	0.27	1.91
As a member of the Board of Directors, I consider fiduciary and stewardship responsibilities in discussions and decision making	11	4.09	0.831	4.353	0	1.091	0.53	1.65
As a member of the Board of Directors, I was responsible and take into account stakeholder interests in decisions and actions	11	4.18	1.328	2.951	0	1.182	0.29	2.07
As a member of the Board of Directors, I was willing to be accountable and responsible for situations that may cost me to the extent of relinquishing my position	11	4.27	1.009	4.183	0	1.273	0.59	1.95
Good corporate governance approach aims at performing the main function of separating the firm's principals and agents.	11	4.09	1.25	-2.17	0	-0.818	-1.66	0.02
Corporate governance themes in your station separates management from the board	11	4.09	1.368	1.102	0	0.455	-0.46	1.37
Corporate governance systems are mechanisms for establishing the nature of ownership and control of organizations within an economy.	11	4.09	1.079	2.516	0	0.818	0.09	1.54
Agency problem arises as a result of the relationships between shareholders and managers	11	4.18	1.433	0.841	0	0.364	-0.6	1.33
Corporate governance would not apply to the sector since the agency problems are less likely to exist.	11	4.27	0.874	-3.105	0	-0.818	-1.41	-0.23

Source: Computation from SPSS analysis

The OECD (2004) principles on board responsibilities deals with the issue of board responsibilities that include the role of boards to ensure strategic guidance of a company, effective monitoring of management, and board's accountability to a company and shareholders. It specifically states that boards have the responsibility to act on informed basis, in good faith, with due care and in the best interest of the company and the shareholders.

Board members were requested to rate the extent to which they carry out their responsibilities entrusted to them. The rate ranges from Strongly Disagree (1) to Strongly Agree (5).

Regarding their responsibilities as board members, respondents were asked to rate their agreement-disagreement to the five statements in the table above. The average level of agreement to each statement (responsibility) was tested for its significance against the test value, i.e. 3, which represents the moderate level agreement.

One area of the members‟ responsibility is that they are adequately informed and knowledgeable about their functions and responsibilities.

Regarding this responsibility, board members‟‟ average level of agreement is M=4.09, with a slight variation, SD=1.221, among their responses. The resulting average agreement level is the moderate level agreement within the 95% CI of this difference in the range .27-1.01. Moreover, the p-value =0.00 < 0.05 indicates significantly high level agreement by the board members towards the statement. From the analysis result for the first statement, it is found that board members‟‟ agreement level that they are informed and knowledgeable about their functions and responsibilities is within the 95% CI range of 0.27-1.09; which is a high level agreement. 72.73% of total BOD respondents agreed for responsibility are that they are adequately informed and knowledgeable about their function and responsibilities and the other 18.18% of respondents are not informed and knowledgeable about their responsibility and function.

As board members, they are also expected to feel responsible and pay a lot sufficient time in handling their responsibilities. As to this particular responsibility of the board members, the average level of agreement is M=4.09 with SD=1.221.The t-test result, with t-value=2.963 and p-value = 0.00< 0.05 indicates that members have significantly high level agreement that they used to feel responsible and devote sufficient time to carry out their responsibilities. This is a high level agreement by the board members towards their responsibility within the 95% CI in the range 0.27-1.91.72.73% of total BOD respondents agreed for responsibility and take in to account stack holder interest decision and action and the other respondents are did not to know their responsibility.

As to the responsibility that, members consider fiduciary and stewardship responsibilities in discussions and decision making, their average level agreement is M=4.09, which is found to be within the 95% CI range 0.53-1.65 The t-test result with t-value =4.353 and p-value =0.00 < 0.05 indicated that members have significantly high level of agreement caring out this particular responsibility.

The fourth responsibility is that, members were responsible and take into account stakeholder interests in decisions and actions. The board members are found to have agreed to this responsibility with M=4.18 average level of agreement; which is MD=4 above the moderate level agreement. The t-test result 2.93 with p-value =0.000 < 0.05 also indicated that members have significantly high level agreement towards this particular responsibility of them. Their agreement level is within the 95% CI range of 0.29-2.07.It is also expected that members are willing to be accountable and responsible for situations that may cost them to the extent of relinquishing their position. As to this responsibility, board members have very high level agreement, 81.82 % of total BOD respondent agreed members are willing to be accountable and responsible for situation that may cost them to extent relegation their position which is even relatively high level agreement compared to their agreement level to the pervious responsibilities. The 95% CI for board members willingness for being accountable and responsible is within the range of 0.59-1.95 and M=4.27 and t-value 2.95.

As to the responsibility that, members consider good corporate governance approach aim at performing the main function of separated the firms principal and agent responsibilities in, their average level agreement is M=4.09, which is found to be within the 95% CI range -1.66-0.02.

The t-test result with t-value =-2.17 and p-value =0.00 < 0.05 indicated that members have significantly high level of disagreement caring out this particular responsibility.

BOD agreed that, members consider Corporate governance systems are mechanisms for establishing the nature of ownership and control of organizations within an economy.81.2 % of total respondent agreed that "Corporate governance systems are mechanisms for establishing the nature of ownership and control of organizations within an economy in, their average level agreement is M=4.09, which is found to be within the 95% CI range -0.46-1.37.

The t-test result with t-value =1.102 and p-value =0.00 < 0.05 indicated that members have significantly high level of agreement caring out this particular responsibility.

HTSC BOD 63 % of total respondent agreed that Agency problem arises as a result of the relationships between shareholders and managers in their average level of agreement is 4.18, which is found to be within the 95% CI range -0.60-1.33. The t-test result with t-value =0.841 and p-value =0.00 < 0.05 indicated that members have significantly high level of agreement caring out this particular responsibility.

Regarding this responsibility, board members‟ average level of agreement is M=4.27, with a slight variation, SD=.874, among their responses. The resulting average agreement level is 2 levels above the moderate level agreement within the 95% CI of this difference in the range -1.41--.23. Moreover, the p-value =0.00 < 0.05 indicates significantly high level agreement by the board members towards the Corporate governance would not applied to the sector since the agency problems are less likely to exist.

4.6 Additional Influencing Factors of Good Corporate Governance Practices.

Table 0-7 additional influencing factors of Corporate Governance Practices

Factors	N	Mean	Std. Dev.	Test Value = 3					
				t-value	Df	p-value	Mean Diff	95% Confidence Interval of the Difference	
								Lower	Upper
Number of board members	90	3.74	1.241	5.690	89	0.0	.744	.48	1.00
Frequency of Board meeting	90	3.63	1.166	5.155	89	0.0	.633	.39	0.88
Number of Board Members that have Experience in Board	90	4.24	1.020	11.573	89	0.0	1.244	1.03	1.46
Boards of directors and management are not separate	90	4.16	1.059	10.351	89	0.0	1.156	.93	1.38
The Ownership of HTSC is Employee	90	4.22	.992	11.690	89	0.0	1.222	1.01	1.43
Transparency and accountability	90	3.92	1.326	6.599	89	0.0	.922	.64	1.20

Source: Computation from SPSS analysis

Assessing the significance of certain factors that influence the practice of corporate governance, respondents had rated each factor for its level of influence, and t-tests were conducted to assess the significance of each factor. As indicated in the table above, the number of board members influence of these factors is rated with the level M=3.74 average agreement. This level of influence is tested for its significance beyond the average level agreement (t-value =5.69 and p-value =0.00< 0.05) and in the 95% CI range of 0.48-1.00.

As to the respondent that that, members consider Frequency of Board meeting, their average level agreement is M=3.63, which is found to be within the 95% CI range 0.39-0.88. The t-test result with t-value =5.155 and p-value =0.00 < 0.05 indicated that members have significantly high level of agreement caring out this particular governance practice.

In the case of HTSC that, respondents consider Number of Board Members that have Experience in Board, their average level agreement is M=4.16, which is found to be within the 95% CI range 1.03-1.46. The t-test result with t-value =11.573 and p-value =0.00 < 0.05 indicated that members have significantly high level of agreement caring out this particular governance practice.

In HTSC the respondents highly agreed that number of board members that have experience in board, the owners are employees and BOD and Management are not separate arises as a result of highly influencing factors to implement good corporate governance. 87 % 84% and 82 % of from total respondents' respectively highly agreed to influence to implemented good corporate governance.

4.7 Obstacles for Implement Good Corporate Governance

Table 0-8 obstacles that affect corporate governance

Obstacles that affect corporate governance	N	Mean	St. D.	Test Value = 3					
				T -V	Df	P-Va	Mean Diff.	95% Confidence Interval of the Difference	
								Lower	Upper
The occurrence of Weak legal controls and law enforcement within the HTSC	90	3.99	0.9	10.81	89	0	0.989	0.81	1.17
Absence of legal and regulatory systems that govern company activity	90	3.9	0.9	9.621	89	0	0.9	0.71	1.09
The costs of practicing good corporate governance outweigh the benefits.	90	3.33	1.2	2.597	89	0.01	0.333	0.08	0.59
Poor relationship between executive's management, process directors, managers and employees of the company.	90	4.04	0.9	11.35	89	0	1.044	0.86	1.23
Good relationship between the company and the external auditors	90	3.23	1.2	1.845	89	0.068	0.233	-0.02	0.48

Source: Computation from SPSS analysis

This section investigates with respect to the obstacles that might affect the implementation of corporate governance in HTSC. To achieve this objective, the participants were provided with a list of barriers and asked to rate the extent to which they thought these barriers might affect the development of corporate governance in HTSC.

The results show that in overall 72% of the respondents agreed with the items listed as barriers that might affect the implementation of corporate governance in HTSC. relationship between executive's management and employees of the company registered first place with higher level agreement response (86.7%) by mean score of 4.04 and Std. deviation 0.873 t-value 11.351. "The occurrence of Weak legal controls and law enforcement within the industry" registered second place with higher level agreement response (77.78%) by mean score of 3.99 and Std. deviation .868 with t-valve 10.83.The results in Table above show that in overall 16.4% of the respondents disagreed with the items listed as barriers that might affect the implementation of corporate governance in HTSC. The respondents agreed "Absence of legal and regulatory systems that govern companies" activities registered third place with higher level agreement response (75.56%) by mean score of M=3.90 and Std. deviation 0.887.The costs of practicing good corporate governance outweigh the benefits" registered fourth place and the least important barrier with the higher level disagreement response (64.44%) by mean score of 3.33 and Std. deviation 1.2. From the findings statement number 1.4.3 which is "Good relationship between the company and the external auditors" registered fifth place and the least important barrier with the higher level disagreement response (72%) by mean score of 3.23 and Std. deviation 1.2.

Overall in the foregoing findings indicate that more than 72% of the respondents have almost the same opinion and perception and from the listed obstacles they point out weak legal controls and law enforcement within the industry and weak relationship between executive's managements and employees of the company are possible barriers for the implementation of good corporate governance.

Conversely the study finding indicates that the rest listed obstacles are not feasible means of barriers for the implementation of good corporate governance within the HTSC. The perception of stakeholders on possible obstacles and enablers to the development of the implementation of corporate governance practice is very important.

When the relationship between executive's managements and employees of HTSC becomes weak the organizational commitment also leads to lower levels and this lead to absenteeism and turnover and it is a better indicator of job dissatisfaction. Dissatisfied employees not give their best to the organization and then not get better their performance

4.8 Assessment of Ownership Structure and Corporate Governance

The ability of boards of directors to monitor the chief executive officer (CEO) remains a Critical question in corporate governance in the case of HTSC. Among various board characteristics, emphasize the significant impact of ownership on directors' monitoring effectiveness. Although these studies have extensively examined how social ties between directors and CEOs influence board performance, directors' connections to other members of the executive team might also be important. This interview analyzes a previously unexplored dimension of within-firm networks by focusing on the connections between directors and CEO executives who do not serve on the board (hereafter, internal ties). Specifically, the respondents address the following questions: Do informal relationships between directors and CEO executives reduce board effectiveness by undermining corporate governance?

Or, do such ties improve board performance by creating an alternative channel through which valuable information can flow to the board? On social ties between CEOs and directors predominantly documents that such connections hamper the monitoring effectiveness of the board, leading to adverse outcomes.

In HTSC 75% of from total BOD are employees or insider and the other 25% from total BOD are outsider. From the total insiders BODs 33.33% are department advisor and the other 66.67% of Directors are assigned as division manager. All board of directors is assigned by CEO including

Board Chairman. These results suggest that CEOs exploit board “friendliness” to extract personal benefits. Similarly, CEOs might use social ties between their subordinates and the board to perpetuate their power in the boardroom. For instance, entrenched CEOs may add friendly directors connected to executives to shift board composition toward their preferences, between non-CEO executives and directors might facilitate valuable information sharing, which enhanced board effectiveness. We start our analysis by exploring factors determining the appointment of connected directors. Board rules and controller/stakeholder agency problems the third use to which board rules may be put is for the protection of non-shareholder stakeholder interests. As already indicated, the only stakeholder interests who are in fact significantly protected in this way are those of the creditors and the employees.

By contrast, employee protection through company law is not a feature which all jurisdictions display, but where company law is used in this way, it does tend heavily to involve board rules. In fact, control of the company/employee agency problem through company law is almost synonymous with employee representation on the board, i.e. the use of board rules to implement the policy.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes about the results of the study that have been presented in chapter 4. It also gives some conclusions from the result findings and discussions depending upon the research's questions and objectives. Finally, it suggests some future recommendations on important issues that should be done and taken into consideration by concerned bodies accordingly.

5.2 Summary of Findings

The study attempted to assess the ownership structure and practice of corporate governance with respect to Organizational policy, procedure and OECD principles. In assessing the basic rights and equitable treatment of shareholders, it is found that except the right of voting by mail, candidates disclose before shareholder meeting ,nomination committee nominate candidates present at AGM all other rights of shareholders are adequately exercised. In addition to the basic rights of shareholders the significance of other stakeholders were also studied. The most important external stakeholder influencing corporate governance is minority of shareholders, the judiciary, chamber of commerce and media which have about 13.3, 12.41, 11.81 and 10.84 average level of importance respectively influencing governance. Only 19.64 % of the respondents felt the (not) important; whereas the majority of the respondents, 80.36%, found this stakeholder has a considerable impotence influencing corporate governance. Labor Unions/Employees, and Institutional Investors are also found to have an average importance of 6.8 and 8 levels, respectively. Non-executive board of directors and the media assume the rank of 8th and 4th with 6.8 and 10.84 average levels of importance, respectively.

Among the least important external stakeholders are the legal system, labor union, non-executive board of director's institutional investors and professional society with 5.24, 6.8, 6.83, 8, 7.61 and 8.23 respectably average level of importance.

On various aspect of corporate governance, the study found that respondents strongly agreed that good corporate governance approach aims at performing the main function of separating the firm's principals and agent.

Respondents agreed that agency problem arises as a result of the relationships between shareholders and managers and corporate governance systems are mechanisms for establishing the nature of ownership and control of organizations within an economy, corporate governance would not apply to the sector since the agency problems are less likely to exist and corporate governance themes in your station separates management from the board.

On the various determinant of strong corporate governance, from the findings the study found that most of the respondent indicated the following were significant other factors, independence of committees, independent directors and Split Chairman/CEO roles. Board Size was rated as significant. This information shows that the various determinant of strong corporate governance like independence of directors, independence of committees, board size and Split Chairman/CEO Roles were very important in their firms.

Overall, the companies under consideration are found, in most cases adhering to the 4^{th} principle of OECD; but also exhibited inadequate practices with regard to recognizing the importance of the board directors and HTSC associations' role.

Disclosure and Transparency in information is critical and a key player in corporate governance. Among all, 90 of the 100 respondents (i.e. 90% of the respondents) identified suitable resume/background of directors in their corporation. 91.1% of the total respondents also assured that vision, mission and values of their corporation are one of the distinguishing characteristics of their corporation.

Existing governance structure, explicit corporate governance rules, and financial performance of the company is said to be features exhibited in their organizations. Such high level agreement rating by the respondents exhibited the governance practice was in accordance with the 5th OECD principle.

Moreover, in studying the responsibilities of the board (the 6th principle in OECD), it is found out that there is a significantly high level agreement of board members‟ regarding their overall responsibilities. Overall in the foregoing findings indicate that more than 72% of the respondents have almost the same opinion and perception and from the listed obstacles they point out weak legal controls and law enforcement within the industry and weak relationship between executive's managements and employees of the company are possible barriers for the implementation of good corporate governance.

The perception of stakeholders on possible obstacles and enablers to the development of the implementation of corporate governance practice is very important.

When the relationship between executive's managements and employees of the HTSC becomes weak the organizational commitment also leads to lower levels and this lead to abSAINTeeism and turnover and it is a better indicator of job dissatisfaction.

5.3 Conclusion

The study attempted to assess the governance practice of companies; and made evaluation of the practice Of organization directives and OECD principles. In the process, the study basically addressed the research questions, and based on the results and findings, the following major conclusions are drawn.

HTSC is not found to have operated in accordance with the Ethiopia directives and OECD principles. The principles of observing the right of Shareholders (Principle II) and equitable treatment of shareholders (Principle III) were not adequately addressed in the governance practice of the HTSC companies. Hence, the shareholders are not properly enjoying their right as a result of the governance practice which is not consistent with the OECD principle.

The 4th principle is found to be well practiced in the companies with certain limitations. The governance practice recognized the importance of several stakeholders. The results identified the gap in HTSC ownership structure and corporate governance with regard to the role of some key stakeholders.

In HTSC also have OECD consistent practice with regard to Disclosure and Transparency Principle, which is the 5th principle. Overall, with some limitations in the importance of HTSC associations and executive board of directors; the governance framework is consistent with the principle.

The presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy. As a result, the cost of capital is lower and firms are encouraged to use resources more efficiently, thereby underpinning growth. Factors such as business ethics and corporate awareness of the environmental and societal interests of the communities in which a company operates can also have an impact on its reputation and its long-term success.

In the typical two tier system, found in some countries, “board” as used in the Principles refers to the “supervisory board” while “key executives” refers to the “management board”. It is to be noted that corporate governance differs from corporate management. As Fernando notes:

‘Corporate governance is not just corporate management; it is something much broader to include a fair, efficient, and transparent administration to meet certain well defined objectives. It is structuring, operating and controlling a company with a view to achieving long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers and to comply with the legal and regulatory requirements, apart from meeting environmental and local community needs.

Thus, corporate governance refers to all issues related to ownership and control of corporate property, the rights of shareholders and management, powers and responsibilities of the Board of Directors, disclosure and transparency of corporate information, the protection of interests of stakeholders that are not shareholders, enforcement of rights, etc.

Corporate governance systems depend upon a set of institutions such as laws, regulations, contract enforcements and norms that create self-governing firms as the central element of a competitive market economy. The definition of 'corporate governance' is not provided under the Ethiopian company law. For the purpose of this study, it is thus important to adopt a working definition for corporate governance as a system of rules and institutions that determine the control and direction of a company and that define relations among the company's primary participants including board of directors, managers, shareholders and other stakeholders. This combines the narrow and broad definitions and it considers corporate governance as a system of rules and institutions which determine the control and direction of a company. It recognizes not only shareholders but also stakeholders that should be involved in the governance of share companies.

Role and Responsibility of the Board: A board with competent technocrats should be put in place and allowed to function effectively.

Disclosure and Transparency: Corporate Governance requires high level accountabilities. The foundation of any corporate governance is disclosure. Openness is the basis of public confidence in the corporate system and funds flowed to those centers of economic activity, which inspire trust.

Conversely the study finding indicates that the rest listed obstacles are not feasible means of barriers for the implementation of good corporate governance within the HTSC. The perception of stakeholders on possible obstacles and enablers to the development of the implementation of corporate governance practice is very important. When the relationship between executive's managements and employees of HTSC becomes weak the organizational commitment also leads to lower levels and this lead to absenteeism and turnover and it is a better indicator of job dissatisfaction. Dissatisfied employees not give their best to the organization and then not get better their performance

In HTSC of separating ownership and control raises some potential issues and problems, this variation in ownership structures also helps to create new agency issues and problems, due to conflicts of interest between the relevant parties. For example, in a dispersed ownership structure, there can be a conflict of interest between managers and owners (I.e.HTSC owners are employees) "agent–principal issues "where the owners' best interests and managers' self-interests may contradict each other, with each party concentrating on the benefit to them.

5.4 Recommendations

Based on the findings, the existing practices of companies need to ensure and improve their governance in line with OECD principles. To supplement the practice and address its gaps, the corporate governance framework of HTSC are suggested with the following recommendations.

- The HTSC should create formal program to raise employee, awareness in governance practice of the Company. An awareness program should be available to enable employees, to gain an understanding of the company's strategic and operational and risk management position, and help employees to know their rights, duties and their responsibilities.
- HTSC must qualify its directors and managements with training in accordance with the Corporate Governance. These programs help to shape their integrity, to create effective management and to get advice on how to enhance corporate governance quality in its own company. In addition, these programs should contain efforts to overcome potential obstacles and enable corporate governance implementation.
- The Boards should encourage the management of HTSC to participate in education programs to assist them in performing their responsibilities and to increase individual performance and the company performance as well.
- The board members should examine and acquire sufficient information and provide sufficient time to give strategic guidance to HTSC. These in turn help them effectively

carry out their duties and responsibility effectively and in turn they can improve the performance and governance mechanism of HTSC as well.

- Transparency is essential for sound and effective corporate governance. Lack of transparency, It is difficult for stakeholders to effectively monitor the activities of the board of directors and senior management. With this intention the management of the HTSC made an arrangement for the resolution of conflicts of interest without impediment and improves the system regularly through taking recommendations and suggestions from stakeholders when it is necessary.
- The performance of the board and the senior management of the HTSC should be evaluated annually, and also the performance of board committees. The board annual self-evaluations is important to determine whether it and its committees are following the procedures necessary to function effectively in order to determine whether the organization is going in the right direction or not and to measure its performance.
- HTSC Should have nomination Committee that acts as part of an organization corporate governance and to Identify and review the qualifications of prospective nominees for Director and recommend the slate of nominees for inclusion in the Corporation's information circular and presentation to the shareholders at the Annual Meeting. In evaluating candidates for nomination to the Board, the Committee may take into consideration such factors and criteria as it deems appropriate, including judgment, skill, integrity, reputation, diversity, business and other experience.
- In the interests of succession planning, periodically review the composition of the full Board and the various Committees to determine whether additional Board or Committee members with specific qualifications or areas of expertise are needed to further enhance the composition of the Board and Committees and work with other Board members in attracting candidates with these qualifications. And whether each new nominee can devote sufficient time and resources to his or her duties as a member of the Board.
- HTSC Board of directors and managements both are company’s employees and also most directors are operational managers and assigned, evaluated them operationally by CEO,

because of this HTSC CEO more power than BODs. Therefore; HTSC should separate BODs and managements and developed clear picture of BOD Responsibility and accountability.

- The management of the HTSC should always be ready to make quick response to every issue regarding the company; further more enthusiastically performance standards should be assessed, improved and communicated to the employees. This will help employees to improve their attitudes and achieve the standards and perform well.
- HTSC shall make continuous assessment and receiving of feedback from its employees, such feedbacks will serves as a moral boost that the employee is contributing positively to the organization and an input for the future HTSC performance and governance management plan.
- HTSC should encourage audit committee members to understand the role of the committees and should provide proper incentives. In addition, an independent director should be appointed to lead the committees who can provide his or her independent judgments for the best interest of the Companies' shareholders.
- Lastly, shareholders need to know that they have an important role in ensuring that the HTSC management are following and implementing good corporate governance. They can do this through establishing certain control means thus undertake the monitoring process.

5.5 Limitation of the Study

In conducting detail researches on assessing the corporate governance practices of the firm, it is compulsory to have much more time, adequate information, expertise knowledge, etc. Even though there are a number of important determinant variables which have significant influence on governance practices of the firm the study focused only on internal corporate governance system of the HTSC. The research faced limitation regarding the finding of reliable and accurate data about the topic due to lack of reference on the topic under study in the similar to HTSC. Time and budget are always in scarce which also view come upon this study.

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APPENDICES:

SURVEY QUESTIONNAIRES PREPARED FOR EMPLOYEES OF HTSC

ST' MARY UNEVERSITY

DEPARTMENT OF GENERAL MANAGEMENT

MBA PROGRAM

Respected madam/sir,

I am currently MBA student at St' Mary University. I am now conducting a thesis on the **assessment of ownership structure and corporate governance of Hidase Telecom S.co**. The purpose of this study is to assess the ownership structure on corporate governance. Your response and support is very crucial for the fulfillment of my study. I greatly appreciate your contribution and I can assure that your responses will be kept confidential and only used for academic purpose.

Thank you

Habtamu Muluneh

Tel.**0913130592, 926854343**

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Appendix A:

Research Questionnaire on Corporate Governance

Part A. General Information

1.1. Sex: Male ☐ Female ☐

1.2. Age: 20-25 ☐ 26-35 ☐ 36-40 ☐ above 40 ☐

1.3. Educational Level:

Diploma ☐ Degree ☐ Master's degree ☐ above Masters ☐

1.4. Work experience:

Less than1 ☐ 1 to 4 years ☐ 5 to 7 years ☐ 8 to 10 years ☐ above 10 years ☐

1.5. Do you have access to the company's audited financial reports?

Yes ☐ No ☐

1.6. Do you know the status of the company in regards to Financial Position?

Yes ☐ No ☐

1.7. Do you know the composition of the Board of Directors?

Yes ☐ No ☐

Part A: The basic rights of shareholders?

1. Please kindly answer the following questions. Please indicate your choice on the scale of 1 – 5, 1= Strongly Disagree, 2 = Disagree, 3 = Neutral, 4= Agree, 5 = Strongly Agree

Please use ☐ to indicate your choice

	Characteristics	1	2	3	4	5
1	Voting by Mail Allowed in HTSC					
2	Voting by Proxy Allowed					
3	Adequate time given for questions at Shareholders meetings					
4	Shareholders Priority Subscription Rights Protected					
5	Equitable treatment of Shareholders practiced					
6	Candidates disclosed before shareholders meetings					
7	Nomination Committee nominate candidates present at AGM					
8	Do the voting right of non-influential shareholders exercised					
9	Do all Share Holders be informed in advance the meeting date of general assembly					

Part B: The Relative importance of other stakeholders' role rather than the shareholders in improving corporate governance

1. How do you rate the following Stakeholders on the level of importance? 1 = Not important, 2 = Least Important, 3 = Slightly Important, 4 = Important, 5 = Fairly Important; 6 = Most Important.

Please use □ to indicate your choice

No.	Characteristics	1	2	3	4	5	6
1	Media						
2	Chamber of Commerce						
3	Professional Society						
4	The Judiciary						
5	Non-Executive Board of Directors						
6	Minority Shareholders						
7	Institutional Investors						
8	Outside (Non - Executive) Board of Directors						
9	Labor Unions or Employees						
10	The Legal System						

Part C. Do the following influence the practice of corporate governance at your company? Please indicate your choice on the scale of 1 – 5, 1= Strongly Disagree, 2 = Disagree, 3 = Neutral, 4= Agree, 5 = Strongly Agree. Please use □ to indicate your choice

	Factors	1	2	3	4	5
1	Number of Board Members					
2	Frequency of Board Meetings					
3	Number of Board Members that have Experience in					
4	Boards of directors and management are not separate					
5	The Ownership of HTSC is Employee					
6	Transparency and accountability					

Part D. Do the following Obstacles that affect corporate governance of HTSC Please indicate your choice on the scale of 1 – 5, 1= Strongly Disagree, 2 = Disagree, 3 = Neutral, 4= Agree, 5 = Strongly Agree. Please use □ to indicate your choice.

	Factors	1	2	3	4	5
1	The occurrence of Weak legal controls and law enforcement within the					
2	Absence of legal and regulatory systems that govern companies" activities					
3	The costs of practicing good corporate governance outweigh the benefits.					
4	Poor relationship between executive's management, process directors, managers and employees of the company.					
5	Good relationship between the company and the external auditors					

Part E: Please Tick ‘Yes’ if the characteristics exist in your company and tick ‘no’ otherwise.

Characteristics	Yes	No
Governance Structures		
Explicit Corporate Governance Rules		
Vision, Mission, and Values		
Financial Performance		
Audited Annual Reports		
Resume or Background of Directors		
Code of Conduct on Governance		
Members of Board Sub Committees		

Thanks once again for your co-operation in completing this questionnaire .Your efforts are deeply appreciated .If you have any comments, please state them in space provided bellow.

SURVEY QUESTIONNAIRES PREPARED FOR BOARD OF DIRECTORS OF HTSC

ST' MARY UNEVERSITY

DEPARTMENT OF GENERAL MANAGEMENT

MBA PROGRAM

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Thank you

Habtamu Muluneh

Tel.**0913130592, 926854343**

Email mhabtamu509@gmail.com

Appendix B:

Research Questionnaire on Corporate Governance

Part A. General Information

1.1. Sex: Male ☐ Female ☐

1.2. Age: 20-25 ☐ 26-35 ☐ 36-40 ☐ above 40 ☐

1.3. Educational Level:

Diploma ☐ Degree ☐ Master's degree ☐ above Masters ☐

1.4. Work experience:

Less than1 ☐ 1 to 4 years ☐ 5 to 7 years ☐ 8 to 10 years ☐ above 10 years ☐

1.5. Do you have access to the company's audited financial reports?

Yes ☐ No ☐

1.6. Do you know the status of the company in regards to Financial Position?

Yes ☐ No ☐

1.7. Do you know the composition of the Board of Directors? Yes ☐ No ☐

PART B: Responsibilities of the Board of Director’s

Please kindly answer the following questions. Please indicate your choice on the scale of 1–5, 1=Strongly Disagree,2=Disagree, 3=Neutral, 4=Agree,5=Strongly Agree

Please use □ to indicate your choice

	Factors	1	2	3	4	5
1	As a member of the Board of Directors, I was adequately informed and knowledgeable about my functions and responsibilities					
2	As a member of the Board of Directors, I used to feel responsible and devote sufficient time to carry out my responsibilities					
3	As a member of the Board of Directors, I consider fiduciary and stewardship responsibilities in discussions and decision making					
4	As a member of the Board of Directors, I was responsible and take into account stakeholder interests in decisions and actions					
5	As a member of the Board of Directors, I was willing to be accountable and responsible for situations that may cost me to the extent of relinquishing my position					
6	Good corporate governance approach aims at performing the main function of separating the firm's principals and agents.					
7	Corporate governance themes in your station separates management from the board					
8	Corporate governance systems are mechanisms for establishing the nature of ownership and control of organizations within an economy.					
9	Agency problem arises as a result of the relationships between shareholders and managers					
10	Corporate governance would not apply to the sector since the agency problems are less likely to exist.					

Thanks once again for your co-operation in completing this questionnaire .Your efforts are deeply appreciated .If you have any comments, please state them in space provided bellow.

THANK YOU VERY MUCH FOR YOUR INTEREST!

APPENDIX C

ST' MARY UNEVERSITY

DEPARTMENT OF GENERAL MANAGEMENT

MBA PROGRAM

INTERVIEW QUESTIONS

Respected madam/sir,

I am currently an MBA student at St' Mary University. I am now conducting a thesis on **assessment of ownership structure and corporate governance of Hidase Telecom S.co**. The purpose of these interviews is to gather information and opinion to support a study of assessment ownership structure and corporate governance. Your response and support is very crucial for the fulfillment of my study. The information you provide would kept confidential and only used for academic purpose.

Thank you:

1) How do you see the association between the board, the senior management, process directors and the line managers of the HTSC?
2) Do you think the board committees and the senior management of the HTSC are fulfilling their roles and responsibilities effectively?
3) What is your comment as a way out for such obstacles to improve the corporate governance and performance of the company?
4) Does the Company publish in its annual reports the information on its business operations' compliance with the corporate governance principles or provide explanations for any departure from the principles
5) In your view that the principle of transparency is observed by conveying all information to stakeholders, particularly on associated operations and conflicts of interest.
6) Do you think all members of the board have sufficient information and time that enables them to give strategic guidance of HT