CORRELATION BETWEEN EXECUTIVE TURNOVER AND ORGANIZATIONAL PERFORMANCE AT THE BANK OF ABYSSINIA S.C.

BY
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CORRELATION BETWEEN EXECUTIVE TURNOVER AND ORGANIZATIONAL PERFORMANCE: IN THE CASE OF BANK OF ABYSSINIA S.C.

BY
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A THESIS SUBMITTED TO ST. MARY’S UNIVERSITY COLLEGE, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

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DECLARATION

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

________________________________________  ______________________
Name                                                                Signature

St. Mary’s University College, Addis Ababa                           May, 2013
ENDORSEMENT

This thesis has been submitted to St. Mary’s University College, School of Graduate Studies for examination with my approval as a university advisor.

_________________________                       ______________________
Advisor                                                  Signature

St. Mary’s University College, Addis Ababa            May, 2013
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ABSTRACT

This study explores the correlation between executive turnover and organizational performance at the Bank of Abyssinia S.C. Major objective of the study is to explore the correlation of executive turnover of BoA S.C. and its impacts on the organizational performance of the bank. It also investigates the extent of the impact of executive turnover on organizational performance and contrasts the performance of the bank with its peers.

The study employed descriptive research design and the data is collected mainly from printed financial statements of the banks. Non-financial results are also included to contrast the performance outcomes of each executive of the bank with the rest of executives of the bank and competitors those joined the banking industry at similar period. The financial results of each accounting period of the respective CEO of the bank are reproduced and presented in tabular form based on the financial indicators, such as EPS, RoA and RoE. The bank’s performance is also contrasted with Financial and non-financial achievements of its competitors, AIB S.C. and DB S.C.

This study has analyzed and discussed up on the data presented and came up with the following major findings.

- Each succeeding executive had improved the performance of the bank in his leadership period in terms of profitability indicators.
- In terms of non-financial achievements, profitability, financial resource mobilization & utilization both competitors excelled the performance of BoA significantly.
- In the regards of both profitability indicators and financial resource mobilization and utilization, the contributions of each single CEO of BoA were lower than the incumbent leaders of AIB and DB.

The study concludes within a set of recommendations for improved performances. The BoD of the bank should offer sufficient time and should not be deceived by immediate results to reduce the rate of management turnover, be responsive in the competitive banking industry and build the capacity of top management.
LIST OF ACRONYMS

AIB- Awash International Bank S.C.
ATM- Automatic Teller Machine
BoA- Bank of Abyssinia S.C.
BOD- Board of Directors
Br. Branch
CEO- Chief Executive Officer
DB- Dashen Bank S.C.
EPS- Earning Per share
NPL- Non-Performing Loans
PoS- Point of Sale
ROA- Return on Assets
ROE- Return on Equity
SALCA- Saving Account Linked to Current Account
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CHAPTER ONE
INTRODUCTION

The topics in this chapter covers issues related with top management turnover and its impact on organizational performance. The chapter includes the research question, major research objectives, methodology, and sources of data analysis, scope and limitation of the study in general.

1.1. Background of the Study

Organizations invest a lot on their managers in terms of training, developing, maintaining and retaining them in their organization since executive managers are widely believed to make a difference to the outputs and achievements of organizations. Many studies of top managers in the private sector provide evidence of their role in shaping strategies, affecting implementation, and influencing performance (Rainey and Thompson, 2006; Williams and Kellough 2006).

Top managers occupy the organizational positions with the most formal power in the organization; so when one team of top managers replace another; this should have consequences for performance.

Although, several studies have explored the relationship between top management turnover and firm performance, few have able to establish strong and direct relationship between top management turnover and firm level performance. However, Pahor, M. (2003) argues that prior evidence of management turnover shows that poor performance is associated with top executives’ turnover and that there is an inverse relationship between the probability of a CEO changing and a firm’s performance.

The overthrow of the Dergue regime in 1983 E.C. not only bought new government in to power in Ethiopia but also it introduced a shift in economy system from command to market led economic system. The economic liberalization and reform made by the then transitional government has invited private investors to participate
in any economic and commercial activity they believe is profitable. Among others, many Ethiopian entrepreneurs have decided to take the opportunity to participate in this new and un-tapped financial market. The new economic policy facilitated private banks to flourish for the last decade regardless of some difficulties. These new banks emerged strong and paid attractive profits to their share holders. Bank of Abyssinia is one of them and is also among the pioneers to enter the market as a commercial bank. It is established on February 15, 1996, 90 years after the historic but now-defunct bank. Since then, the bank has made immense effort and became one of the largest private banks in Ethiopia. Consequently, the bank has able to raise its capital to Birr 661 million and total asset to Birr 7.28 billion. Its number of shareholders and total number of employees has reached over 1,319 and 2,105 respectively. Besides, the number of branch throughout the country has reached 63 and the bank has acquired a piece of land around Mexico square to construct its 20 storey head quarter. The bank is, however, characterized by high management turnover in the industry. So far, top management turnover rate of the bank is five implying that the executive management of the bank is highly unstable when compared to that of the competitors in the industry. Hence, this study tries to explore the correlation between organizational performance and executive management turnover of Bank of Abyssinia.

1.2. Statement of the Problem

Top Management turnover is an important aspect of a firm’s governance system. When ownership and control are separated, one of the methods stakeholders use to monitor and control management is to align the manager’s incentives with firm performance. Thus, the relationship between management turnover and firm performance is a good way of assessing the effectiveness of a firm’s governance system and has been widely discussed in the literature (Engel et al., 2003; Bushman et al., 2004).
There are two views regarding the correlation of management turnover and organizational performance. One is based on the literature on the private sector, which suggests top management team turnover produces improvements in organizational performance by shaping the strategy of an organization (Boeker 1997).

On the other hand, Hannan and Freeman (1984) suggest that all organizational leadership turnover is disruptive rather than adaptive. The introduction of new members of the management team is likely to destabilize the team itself and disrupt wider organizational routines and relationships. The consequence is a reduction in organizational performance. The period before and after a succession event is widely thought to create the potential for conflict in organizations, and to distract managers and other staff from their work.

Bank of Abyssinia S.C., as one of private commercial banks in Ethiopia competing for larger market share and profitability, has gone through every possible efforts for better organizational achievements. To this effect, the bank has employed competent and qualified employees, able to expand its number of branches, acquired state of the art banking software, is undertaking construction of multi story building to house its headquarter and is introducing new products to increase its market share.

However, the bank has been lagging behind in terms of organizational achievements from other competitive banks those had similar capital and similar entrance time into the market. In those years, the bank had higher top management instability when compared to competing banks. In the last fifteen years of operation, the bank, for instance, had been run by five top management teams which are much greater than the average of peer banks. This trend of higher top management turnover, in my opinion, might contributed for lower organizational performance when compared to competitors of the bank.

Thus the research tries to find solutions to the following basic research questions.

- Does higher rate of top management turnover of BoA has contributed to low organizational performance.
- To what extent the turnover in the executive management makes a difference to organizational achievements.
• Does the turnover makes a difference to organizational achievements or it is simply replaces predecessors

1.3. Objectives of the Study

1.3.1 General Objective

General objective of this study is to explore the correlation of executive management turnover of Bank of Abyssinia S.C. and its impact on the organizational performance of the Bank.

1.3.2 Specific Objectives

This study tries to address the following specific objectives.

- Investigate the extent of the impact of top management turnover on organizational performance of the bank.
- Contrast the bank’s performance and trend of top management turnover with the peer banks average.
- Evaluate the implication of top management turnover on the overall organizational achievements.
- Evaluates the contribution of each new executive to the overall organizational performance.
1.4. Definition of Terms

Executive/Top Management – are those members of the management who are in the upper echelons of leadership roles of an organization.
Peer banks- Are those banks with similar capital and formed and entered the market within similar period of time.
Turnover – the series of activities that it takes from the employee leaving to his being replaced.

1.5. Significance of the Study

Turnover within the management team appears to be critical to successful firm functioning; most past research has concentrated solely on CEO turnover, particularly as it relates to the financial performance of the firm.
Many studies have established a link between poor performance and an increased rate of CEO turnover. Furtado and Karan (1990), in their review of the literature, conclude, however, that other factors also play major roles. Other studies have identified such contextual factors as CEO power (Allen and Panian, 1982), ownership and board of directors’ issues (Goodstein and Boeker, 1991), and sociopolitical constructs (Fredrickson, Hambrick and Baumrin, 1988) as important influences.
This paper contributes in three ways.

- First, this study shows whether the trend in executive turnover of BoA is consistent with the theories of top management turnover.
- Second, it contributes by providing additional and independent views on the relationship between top management turnover and performance when the bank makes an effort to bring stability in the management.
- Third, it will have contributions to the bank on its endeavor while investigating the root causes low level of competitiveness.
1.6. Research Design and Methodology

1.6.1. Research Design

The research design employed in this study is mainly descriptive and observational. This paper will try to trace the correlation between top management turnover and organizational performance.

Descriptive survey design helps the study to gather varieties of data to achieve the objectives of the study by describing the situation as it is. It helped in assessing the practices by addressing the size of population and describes the situation. Therefore, a descriptive survey design was found to be appropriate and relevant in investigating the correlation between executive management turnover and organizational performance of BoA. The study was an applied research as identifies problems and seeks to find possible solutions for the problem.

The survey research method also employed both qualitative and quantitative approach. This method was selected because it is planned method of data collection which helps to gather the necessary information on the issue under study. Thus, the descriptive survey method was employed to achieve the objectives of the research, since it shows prevailing conditions of particular trends. Also it is one of important tool to use quantitative approach in manageable form. The researcher is also use qualitative purposive explanation.

1.6.2. Sources of Data Collection

The variables affecting the correlation will be collected from the bank’s published and unpublished reports and therefore, the data collected is of secondary. Besides, official reports of peer banks are also utilized for comparison purpose. Qualitative performance indicators in the form of technology and fixed asset acquisition, customer base expansion and banking service diversification are considered in the survey as the indicators for the comparison made between competitive banks with BoA.
1.6.3. Methods of Data Analysis

This study will employ Microsoft Excel for manipulation purpose of financial data. Descriptive analysis of data will be presented and discussed critically. The quantitative results will be presented in tabular form and results will be interpreted properly and implications of figures obtained through data manipulation will be discussed critically.

1.7. Scope and limitation of the Study

The scope of the study is bound to the bank’s entire operational period on a year by year basis and the top management turnover during the period in question. The study, however, captures top management turnover as the major and only determinant of organizational performance. Hence, the study has limitation in explaining what significantly affects organizational performance with the absence of top management turnover.

1.8. Organization of the Research Report

This thesis is organized in the following manner: Chapter one encompasses the introductory parts and methodological subsets. This includes background of the study, statement of the problem, objectives and methods. This chapter will summarize the results/findings of the study, and interpret and/or discuss the findings. Chapter four, the last chapter, encompasses three major sections, summary of major findings, conclusions and recommendations are discussed.
CHAPTER TWO

LITERATURE REVIEW

In this chapter, views of different authors and related theories will be discussed in detail. Firstly, definitions of terms and concepts regarding the topic to be covered are stated in the following sub-chapters.

2.1. Definition

2.1.1. Top management

Before the term top management turnover can be operationalized and measured, the question has to be answered who actually belongs to the top management of a company. Researchers from the United States of America who dominate top management research offer three different definitions of who is a top manager. A first group of researchers concentrates solely on the person of the CEO when analyzing top managers (Kesner & Sebora, 1994). A second group considers the board of directors including the CEO as top management (Golden & Zajac 2001), and a third group refers to an even larger number of managers including not only the board but also senior vice presidents and executive vice presidents when defining the term top management (Tihanyi et al. 2000).

In Germany, the determination of who belongs to the top management of a company is slightly easier because of different corporate governance regulations. Studies that analyze top managers of German companies concentrate either on the “Vorstandsvorsitzender” – equivalent to the CEO – or the “Vorstand”, the so-called management board (Salomo, 2001). Which alternative is most appropriate, depends on the research question at hand. In this study, it seems to be reasonable to regard all members of the management board, the “Vorstand”, as top managers because one can
assume that all members contribute more or less equally to inefficient management or to the valuable human capital of a company respectively.

2.1.2 Turnover

Employees’ turnover is a much studied phenomenon Shaw et al. (2001). But there is no standard reason why people leave organization. Employee turnover is the rotation of workers around the labor market; between firms, jobs and occupations; and between the states of employment and unemployment (Abassi et al., 2000). Each time a position is vacated, either voluntarily or involuntarily, a new employee must be hired and trained. This replacement cycle is known as turnover. The term “turnover” is defined by Price (1977) as: the ratio of the number of organizational members who have left during the period being considered divided by the average number of people in that organization during the period. Frequently, managers refer to turnover as the entire process associated with filling a vacancy.

This term is also often utilized in efforts to measure relationships of employees in an organization as they leave, regardless of reason. “Unfolding model” of voluntary turnover represents a divergence from traditional thinking (Hom and Griffeth, 1995) by focusing more on the decisional aspect of employee turnover, in other words, showing instances of voluntary turnover as decisions to quit. Indeed, the model is based on a theory of decision making, image theory (Beach, 1990). The image theory describes the process of how individuals process information during decision making. The underlying premise of the model is that people leave organizations after they have analyzed the reasons for quitting. Beach (1990) argues that individuals seldom have the cognitive resources to systematically evaluate all incoming information, so individuals instead of simply and quickly compare incoming information to more heuristic-type decision making alternatives.
2.2 Theoretical Positions

In the literature on corporate strategy two main theoretical positions concerning the relationship between executive departure and performance can be identified. These two theoretical positions are corporate control theory and human capital theory. The major lines of reasoning of both theories are described below.

2.2.1 Corporate control theory

Corporate control theory is based on agency theory and was mainly developed by Manne in the late 1960s (Manne, 1965). The central idea of corporate control theory is that beside product, labor and capital markets there are also so called markets for corporate control. These are markets on which different management teams compete for the rights to manage the resources of companies (Jensen/Ruback, 1983). Corporate control theory argues that the market for corporate control has a disciplinary effect on top managers since it punishes chronic underperformance. Precisely, the theory claims that companies which are less successful than they could be with a better management team become an attractive acquisition target for other companies or management teams who believe that they are able to manage this company in a better way. Accordingly, companies which show a chronic underperformance are traded on the market for corporate control and face the threat of being taken over by another company. After such a takeover, the main task of the new owner then is to eliminate the causes for the acquired company’s profitability problems. In this context, the replacement of the old top management team by a better one is one of the first and most important measures. This reasoning of corporate control theory is based on the central assumption that there is a high correlation between the quality of top managers and a company’s performance (Marks, 1994).
2.2.2 Human capital theory

Human capital theory is based on the resource-based view. Thus, it also assumes that valuable resources which cannot or can hardly be imitated, substituted and transferred are the main prerequisites for a company’s success (Burmann, 2003). In contrast to the resource-based view, however, human capital theory concentrates on a specific type of resources to which it assigns an accentuated role (Eschen, 2002). This specific type of resources is human capital which comprises all individual skills, abilities and experiences of a company’s employees and managers on all levels. Different empirical studies point out that the quality of a company’s human capital is particularly relevant for its success (Fitz-enz, 2000). Skills, abilities and experiences of top managers are a particularly important type of human capital for most companies. Not only do top managers possess valuable company- and industry-specific knowledge and experiences, but they have in many cases also built up a personal network of relations to important suppliers, customers, employees and other stakeholders which is of great importance for a company’s success. Accordingly, it can be expected that executive departure has a significant impact on the development and the performance level of any company.

Precisely, human capital theory argues that managers who were very successful possess great opportunities on the executive job market. Furthermore, these successful managers are in many cases rather willing to leave the company than to follow the changed strategic direction which a new owner might want to go into.

2.3. Theoretical perspectives on top management turnover – existing evidence

The prior evidence of management turnover shows that poor performance is associated with top executives’ turnover and that there is an inverse relationship between the probability of a management changing and a firm’s performance. In studies done so far there are no “generally accepted” measures used for assessing a
company’s performance. Studies show that there is a difference in management turnover sensitivity and companies’ performances. Examining samples of American companies, Warner et al. (1988), Murphy and Zimmerman (1993), Denis and Denis (1995) conclude that a company’s performance is significantly related to the probability of management turnover. On a sample of Danish companies, Mette Lausten (2002) concludes there is an inverse relationship between management turnover and a company’s performance. Giorgio Brunello et al. (2002) and Kaplan (1994) on the sample of Italian and German companies came to almost the same conclusions. Kiang and Shivadasani (1995) and Kaplan (1994) analyzed the probability of management turnover and company performance on a sample of Japanese companies. In both studies they found there is no significant relationship between the two variables in the present time period, however there is a negative relationship between delayed results in company performance and management turnover.

2.4. Factors that influence top management turnover

A. Ownership concentration - influences management turnover and the efficiency of a company’s performance. Concentrated ownership should provide efficient management control, maximization of shareholders’ interests and an availability of external sources for the company’s financing (Shleifer and Vishny, 1997). Berle and Means (1982) say controlling block holders are more efficient monitors of a company’s performance than a large number of stockholders. So the probability of turnover in the case of concentrated ownership is higher and opposite. However, when the controlling block holder’s share is high enough this enables the stockholder to exert a direct influence on the decision-making process leading to the possibility of the expropriation of the company’s assets and reduced company performance. In the case of dispersed ownership, the question of management control arises.

The probability of managers being replaced is also influenced by the owner’s identity. The possibility of executive managers’ turnover is positively related to the presence
of the external owners (Denis et al., 1997). These results point out those external owners are better controllers than internal owners, especially managers. Denis et al., (1997) concluded that management ownership is a structured endogen with the aim of efficient internal control in the company. Management ownership increases the defensive behavior of management because of the turnover threat, especially when an incompetent manager is in a leading position in the company. Denis et al. (1997) found a negative relationship between management turnover and management ownership in a company. The authors found that sensitivity to management turnover is inversely related to management’s ownership share in the company. Contrary to these results, in his research Weisbach (1988) could not confirm the relationship between management ownership and the probability of turnover. Within corporate government theory different theories have been formed on the influence of the ownership structure on a company’s performance. Concerning the Jensen hypothesis on the convergence of interest, managerial shareholding helps align the interests of shareholders and managers (principals and agents). In regard to this hypothesis, as the proportion of managerial equity increases the company’s performance improves as well (Jensen, 1983). De Angelo and De Angelo (1985) also found that it is reasonable for owners to motivate the managers. They should invest in the company and become company stakeholders.

**B. Ownership change** - is usually connected with management turnover. In these cases there is a higher probability that the management turnover is not connected with the poor performance of the company but is caused by the ownership change (hostile or friendly takeover). Empirical researches (Holderness and Sheeham, 1985) show that the probability of management turnover rises after a company has been taken over.

Further, the probability of management turnover is influenced by the structure and size of the Supervisory Board. The structure and function of Supervisory Boards differs significantly between countries. Some countries have introduced a one-tier corporate governance system; others have a two-tier one, while still others have introduced both systems of corporate governance. The difference between the two systems lies in the forming of an intermediate body (Supervisory Board) between the
shareholders (the Shareholders Assembly) and the management (Management Board) in the two-tier corporate governance system. In the one-tier corporate governance system the Management Board is appointed by representatives of the shareholders and members of the Management Board. In a two-tiered system the Supervisory Board represents shareholders’ interests and its main roles are to control and appoint the Management Board. The one-tier system is found in most developed countries (Great Britain, the USA, Belgium, France, Italy etc), while the two-tiered system we can be found for example in Germany and the Netherlands. Because of differences in the corporate governance systems it is very hard to generalize the significance of the Supervisory Board’s composition and size for management turnover.

The connection between management turnover and a company’s performance depends on the capabilities of the supervisor to evaluate the managers’ performance. Theoretical and empirical literature mostly focuses on (researches into) questions connected with the Supervisory Board’s composition, specifically the share of internal and external members on the board of directors in the one-tier system and the share of employees and owners on the Supervisory Board in the two-tier system. Besides that, factors influencing management turnover are the role and size of the Supervisory Board; the number of independent members on the board of directors and the way members are selected.

**C. The composition of the Supervisory Board or board of directors** - has a significant influence on reducing agency costs. A greater share of external members on the Supervisory Board (especially in the one-tier corporate governance system) increases the supervision of a company’s performance. External members contribute to company performance through their expert evaluation of strategic decisions (Byrd and Hackman, 1992; Lee et al., 1992) and through efficient Management Board monitoring (Weisbach, 1988). Wiesbach on a sample of American companies found that the probability of management turnover and companies’ performance is more significant if there is a majority of outside experts on the board of directors. Borokovich concluded similarly to Weisbach. It is common for insiders to be linked with the current management and their business policy and this makes them poor monitors (Conyon, 1998). Jensen, on the other hand, asks the question of external
experts’ efficient control if we consider that managers do not usually share all information with the monitors.

After privatization in Slovenia most firms opted to form a joint-stock firm and introduced the two-tier system of governance with a Supervisory Board, composed of representatives of the owners (shareholders) and employees. Prasnikar and Gregoric (2002) found that the presence of employees on the Supervisory Board erodes the power of management to introduce a growth strategy and to internationalize the company.

With regard to the influence of the Supervisory Board’s size on a company’s performance, the researchers conducted so far yield different results. Some claim that a smaller Supervisory Board (or board of directors) is more efficient (Lipton and Lorsch, 1992)

Another question arising here is the method of selecting Supervisory Board (board of directors) members. In the majority of European countries the controlling block holders are in charge of selecting Supervisory Board members because they are further representing their interests. The influence of the Supervisory Board’s composition on management turnover is similar in this case to the influence of the ownership structure. In the USA external members of the board of directors are usually selected on the basis of management’s recommendations (Hart, 1995).

**D. Management’s characteristics** - have a significant influence on the probability of management turnover. There is no theoretical background that can shed light on the relationship between management’s tenure and the probability of management turnover. Empirical results differ; some authors claim that among the variables there is a significant negative relationship (Puffer and Weintrop, 1991) whereas others claim there is no significant relationship (Kim, 1993) or that the relationship is significant and negative (Dennis et al. 1997).

The second characteristic that influences management turnover is managers’ age. The probability of management turnover grows and is very high among managers aged between 60 and 65 years of age. The reason for management turnover here is mainly a manager’s retirement and not company performance. Jensen and Murphy (1990) confirming the hypothesis that the probability of management turning over because of
poor company performance increases among younger managers. According to them, it is harder to replace older managers in their position because they are waiting to retire.

**E. Debt** - is another mechanism of management control, especially in companies with a dispersed ownership structure (Hart, 1995). The management-creditor relationship often leads to the moral hazard problem. Creditors’ power to influence business decisions in the company arises from the many controllers’ rights belonging to them when the company does not fulfill all of its responsibilities. In extraordinary cases when a company goes into bankruptcy, control is transferred from the owners to the creditors. High business risk and low liquidity raise the probability of a company going into bankruptcy, which in the end leads to management turnover. Empirical studies confirm the significance of indebtedness as a variable that influences management turnover. Numerous studies (Hotchkiss, 1995) have shown that among bankrupt companies the management turnover rate is high.

### 2.5. Factors affecting the organizational performance resulting from executive turnover

The process of top management succession is an adaptive event that can be affected by the broad environmental and organizational context. In this research, we take the view that organizations are open systems that can be influenced by the external environments while being constrained by internal structures and other organizational characteristics. These factors are addressed in the following sub sections.

#### 2.5.1. Open system

Following many other organizational scholars, interdependencies, and contingencies in the organizational environment can affect not only the operation of the organization but also the distribution of power and control within the organization, which in turn can influence top management successions (Pfeffer & Salancik, 1978).
With this open system’s perspective, the top management succession is no longer an isolated event but a dynamic and complex organizational decision process that can be subject to the influences of not only the external environment but also the internal organizational characteristics. Therefore, to fully understand the impact of top management succession on organizational performance, we need to consider the broad organizational and environmental context.

### 2.5.2. Industry environment

Organizations are open systems and they operate in industry environments that can affect organizations’ operations or even survival (Milliken, 1990). Whereas there are multiple characteristics of the industry environment that can affect how organizations respond, one of the most fundamental dimensions has always been whether an industry environment is predictable or unpredictable (Lin & Carley, 1997). A predictable environment features situations where there can be very stable and concentrated customer demands. Organizations can largely rely on institutionalized procedures to deal with organizational problems. As a result, the role of top management may be limited and so the top management succession may not benefit organizational performance.

On the other hand, an unpredictable environment features unstable and diverse customer demands, which requires more incremental adaptation by the organization and more individual expertise to tackle the problems (Virany et al., 1992). As a result, top management successions in this environment may have more impact on organizational performance.

Scholars of top management succession have long emphasized the importance of understanding environmental conditions (Virany et al., 1992). Tushman and Rosenkopf (1996), for example, have conducted studies on how turbulent and stable environmental contexts may affect the performance outcomes of executive team changes. Specifically, they found that reorganizations at the top level are negatively
associated with subsequent performance in stable environments but positively associated with subsequent performance in turbulent environments.

### 2.5.3 Organizational Structure

Organizations use structures to coordinate members’ activities and exert controls (Coleman, 1990). Although some prior studies on top management succession have discussed limited organizational factors such as size and board composition (Goodstein & Boeker, 1991), very few have looked beyond the top management position to examine the broader governance structure of a firm. As a result, most studies on top management succession have virtually treated the organization as a black box, with little or no internal structures’ being systematically explored.

Although there are different forms of organizational structures (Lin & Carley, 1997), it is feasible to limit ourselves to the study of hierarchy versus team structures because the two forms of structures are not only the most studied in management research but also represent the two ends of the structural spectrum. These two structures should pose different challenges to top management succession, even though literature has been scarce in that regard (Lin & Hui, 1999). A hierarchy structure has generally been regarded as one that is based on the premise that individuals’ actions should bear limited impact on organizations (Mackenzie, 1978). As institutional theorists believe, organizations design hierarchy structures to limit members’ roles and reduce individual members’ information processing load so that the reliance on individuals including top managers can be minimized (Powell & DiMaggio, 1991). Therefore, there should be little performance effect due to top management changes.

On the other hand, there are suggestions that a team structure may also limit the impact of top management succession, as a team structure is formed on the concept of consensus building, power sharing, and member versatility (Janis, 1982). As a result, an individual member’s turnover may have little impact on the organization as a whole.
2.5.4. Succession type

Researchers have also shown a great interest in two main types of top management successions: internal promotions and external hirings. Numerous studies have underscored the different characteristics for the two types of successions and explored the antecedents to such successions at the top management level (Zajac, 1990). Their focus, however, has mostly been on the organizational causes of top management successions for triggering different types of successions (Dalton & Kesner, 1985; Worrell et al., 1988). Oftentimes, the impact of such successions on organizational performance is largely unattended.

Research in this area has suggested that organizations hoping for much better performance tend to go for external hiring because such a move is expected to bring more dramatic changes in overcoming organizational inertia (White et al., 1997). Some researchers seemed to have confirmed such an assertion in their studies of organizations with a poor initial state (Cannella & Lubatkin, 1993). However, other studies have shown that oftentimes, organizations take such dramatic approaches not for the performance sake but for symbolic reasons such as finding scapegoats (Boeker, 1992) or appeasing stockholders (Worrell et al., 1993). Their argument, based on power and politics, suggests that top management succession is more a political process than an organizational process for performance improvement. Others have also questioned the effectiveness of external hirings as they suggest that an external successor’s different industry background may impede the potential improvement of organizational performance (Guthrie & Datta, 1997). As a result, internal promotions may in general be more beneficial to the organizational performance than external hiring. (Worrell et al., 1993).

2.5.5. Organizational age

Another important aspect that is often being overlooked in studies of top management succession is the age of the organization. Prior findings from other organizational fields may be helpful for better understanding the issue of top management succession. Population ecologists, for example, have frequently alerted our attention
to the importance of organizational age through such issues as organizational newness and mortality (Carroll, 1984). From the perspective that organizations are adaptive systems, we take the position that age is a strong indicator of the accumulated experience and is highly important to organizations (Lant & Mezias, 1992). We believe top management successions are about the replacement of experiences, whether old or new. Some prior studies have shown the effect of organizational age in the process of organizational changes (Carroll, 1984). One study, for example, has found that the effect of top management successions may be more apparent and positive on young organizations (Greiner and Bhambri, 1989). On the other hand, for more mature organizations, which tend to be more institutionalized and more legitimized with a better track record, top management successions may have little or even negative effect on organizational performance (Hannan & Freeman, 1984).

2.5.6. Organizational decision making performance

Organizational performance has been represented by a wide range of indicators. Research has shown that it is impossible to obtain the best or sufficient indicator of organizational performance (Kahn, 1977) and that whether an organization is said to be effective depends on “the purposes and constraints placed on the organizational effectiveness investigation” (Cameron, 1986). The view of organizational performance from a decision making or problem solving aspect is consistent with the open system’s perspective of organizations that emphasizes information processing and problem solving (Hall, 1991). The importance of decision making cannot be overemphasized. Simon (1973) claims decision making to be the “heart of organizations.” Price (1968) regards decision making “the necessity in all organizations.” Scott (1987) also considers decision making the basic operation of an organization. Although we understand that organizations may have different performance criteria depending on the nature of their existence, it is our belief that to achieve any kind of success, organizations must make good decisions. How well an organization makes its decisions thus becomes the center of organizational performance.
2.6. The Turnover Literature Perspective

2.6.1. The benefits of Retention

The traditional assumption has been that turnover is an undesirable outcome to be avoided. This view is based on the significant costs associated with an employee quitting, costs that include lost productivity on the part of the departing employee (reduced productivity while his or her attention is diverted to searching for a job, lost labor during the period between the time the individual quits and a replacement is hired, and reduced productivity of the new hire while learning the job), recruiting costs involved in finding a replacement, and likely reduced productivity of co-workers who need to fill in for the departing individual as well as spend time mentoring his or her replacement. Estimates of these direct costs range from 90% to 200% of the departing employee’s salary (Cascio & Boudreau, 2008).

These direct costs are likely to be significant higher for the departure of a CEO, or for other members of the top management team (Gibelman & Gelman, 2002); estimates range as high as a rather incredible estimate of 40 times base salary for executives earning $100,000 - $250,000 (Downey et al., 2001). Lost productivity of the top executive is likely to be much harder to cover with organizational slack; indeed, the departure of a CEO may be perceived by competitors as a period of vulnerability to be exploited aggressively (Khaliq et al., 2006). Salaries of replacement executives—particularly if they come from outside the organization—are often significantly higher than that of the departing leader. Recruitment costs—often involving search firms and an extensive time commitment of remaining members of the executive team—are likely to be orders of magnitude higher than for lower level employees, and the time required to find a replacement may be significant. And in many cases the departure of an executive, especially if it is involuntary, involves golden parachute packages that can dwarf the direct costs of replacing the individual.
**Benefits of retention from the Human Capital Perspective**

More recent theory and research have focused less on the direct costs of replacement, directing their attention instead to the loss of human capital caused by turnover. This includes both “general” human capitals that can readily be transferred across jobs or organizations and “specific” human capital, which include formal training as well as tacit knowledge that is more or less unique to a particular setting. Specific human capital implies an investment—by both the employee and the organization—in learning the practices of the employing organization. Executives are likely to be particularly high in general human capital value relative to others in the organization (and relative to those included in most studies of turnover); depending on their tenure with the organization or industry, this may or may not be true of their specific human capital. For example, retaining longer-tenured executives (with greater specific human capital) in acquired firms may increase the likelihood that the acquisition will be successful (Bergh, 2001) because of the tacit knowledge that the experienced executives bring to bear.

Dess and Shaw (2001), among others, have also addressed the social capital costs of turnover. Organizations are characterized by rich social networks, in which who you know is as important as what you know, and in which the departure of key players may have a crippling effect on a wide range of interdependent groups. Executives often play a linking-pin role in a wide array of such groups, so that their leaving can result in significant gaps in a series of networks. Compounding this factor is a phenomenon of “cluster,” or social network, turnover. Krackhardt and Porter (1986) first referred to this phenomenon as a “snowball” effect in their discovery that communication networks among fast-food employees predicted clusters of employee movement from one employer to another.

This snowball effect is at least as applicable in the executive suite, as a number of studies have shown that departure of a CEO influences turnover of other members of the top management team (Khaliq et al., 2006). In some cases this may be a matter of the other executives finding it an opportune time to explore their own options, particularly if they feel they were overlooked in the choice of a successor or don’t
feel comfortable with the direction or personality of the new leader. This effect may be enhanced by competing organizations seeing the loss of a CEO as an opportunity to “raid” key executives (Khaliq et al., 2006). In other cases, the collateral turnover may be more direct, when the departing executive brings along a number of trusted lieutenants to the new employer. In either case, the loss of a key executive may represent the loss of a whole executive team; under these circumstances, retention efforts directed at those likely to leave with the targeted executive may be as important—and more likely to pay off—as attempts to keep the executive.

2.6.2. The Benefits of Turnover: A Contrarian View

As significant as these costs are likely to be, a number of researchers have made the case that turnover is not necessarily dysfunctional for the employing organization. Dan Dalton and his colleagues (Dalton, Krackhardt, & Porter, 1981) suggested that turnover can be beneficial to the extent that it results in the departure of unproductive employees. This “functional turnover” can occur with both voluntary and involuntary turnover, whereas dysfunctional turnover (the departure of valued or hard to replace employees) presumably occurs only through voluntary turnover. This functional/dysfunctional distinction was later modified by adding a consideration of whether the turnover is avoidable or uncontrollable (Dalton et al., 1981). In many cases—such as when employees quit because of health issues, family commitments, or to pursue educational opportunities—the employer has limited ability to control the “voluntary” turnover. There is no reason to try to reduce functional turnover, and little ability to reduce uncontrollable turnover, so in evaluating retention programs, they argued that the focus should be on avoidable, dysfunctional turnover. Dalton and his colleagues followed up their theoretical articles with an empirical study of bank employees that found that 71% of the turnover was actually functional, and that 52% was unavoidable (Dalton, Krackhardt, & Porter, 1981). While their study was not of executives, their arguments regarding the possible functional consequences of turnover are particularly relevant for top managers. Aside from the removal of mis-matched (and likely underperforming) employees, turnover can also
have the effect of bringing in fresh perspectives and innovative. This “new blood hypothesis” may be especially relevant to organizational leaders; a number of studies have shown that as executives remain in their roles they tend to become more rigid and resistant to change and to support existing policies and procedures even when they are no longer effective (Hambrick & Fukutomi, 1991). Turnover of this “deadwood” may be quite beneficial to the firm.

2.7 Top Management Turnover and Organizational Performance

Senior officials are widely believed to make a difference to the outputs and achievements of organizations. Many studies of top managers in the private sector provide evidence of their role in shaping strategies, affecting implementation, and influencing performance (Boyne 2004; Hill 2005; Meier and O’Toole 2002; Williams and Kellough 2006). Although much attention has been devoted to the impact of individual chief executives, little research has examined the impact of the senior managers who occupy the top posts and form the team of key decision-makers in an organization. We ask whether the extent of turnover in the top management team makes a difference to organizational achievements or simply replaces those in the most senior positions with a similar group of people who have much the same impact as their predecessors. Very few studies examine the effects of staff turnover on the success or failure of an organization, let alone the effects of top management turnover. As Meier and Hicklin (2008) note, “examining the relationship between turnover and performance at the organizational level is in its infancy”.

So why should managerial replacement matter? There are two schools of thought. One is based on the literature on the private sector, which suggests top management team turnover produces improvements in organizational performance by shaping the strategy of an organization (Boeker, 1997). The strategy of an organization affects its performance. Moreover, the classic version of the upper echelons argument (Hambrick and Mason 1984) suggests that senior management teams are crucial determinants of organizational performance even where there are external constraints
on strategic change. This view is widely supported by studies of top management teams in the private sector (Certo et al. 2006). According to Hambrick and Mason (1984), “organizational outcomes – both strategies and effectiveness – are reflections of the values and cognitive biases of powerful actors in the organization”. Top managers occupy the organizational positions with the most formal power in the organization; so when one set of top managers replace another; this should have consequences for performance. The upper echelons model implies that a new management team might be expected to make a positive difference to performance by bringing new ideas and a better fit with the political and socio-economic environment.

On the other hand, Hannan and Freeman (1984) suggest that all organizational change, including leadership turnover, is disruptive rather than adaptive. The introduction of new members of the management team is likely to destabilize the team itself and disrupt wider organizational routines and relationships. The consequence is a reduction in organizational performance. The period before and after a succession event is widely thought to create the potential for conflict in organizations, and to distract managers and other staff from their work.

In addition, external partners and funders may be reluctant to provide support until the preferences and strategies of the new incumbents become clear, which may further destabilize internal operations. The outcome is that performance falls, which makes it even harder for the new top managers to rescue the organization from the downward spiral induced by conflict and uncertainty.

Neither of these conventional perspectives, however, takes the level of performance prior to top team turnover into account, despite previous performance often being the most important predictor of current performance (Meier and O’Toole 2002).
2.8- How top management turnover affects the performance of organizations

The operations of many organizations are directed by a top management team which is in turn led by a chief executive. Much discussion understandably focuses on the role of the chief executive, through the focus on incoming leaders who are often seen as the new brooms. Studies that go beyond a focus on the chief executive implicitly accept that leadership in organizations is distributed rather than concentrated in a single individual (Carson et al. 2007; Lawler 2008). A concerted effort by the whole senior management team is likely to be required to effect change across organizational departments and sub-units with different values and professional norms. Chief executives typically have roles that take them away from direct control over the bureaucracy, in particular dealing with external constituencies. Members of the top management team on the other hand have responsibility for the delivery of services and hence have a direct influence on performance.

So the senior managers matter. But in what way do they matter and with what implications for performance? The literature on private-sector organizations contains mixed results, with some evidence suggesting a positive effect of top management team turnover.

Looking at a cross-sectional sample of Fortune 500 companies, Davidson, Worrell, and Cheng (1990) find that turnover at the top is associated with positive market reactions. However, other evidence suggests the opposite. Kacmar et al. (2006) find that increases in managerial turnover in a fast food chain are related to reductions in performance (both directly and through concomitant increases in staff turnover) due to the learning costs of the new managers, though it should be noted that this refers to operational rather than top managers. Similarly, Shen and Cannella (2002) find that the turnover of senior executives has a negative effect on return on assets in a sample of 228 companies. Another study (Warner, Watts, and Wruck 1988) concludes there is no evidence of a relationship between top management change and subsequent stock performance. Thus the available evidence on private firms is a mix of positive, negative and insignificant effects of top management team turnover. None of these
studies, however, takes the potentially moderating effect of baseline performance into account.

The disruption induced by the departure of specialists among the top management could lead to a drop in organizational performance (Hill 2005). It is also possible that such changes are largely ritual, for scapegoating purposes or to demonstrate the organization’s agility with stakeholders, but without a performance effect. The causal mechanism is the way in which existing bureaucrats use their experience and knowledge of ‘where the bodies are buried’ to ensure the organization maintains or improves upon existing levels of performance. A new management team may not have immediate access the informal networks within organizations and cannot rely on top-down command and control strategies. It is therefore possible that— contrary to the dictates of the New Management—stability, including top team stability, is a source of good organizational performance. There is evidence in accordance with this point of view in research on school superintendents (O’Toole and Meier 2003, Hill 2005). Rather than coming to a theoretical impasse, it is possible to argue that the effects of top management team turnover are positive or negative depending on organizational circumstances.

This view draws directly on contingency theory, which suggests that managerial effects on performance vary with environmental and organizational contexts (Donaldson 1996). In particular, turnover may have very different consequences depending on whether the organization is already performing well or poorly. For high performing organizations, turnover can be damaging, creating change when the organization has learnt to play the game and losing key personnel who created the success in the first place. The new person or team in post has much to learn and a lot to lose, and the disruption may cause the beginnings of a downward spiral, such as loss of staff and reputation, which feed back to push performance downwards.

Similarly, the top management team in an organization that is performing poorly may lack the inclination, skills or support to achieve higher performance. In this case, new blood in the top team may be required to reinvigorate the organization and improve the standard of its services. This view is consistent with research on organizational
turnaround that finds new leadership to be an important component of recovery from failure (Boyne and Meier 2009b).

Top managers in failing organizations may suffer from ‘threat-rigidity’—a loss of the ability to adjust their decisions to deal flexibly with a crisis and be unable or unwilling to pursue the new strategies that are required to improve performance (Hambrick and D’Avenni 1992). New senior appointments, on the other hand, are free of the shackles of the past strategies that have led to poor performance, and are more likely than their predecessors to scan the environment for new ideas and opportunities (Cho 2006). For these reasons we hypothesize that management team turnover does affect performance per se, but can improve the performance of poor performers and depress that of high performers. In other words, prior performance levels moderate the effects of top team turnover on subsequent performance changes.

There are other researchers who have shown interest in the effect of top management succession on organizations, although mostly through market and shareholders reactions such as stock prices (Davidson et al., 1993). In this study we are interested in the impact of top management turnover on organizational performance.

Research on the impact of top management turnover on organizations has provided some fragmented and even inconsistent views (Dalton & Kesner, 1994). The first view believes that a top manager is vital to an organization’s success and that top management successions can bring positive changes to organizations. Scholars of this view have generally regarded top management succession as an adaptive process that is necessary for a successful organization (Dalton & Kesner, 1994). They argue that top management successions can reduce conflict and provide a conduit for external information, which enables an organization to become better attuned to environmental demands (Tushman,&Romanelli, 1992) or to signal its intentions to change. Some of the studies have even shown that up to 40% of the variance of organizational performance can be explained by such leader changes (Day & Lord, 1988). Some other studies, however, have found that top management successions have had no effect on organizational performance (Samuelson, Galbraith, & McGuire, 1985). As some researchers have suggested, there may be a null relationship between succession and organizational performance (Haveman, 1993).
Two reasons have been put forward. The first reason focuses on the internal inertia of organizations, in that organizations are often under their environmental and institutional constraints and so executive actions may be limited and managerial impact minimized (1984; White, Smith, & Barnett, 1997). Scholars of this view have frequently found a lack of empirical support for the impact of top management succession on organizations (Cannella & Lubatkin, 1993). The second reason argues that the top management succession process is relatively non adaptive because of the large number of persons and their vested interests involved (Hannan & Freeman, 1984,. Even though environment may be dynamic, organizations, particularly the large ones, tend to resist change, due to self-interests of the parties involved, organizational politics such as scapegoating and power distribution (Ocasio, 1994).

Then, there is the vicious circle view, which believes that top management changes can only add disruptions to the organization, thus worsening the performance (Cannella & Lubatkin, 1993;). For example, Friedman and Singh (1989) have suggested that top management succession may result in two types of disruptions: destroying the fit between the organization and its environment and disrupting its internal authority structure. Both disruptions are believed to decrease organizational performance.
CHAPTER THREE
DATA PRESENTATION, ANALYSIS AND INTERPRETATION

In this chapter relevant data extracted from the financial reports of Bank of Abyssinia throughout the operational period will be examined and interpreted. Financial and non-financial achievements will be contrasted against the financial and non-financial performance of BoA and results obtained in due-course will be analyzed and interpreted. In this chapter sub sections are apportioned to introduce each member of the peer banks briefly.

3.1. Top management turnover

Before the term top management turnover can be operationalized and measured the question has to be answered who actually belongs to the top management of a Bank of Abyssinia. According to Tihanyi et al. (2000), researchers from the United States of America who dominate top management research offer three different definitions of who a top manager is. A first group of researchers concentrates solely on the person of the CEO when analyzing top managers. A second group considers the board of directors including the CEO as top management, and a third group refers to an even larger number of managers including not only the board but also senior vice presidents and executive vice presidents when defining the term top management.

In this research document, definition of first group of researchers’ is applied. This is due to the fact that views of second group and third group deem to include board of directors when defining top management while the Board of directors do not involve in making of decision in the day to day operations of the bank and they represent the share holders elected by the general assembly to serve for a fixed term only too. Hence, in this work, the term top management mainly refers only to the president of Bank of Abyssinia Share Company.
3.2. Data Presentation

In order to actually measure top management turnover of the bank, first, the service period of each member of the management group is determined and presented with respective financial results. In the second step, the financial results obtained during the headship period of each top management member will be compared with its predecessor and successor at organizational level. Besides, trends of financial results of peer commercial banks which have a relatively stable top management will be in use to serve as an industry indicator.

3.2.1. Financial analysis of the respective CEO’s leadership period

The presentation of the results of this study starts with a brief descriptive analysis of the financial results of each CEO according to their respective leadership period in the Bank of Abyssinia. Special attention will be devoted to the success in accounting-based performance measures – precisely, return on assets (ROA), return on equity (ROE) and Earning per Share (EPS). The main advantage of these measures is that the necessary accounting data is publicly available and that the return ratios are easy to calculate. After this descriptive overview the relationship between top management turnover and performance will be analyzed in more detail. In the following sections the summarized results obtained from financial statements of the bank will be presented.

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets</th>
<th>Loans</th>
<th>Deposits</th>
<th>Capital</th>
<th>Profit B. Tax</th>
<th>Net Profit</th>
<th>EPS</th>
<th>ROA</th>
<th>ROE</th>
<th>No. Brs</th>
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<tbody>
<tr>
<td>1998</td>
<td>206.44</td>
<td>103.36</td>
<td>150.96</td>
<td>26.83</td>
<td>2.57</td>
<td>1.58</td>
<td>0.21</td>
<td>0.01</td>
<td>0.06</td>
<td>2</td>
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<tr>
<td>1999</td>
<td>387.65</td>
<td>256.22</td>
<td>294.17</td>
<td>38.83</td>
<td>11.89</td>
<td>6.51</td>
<td>0.21</td>
<td>0.02</td>
<td>0.07</td>
<td>5</td>
</tr>
<tr>
<td>2000</td>
<td>717.56</td>
<td>521.54</td>
<td>481.94</td>
<td>123.46</td>
<td>21.13</td>
<td>12.28</td>
<td>0.18</td>
<td>0.02</td>
<td>0.10</td>
<td>8</td>
</tr>
<tr>
<td>2001</td>
<td>897.29</td>
<td>686.91</td>
<td>651.82</td>
<td>147.12</td>
<td>35.91</td>
<td>19.6</td>
<td>0.17</td>
<td>0.02</td>
<td>0.13</td>
<td>8</td>
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<tr>
<td>2002</td>
<td>1142.85</td>
<td>669.54</td>
<td>909.56</td>
<td>140.71</td>
<td>7.21</td>
<td>-2.38</td>
<td>-0.02</td>
<td>0</td>
<td>-0.02</td>
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<td></td>
<td></td>
<td>7.518</td>
<td>0.15</td>
<td>0.014</td>
<td>0.07</td>
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Source: Annual Reports of BoA
The bank was established in February 1996 G.C. and the financial statement produced for the period June 30, 1997 contained financial results of the additional four months of the previous year. Hence, for the sake of uniformity in comparison, since the financial results of the budget year include four months of the previous year, this study did not account for the financial results of June 30, 1997.

CEO 1 was in charge of the bank since establishment of the bank until he left in the year 2002. The bank has been led by five CEO’s for the last fifteen years and he was the only executive to serve the bank for more than five years so far. The financial statements were reproduced to capture accounting based performance results. Shareholders of Bank of Abyssinia were earning an average of Birr 1.50 for every Birr 100 they have invested on the bank during the year 1998 through 2002. CEO 1 had led the bank with consistently increasing Profitability for four years in a row and registered an average ROA of 10% and ROE of 9%. During his last three years of management of the bank, EPS showed declining trend and went negative on the last year. ROA and ROE also declined for the last two years of the same period. The bank incurred loss of Birr 2.38 million in the ending years of leadership of CEO 1 whereas loss was uncommon in the industry. CEO 1 had departed following the declining financial results during the last years of his leadership.

<table>
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<tr>
<th>Year</th>
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<th>ROA</th>
<th>ROE</th>
<th>No. Brs</th>
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<td>809.21</td>
<td>1076.17</td>
<td>148.71</td>
<td>7.64</td>
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<td>4.15</td>
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<td>2004</td>
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<td>962.4</td>
<td>1275.19</td>
<td>192.37</td>
<td>54.44</td>
<td>38.24</td>
<td>28.43</td>
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<td>0.2</td>
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<td>1234.46</td>
<td>1627.63</td>
<td>253.23</td>
<td>82.04</td>
<td>61.06</td>
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<td></td>
<td>104.71</td>
<td>72.9</td>
<td>0.05</td>
<td>0.48</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>34.90</td>
<td>24.3</td>
<td>0.017</td>
<td>0.16</td>
<td></td>
</tr>
</tbody>
</table>

Source: Annual Reports of BoA

CEO 2 took over the seating in the year 2003 from his predecessor and stayed in office until 2005. In his first year of the position, he had pulled off the bank from loss and registered profit of Birr 5.41 million. Accordingly, EPS had significantly increased to reach Birr 40.3 per share and paying EPS of Birr 24.3 for share holders.
of the bank for the three years he had served. ROA and ROE of the bank has almost doubled when compared to the performance of his predecessor reaching an average of 20% and 16% respectively.

Table III – The performance indicators of CEO three

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets</th>
<th>Loans</th>
<th>Deposits</th>
<th>Capital</th>
<th>Profit B. Tax</th>
<th>Net Profit</th>
<th>EPS</th>
<th>ROA</th>
<th>ROE</th>
<th>No. Brs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>3014.06</td>
<td>1962.51</td>
<td>2176.89</td>
<td>401.62</td>
<td>122.92</td>
<td>87.28</td>
<td>43.02</td>
<td>0.03</td>
<td>0.22</td>
<td>26</td>
</tr>
<tr>
<td>2007</td>
<td>3577.96</td>
<td>2305.15</td>
<td>2721.33</td>
<td>402.75</td>
<td>94.98</td>
<td>66.3</td>
<td>25.02</td>
<td>0.02</td>
<td>0.16</td>
<td>29</td>
</tr>
<tr>
<td>2008</td>
<td>4269.95</td>
<td>2817.15</td>
<td>3477.77</td>
<td>420.08</td>
<td>21.91</td>
<td>16.66</td>
<td>5.79</td>
<td>0</td>
<td>0.04</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>170.2</td>
<td>73.8</td>
<td>0.1</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>56.75</td>
<td>24.61</td>
<td>0.02</td>
<td>0.14</td>
<td></td>
</tr>
</tbody>
</table>

Source: Annual Reports of BoA

Following the departure of CEO two the Board of directors of the bank had decided to promote the third CEO from the internal source. Consequently, the third CEO has taken the responsibility to lead the bank and she was able to maintain the profitability of the bank throughout the years she had been in the office. Even though deteriorating, EPS of the bank had also showed positive trend with an average of 24.61 Birr for an investment on share values of every Birr 100. Consequently, ROA and ROE too have declined steadily but remained positive throughout the threes’ chairmanship of the bank. Return on assets and return of equity of the bank has averaged at 2% and 14% respectively.

Table IV – The performance indicators of CEO four

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets</th>
<th>Loans</th>
<th>Deposits</th>
<th>Capital</th>
<th>Profit B. Tax</th>
<th>Net Profit</th>
<th>EPS</th>
<th>ROA</th>
<th>ROE</th>
<th>No. Brs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>5476.54</td>
<td>2708.97</td>
<td>4494.19</td>
<td>519.23</td>
<td>145.39</td>
<td>100.37</td>
<td>32.09</td>
<td>0.02</td>
<td>0.19</td>
<td>46</td>
</tr>
</tbody>
</table>

Source: Annual Report of BoA

CEO Four was the short-lived ever CEO of the bank. He has been assigned as interim president and served for about one year after the departure of CEO three. It is evident that, CEO Four has led the bank to revival from declining trend of the bank’s profitability. In his leadership spell, the bank has registered a record profit of more than Birr one hundred million for the first time in the last twelve years. Besides,
Earning per share has climbed to Birr 32.09 per every share values of Birr one hundred. ROA and ROE also had increased by 20% and 15% when compared to the performance of CEO three to reach 20% and 19% respectively. CEO four has resigned the bank before realizing the chairmanship permanently.

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets</th>
<th>Loans</th>
<th>Deposits</th>
<th>Capital</th>
<th>Profit B.</th>
<th>Net Profit</th>
<th>EPS</th>
<th>ROA</th>
<th>ROE</th>
<th>No. Brs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>6279.54</td>
<td>3153.24</td>
<td>5138.85</td>
<td>585.49</td>
<td>196.34</td>
<td>140.58</td>
<td>44.71</td>
<td>0.02</td>
<td>0.24</td>
<td>48</td>
</tr>
<tr>
<td>2011</td>
<td>7296.56</td>
<td>3315.69</td>
<td>6075.26</td>
<td>660.76</td>
<td>258.38</td>
<td>178.44</td>
<td>56.65</td>
<td>0.02</td>
<td>0.27</td>
<td>55</td>
</tr>
<tr>
<td>2012</td>
<td>8239.51</td>
<td>3897.41</td>
<td>6771.25</td>
<td>906.59</td>
<td>288.58</td>
<td>215.77</td>
<td>54.36</td>
<td>0.03</td>
<td>0.24</td>
<td>63</td>
</tr>
</tbody>
</table>

Average: 178.27 51.91 0.02 0.25

Source: Annual Reports of BoA

CEO Five not only has maintained the profitability trend but also furthered it to a profit of Birr 215.77 million during the accounting year 2012. CEO five is the one who stand still in the office and he has the possibility to become the first CEO after CEO one to stay in office for more than three years.

For the last four consecutive years profitability of the bank has increased without fail. The average profit the bank earned during the leadership of CEO five is Birr 178.26, the highest ever when compared to the rest of the leaders of the bank. The shareholders have also earned EPS of Birr 51.91 for every Birr 100 investment on the shares of the bank. EPS for the year 2012 has, however, had showed a slight decline when compared to the performance of the year ahead of it.

Return on Assets remained unchanged during the beginning two years of this period and has inclined in the last year. The average EPS, 20%, was similar to the performance of CEO four. Return on Equity, on the other hand, had an increasing trend during the beginning two years of the leadership of CEO five to reach 27%. The performance of last year, however, has forced ROE to decline to 24%.

The following table summarizes the average performances of each leaders of the bank with the number of years in the office. Except for the ratios of EPS, RoA and RoE, all the figures are expressed in millions of Birr.
Table VI - Summarized performances of each CEOs of BoA S.C.

<table>
<thead>
<tr>
<th>No. Years in the office</th>
<th>Average</th>
<th>Incremental growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EPS</td>
<td>RoA</td>
</tr>
<tr>
<td>CEO 1</td>
<td>0.15</td>
<td>0.01</td>
</tr>
<tr>
<td>CEO 2</td>
<td>24.3</td>
<td>0.02</td>
</tr>
<tr>
<td>CEO 3</td>
<td>24.61</td>
<td>0.02</td>
</tr>
<tr>
<td>CEO 4</td>
<td>32.09</td>
<td>0.02</td>
</tr>
<tr>
<td>CEO 5</td>
<td>51.9</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Source: Annual Reports of BoA

3.2.2 Performance of Competitors and Management Turnover

Two other banks have been selected as peer banks based on the similarity in the period of entry into the industry. Awash International Bank S.C. is the pioneer followed by Dashen Bank S.C. ever since the introduction of the policy of market economy in Ethiopia. Few months later, Bank of Abyssinia became the third Bank to join the industry with a paid up capital of Birr 18 million.

In this section the performance of each peer bank will be contrasted based on financial and non-financial indicators of performance. Before the actual evaluation is conducted, brief background and profile of the respective peer banks, i.e., AIB (Awash International Bank S.C.), DB (Dashen Bank S.C.) and BoA (Bank of Abyssinia S.C.) will be presented here under.

3.2.2.1. Awash International Bank S.C.

Awash International Bank S.C. (AIB) is the pioneer private commercial bank in Ethiopia after the downfall of the military regime and introduction of market economic policy in 1991. It was established by 486 founder shareholders with a paid-up capital of Birr 24.2 million. Licensed on November 10, 1994, it started banking
operations on February 13, 1995. It was named after the popular river “Awash” which is the most utilized river in the country especially for irrigation and hydroelectric power. Awash River plays a pivotal role in the economic development of the country. The number of shareholders and paid-up capital increased continuously and currently reached over 3000 and Birr 912.3 million, respectively. Awash International Bank S.C is the first private bank to build its own headquarters at the hub of what is growing into the Ethiopian financial district at a cost of more than Birr 217 million in collaboration with its sister company; Awash Insurance Company S.C. was inaugurated in 2010 (AIB, 2012).

Currently, the Bank has 86 branches spread throughout the country, employing 3,219 peoples and thus boosting the wider branch network next only to the state owned, Commercial Bank of Ethiopia. All city branches and almost half of the outlying branches are providing on-line services.

A. The Non-financial Perspective

The Bank had built and inaugurated branch offices at Adama(G+8 storey), Shashemane and Nekemte towns. The construction of G+8 storey and G+4 storey buildings in Adama and Ghimbi towns, respectively is well underway and expected to be completed in 2012. The Bank also bought buildings at Bedessa, Jimma and Harar towns, further strengthening its asset base.

Architectural design works for the construction of Bulbula/Nifas Silk/ and Hawassa 2 level basements +G+7 and a basement + G+6 complex buildings, respectively, are also completed. The construction of these buildings is expected to start soon. Architectural design works for buildings in Hawassa and Agaro towns as well as in Addis Ababa is also underway (AIB Official Web Site Accessed of Jan 21, 2013).

Awash International Bank Share Company (AIB) signed a 257.7 million Birr agreement with Giga Construction Private Limited Company to build a 10 story building named Balcha Aba Nefso at Lideta area. The construction of Balcha Aba Nefso complex with two level basements plus G+ 10-storey building is already started. The total area of Balcha Aba Nefso site is 2,800m2 and the building lies on 2,275 m2 of land and its level of quality is comparable to that of the Headquarter
buildings. It’s expected to house, in addition to a branch of the bank, other shops and offices.

Awash International Bank S.C. has launched modern electronic payments products using ATM and POS terminals, on July 05, 2012, jointly with Nib international Bank and United Bank by deploying shared switch card payment system infrastructures through Premiere Switch Solutions S.C. a share company established by the three banks.

The Bank is working on a project aimed at replacing the existing CORE Banking system with a new one in order to improve its services and promote efficiency. The bank has established strong relationship with eminent international money transfer agents throughout the world. Currently AIB is working with nine of them namely, Western Union, Money Gram, Express Money, EzRemit, Money Trans, Dahabshil, Ria, Asgori (AME) and Mfi. (AIB Officeal Web Site Accessed of Jan 21, 2013).

### B. The Financial Perspective

AIB’s financial statement produced as of June 30, 2012 discloses that the bank’s assets reached Birr 13.1 billion. The bank has mobilized total deposits of Birr 9.5 billion and extended loans of Birr 5.5 billion marking the second largest from the private commercial banks. During the same period the banks total income was more than 1.1 billion while total expenses remained Birr 580 million conquering net profit of Birr 394 million. Total capital of the bank reached 1.6 billion and paid EPS of Birr 46.90 per every Birr 100 investment on shares during this period.

The financial stand of the bank during the year on which the CEO of Bank of Abyssinia resigned was taken as reference of performance comparison. In the following section financial results of the bank are presented in tabular form and the implications of the results will be discussed and analyzed thoroughly.
Table VII: Summarized financial results of AIB during the year of BoA’s CEO turnover

<table>
<thead>
<tr>
<th>Year of BoA’s CEO resignation</th>
<th>EPS</th>
<th>RoA</th>
<th>RoE</th>
<th>Profit</th>
<th>Asset</th>
<th>Loans</th>
<th>Deposits</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>94</td>
<td>0.01</td>
<td>0.07</td>
<td>9</td>
<td>1403</td>
<td>706</td>
<td>1065</td>
<td>137</td>
</tr>
<tr>
<td>2005</td>
<td>302</td>
<td>0.02</td>
<td>0.19</td>
<td>45</td>
<td>2990</td>
<td>1545</td>
<td>2270</td>
<td>241</td>
</tr>
<tr>
<td>2008</td>
<td>558</td>
<td>0.03</td>
<td>0.28</td>
<td>214</td>
<td>7133</td>
<td>2713</td>
<td>5302</td>
<td>761</td>
</tr>
<tr>
<td>2009</td>
<td>493</td>
<td>0.03</td>
<td>0.26</td>
<td>248</td>
<td>9023</td>
<td>3146</td>
<td>6106</td>
<td>959</td>
</tr>
<tr>
<td>2012</td>
<td>469</td>
<td>0.03</td>
<td>0.24</td>
<td>394</td>
<td>13125</td>
<td>5505</td>
<td>9565</td>
<td>1651</td>
</tr>
</tbody>
</table>

Source: Annual Reports of AIB

AIB has registered better performance when compared to Bank of Abyssinina starting from the early periods of operation. For instance, the financial performance of BoA under the leadership of CEO one was lower than the performance of AIB except for the Capital of the bank. In mobilization and utilization of financial resources, AIB has been consistently gone above the performance of BoA during the leadership of each CEO in the whole period with the exception resource utilization during CEO three leadership of BoA for a single financial year. On the regards of profitability indicators, BoA’s performance was similar to the performance of AIB in two instances only, i.e., during the leadership periods of CEO two and CEO five, and for the rest of the periods AIB has continued to excel the performance of BoA. AIB’s profitability indicators have revealed consistency in growth in each contrasted period with the exception of slight decline in Return on Equity.

Table VIII: Summarized Incremental growth on financial results of AIB during the year of BoA’s CEO turnover

<table>
<thead>
<tr>
<th>Year of BoA’s CEO resignation</th>
<th>Incremental Growth on</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EPS</td>
</tr>
<tr>
<td>2002</td>
<td>94</td>
</tr>
<tr>
<td>2005</td>
<td>208</td>
</tr>
<tr>
<td>2008</td>
<td>256</td>
</tr>
<tr>
<td>2009</td>
<td>-65</td>
</tr>
<tr>
<td>2012</td>
<td>-24</td>
</tr>
</tbody>
</table>

Source: Annual Reports of AIB
When the incremental growth of profitability indicators of AIB is evaluated, the trend displays that RoA of AIB had been increasing by 1% for three consecutive contrasting periods with BoA. For the last two periods, however, RoA of AIB has registered no improvements when compared to the preceding period. In contrast, RoA of BoA had grown-up from 1% to 2% during the leadership period of CEO two and the rest CEO’s were able to maintain the result consistently. EPS of AIB has increased consistently for three consecutive periods excelling the EPS of BoA significantly. The growth rate of EPS of AIB has declined for the last two periods while EPS of BoA has improved continuously. Besides, ROE of BoA is better than that of AIB and it is increasing consistently in contrary to the fluctuations in the performance of AIB revealing that the magnitude of profitability of BoA was better than AIB.

The incremental growth of AIB in terms of mobilization and utilization of financial resources excels the performance of each leader of BoA except for few instances. The loans disbursed during CEO three and deposits collected during CEO four of BoA are the only instances that the performance of BoA was better when compared to AIB. Thus, the each newly appointed CEO of BoA has contributed lower than the existing CEO of AIB with regard to mobilization and utilization of financial resources.

3.2.2.2. Dashen Bank S.C.

Dashen Bank was established as per the intent of the new policy introduced in 1991 which caused the culmination of the command economic heralding the establishment of a market oriented one and the Ethiopian investment code. It came into existence on September 20, 1995 according to the commercial code of Ethiopia, 1960, and the licensing and supervision of banking business proclamation No. 84/1994 to render commercial banking activities both at the domestic and international spheres. The first founding members were 11 businessmen and professional that agreed to combine their financial resources and expertise to form this new private bank. The number of shareholders and paid up capital went up consistently to reach 600 and 704
million. The bank has been successful enough to create employment opportunity for about 3,042 citizens (DB Officeal Web Site Accessed of Jan 24, 2013).

It was named after the highest mountain in Ethiopia, “Ras Dashen” is the highest mountain of Ethiopia. It is also the habitat of rare wild animals; the Walia Ibex, the Gelada Baboon, and the Lammergeyer - the beautiful bone breaker eagle. These unique characteristics of the mountain coincided with the interest of the founders of the Bank and prompted them to adopt this great name and epitomize their aspiration.

**Recognition**

In the last 15 years, the Ethiopian financial sector has showed remarkable achievements in capacity development, financial deepening and deployment of a range of modern banking technology and products.

Dashen Bank has played a pivotal role in these advances, particularly in pioneering new banking service platforms and products, including a core banking solution, multilevel electronic service delivery channels and payment card services. Accordingly, the bank has succeeded to obtain recognition on its performances both at the international and national level.

**International Recognitions**

- Dashen Bank is the first in Ethiopia to be awarded as the "Bank of the Year for Ethiopia six times in the years 2001-2005, 2006 & 2007 by the banker of London.
- Rated as "The clear Leader and Best Bank of all private Banks in Ethiopia for the year 2005" by globally known Euromoney Magazine.
- Rated as "Ethiopia's Best Bank of the year 2005" by Global Finance Magazine.
- Listed among the Africa's top 100 Banks by African Business Magazine.

**National Awards**

Dashen Bank is the only Bank Awarded by the Addis Ababa Chamber of commerce as outstanding enterprise. Its President also won the "Most Honorable Business Leader" award.
A. The Non-financial Perspectives

In August 2001 Dashen Bank became the first Ethiopian bank to interconnect its branch offices with WAN and in January 2003 it was the first bank to effectively implement a state-of-the-art core banking system. In May 2006, it launched Ethiopia’s first payment card service and in September 2010 its first mobile banking service, Modbirr. For the past 16 years, Dashen Banks’s overarching financial and operational performance has maintained its position as a leader among Ethiopian banks (DB Official Web Site Accessed of Jan 24, 2013).

As a mark of growing public confidence in the bank, its customer base registered a record high of 920,000. In addition to VISA, MasterCard and Maestro, Dashen Bank has signed a partnership agreement with UnionPay to accept the UnionPay card in Ethiopia. This is the first time UnionPay has cooperated with any Africa bank generating about 87.2 USD from international payment card services. The bank also was able to build relation with three international money transfer agents namely Western Union, Money Gram and Express Money.

The bank leverages its technology through its IT-driven initiative, a mix of hi-tech systems including Hi-touch POS (Point of Sales) and ATM (Automatic Teller Machine). It exploits the cross-selling opportunities of payment card services and multilevel electronic service delivery channels to ensure responsive business processing. In this regard the bank was able to install 105 ATM and 748 POS terminals witnessing that it is the leading in the private commercial bank in Ethiopia. Besides, the banks have already implemented a well-integrated One Window Service at its 31 area banks (branches).

The Bank had also been engaged in the construction of own building to reduce rental expense, to create convenient office layout and to build corporate image. The endeavor in this regard has enabled the Bank to contribute its due share to improve the urban landscape of the Capital and several regional towns including Adama, Awassa, Jimma, Dilla, Wolaita Sodo, Woldia, Bedelle, and Bahir Dar. Dashen Bank has been rendering service in these towns inside its own buildings. In the reporting
period, the Bank finalized the construction of Bahir Dar Area Bank building. Construction projects that are currently in progress include the future Headquarters of the Bank and three office buildings at Lideta and Saris areas in Addis Ababa. Furthermore, construction has also been underway in Debre Berhan, Bonga, Gondar and Dire Dawa towns.

B. The Financial Perspective

In June 2012, the bank’s total deposits mobilized, and loans and advances extended at corporate level, reached Birr 14.1bn and 7.9bn respectively. Its total assets at that date were valued at Birr 17.52b and its total capital, Birr 1.83bn. The total revenue of Birr 1.73bn is the biggest in the history of the bank and among private banks in Ethiopia. (DB, 2012).

The respective financial results of the bank during the year on which the CEO of Bank of Abyssinia resigned are presented below to take as reference of performance comparison. Dashen bank was led by a single executive during these periods while BoA had been led by five CEO’s. The financial results of the Dashen bank are presented in tabular form and the implications of the results will be discussed and analyzed thoroughly.

Table IX Summarized financial results of DB during the year of BoA’s CEO turnover

<table>
<thead>
<tr>
<th>Year of BoA’s CEO resignation</th>
<th>EPS</th>
<th>RoA</th>
<th>RoE</th>
<th>Profit</th>
<th>Asset</th>
<th>Loans</th>
<th>Deposits</th>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>476</td>
<td>0.01</td>
<td>0.19</td>
<td>23</td>
<td>1563</td>
<td>845</td>
<td>1141</td>
<td>122</td>
</tr>
<tr>
<td>2005</td>
<td>712</td>
<td>0.02</td>
<td>0.29</td>
<td>71</td>
<td>3419</td>
<td>2160</td>
<td>2833</td>
<td>242</td>
</tr>
<tr>
<td>2008</td>
<td>846</td>
<td>0.03</td>
<td>0.33</td>
<td>239</td>
<td>7839</td>
<td>4291</td>
<td>6151</td>
<td>730</td>
</tr>
<tr>
<td>2009</td>
<td>550</td>
<td>0.03</td>
<td>0.27</td>
<td>249</td>
<td>9732</td>
<td>4349</td>
<td>7925</td>
<td>908</td>
</tr>
<tr>
<td>2012</td>
<td>926</td>
<td>0.04</td>
<td>0.36</td>
<td>652</td>
<td>17520</td>
<td>7949</td>
<td>14065</td>
<td>1828</td>
</tr>
</tbody>
</table>

Source: Annual Reports of DB

The financial results extracted from financial statements of Dashen bank reveal that the bank has registered growth in each period. When compared to the performance of
BoA in the respective leadership period of each CEO during the period under consideration Dashen Bank performed extremely well in terms of both profitability indicators and mobilization of resources. In terms of capital, however, Bank of Abyssinia S.C. had excelled Dashen Bank for two consecutive periods until the year 2005.

Table X Summarized Incremental growth on financial results of AIB during the year of BoA’s CEO turnover

<table>
<thead>
<tr>
<th>Year of BoA’s CEO resignation</th>
<th>Incremental Growth on</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EPS</td>
<td>RoA</td>
<td>RoE</td>
<td>Profit</td>
<td>Asset</td>
<td>Loans</td>
<td>Deposits</td>
<td>Capital</td>
</tr>
<tr>
<td>2002</td>
<td>476</td>
<td>0.01</td>
<td>0.19</td>
<td>23</td>
<td>1563</td>
<td>845</td>
<td>1141</td>
<td>122</td>
</tr>
<tr>
<td>2005</td>
<td>236</td>
<td>0.01</td>
<td>0.10</td>
<td>48</td>
<td>1856</td>
<td>1315</td>
<td>1692</td>
<td>120</td>
</tr>
<tr>
<td>2008</td>
<td>134</td>
<td>0.01</td>
<td>0.03</td>
<td>168</td>
<td>4420</td>
<td>2131</td>
<td>3318</td>
<td>488</td>
</tr>
<tr>
<td>2009</td>
<td>-296</td>
<td>0.00</td>
<td>-0.05</td>
<td>10</td>
<td>1893</td>
<td>58</td>
<td>1774</td>
<td>178</td>
</tr>
<tr>
<td>2012</td>
<td>376</td>
<td>0.01</td>
<td>0.08</td>
<td>403</td>
<td>7788</td>
<td>3600</td>
<td>6140</td>
<td>920</td>
</tr>
</tbody>
</table>

Source: Annual Reports of DB

The performance of each CEO of BoA had never been better than the performance of Dashen bank led by a single CEO with regard to financial resource mobilization and utilization. Dashen Bank has been consistent enough to maintain its leadership position among the peer banks in this respect. Except for the period of CEO four’s leadership Dashen bank had registered 1% increment in Return on Assets. During this period, DB has registered RoA the same as the previous period. The profit of the bank has grown tremendously in each successive period demonstrating that it is the most profitable private bank ever in the Ethiopian banking sector. Return on Equity, however, has showed some fluctuations due to the significant rise in the capital of the bank.
3.2.2.3. Bank of Abyssinia S.C.

February 15, 1906 marked the beginning of banking in Ethiopia when the first Bank of Abyssinia was inaugurated by Emperor Menelik II. It was a private bank whose shares were sold in Addis Ababa, New York, Paris, London, and Vienna. One of the first projects financed by the bank was the Franco-Ethiopian Railway which reached Addis Ababa in 1917 (BoA, Promotional Brochures, 2012).

The paid up capital of the bank now has reached Birr 479 million. As of June 30, 2012, the number of branched Bank opened has reached 63 spread throughout the country proving that Bank of Abyssinia is one of the banks with large number of branches in Ethiopia. The bank has created employment opportunity for 2,105 Ethiopian citizens. (BoA, 2012).

A. The Non-financial Perspective

Bank of Abyssinia was able to build good relationship with international correspondent banks, the US embassy and money transfer agents. Regarding money transfer services the bank has been working with five international agents with the likes of Western Union, Express Money, Dahabshil, Ria and Turbo Cash.

The bank has been undertaking the Core banking systems implementation project and is on the verge to fully deploying the modern banking technology. It is expected that all branches will be interconnected via the network system soon. In this respect, the status of the major tasks such as the core-banking system application, data center/network infrastructure, and related tasks are at the completion phase.

Meanwhile, the bank introduced a one window service to its customers in fifteen branches. So far, the bank has owned two buildings in Addis Ababa and Bahir Dar cities to house few organs of the head office. Besides, the bank has secured a plot of land from Addis Ababa City Administration for the construction of the future headquarters of the bank (BoA, 2012).

The financial perspective of the bank was presented in detail in the previous sections and it was omitted deliberately to avoid repetition in presentation.
3.2.3. Summary of performance indicators of Peer Banks

Financial results of the respective peer banks of June 30, 2012 were taken as a point of reference so as to uphold consistency in evaluating the performance of these banks. For comparison purpose the results from the financial statements of the peer banks is reproduced to include other indicators too. Financial results of the peer banks are summarized in the following table. The figures shown in the table are presented in million Birr.

<table>
<thead>
<tr>
<th>Name of the Bank</th>
<th>BoA S.C.</th>
<th>DB S.C.</th>
<th>AIB S.C.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>8,240</td>
<td>17,520</td>
<td>13,125</td>
</tr>
<tr>
<td>Total Loans</td>
<td>3,897</td>
<td>7,949</td>
<td>5,505</td>
</tr>
<tr>
<td>Total Deposits</td>
<td>6,771</td>
<td>14,066</td>
<td>9,565</td>
</tr>
<tr>
<td>Total Capital</td>
<td>907</td>
<td>1,828</td>
<td>1,651</td>
</tr>
<tr>
<td>Total Income</td>
<td>723</td>
<td>1,725</td>
<td>1,111</td>
</tr>
<tr>
<td>Total Expense</td>
<td>435</td>
<td>832</td>
<td>580</td>
</tr>
<tr>
<td>Gross Profit Before Tax</td>
<td>289</td>
<td>893</td>
<td>531</td>
</tr>
<tr>
<td>Net Profit After Tax</td>
<td>216</td>
<td>652</td>
<td>394</td>
</tr>
<tr>
<td>Number of Depositors</td>
<td>331,831</td>
<td>920,000</td>
<td>693,252</td>
</tr>
<tr>
<td>EPS(100)</td>
<td>54.36</td>
<td>92.60</td>
<td>46.90</td>
</tr>
<tr>
<td>Number of Branches</td>
<td>63</td>
<td>72</td>
<td>86</td>
</tr>
<tr>
<td>Total No. of employees</td>
<td>2,105</td>
<td>3,042</td>
<td>3,219</td>
</tr>
<tr>
<td>Provision for NPLs</td>
<td>2.6%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>CEO Turnover rate</td>
<td>5</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Annual Reports of BoA, DB and AIB for the year 2012
3.3. Discussion and Interpretation

This case study has evaluated the correlation between Executive Management turnover and Organizational Performance of the Bank of Abyssinia. In this subsection performance of each management will be compared against the performance of the rest of the management members both in financial and non-financial terms. In the financial aspect, profitability and growth and or utilization of financial resources are evaluated. Besides, the financial and non-financial results of peer banks will be contrasted and evaluated below.

3.3.1. Financial analysis of the respective CEO’s leadership period

In this section the financial achievements of each executive will be analyzed and contrasted with the surviving and leaders who left the bank to capture the significance of management turnover on the performance of the bank.

With the exception of CEO 4, all the rest had served for more than three years. The first CEO is the one who stayed in the office for longer period of time, i.e., for more than five years and CEO four is the one who left the office serving for a period of less than a year.

CEO one left the bank after EPS of the bank exhibited a declining trend for three consecutive years and flop negative in the fourth year of his service. ROE went down too for two consecutive years before his departure from the bank and ROA became zero in his last year of service. Total Assets, loans and deposits grown consistently with the exception of capital of the bank which declined due to the loss incurred in the final year of CEO one. In the period under review, he had opened thirteen new branches.

CEO two was unable to keep on his executive position even though the performance of the bank had shown improvements from the financial standpoints. EPS had gone up tremendously reaching 40.32 from - 0.02 when he took over the chairmanship from his predecessor. The performance of the bank has showed continuous growth in
its asset, loans, deposits and capital under the management of CEO two. Besides, he has opened 8 new branches, 2.7 each year on average. The management of CEO three is characterized by steady decline in EPS, ROA and ROE during the last two years of her leadership of the bank. Earnings per share and Return on Asset went down as much lower as the performance status of the bank five years back. The total number of branches opened during this period was twenty two implying that 3.3 branches were opened every year on average. The result obtained in this regard was the largest when compared to the performances of her predecessors. Besides, faster growth rates of capital, deposits and loans accompanied by faster growth of assets are registered during her management period. CEO four, the short-lived ever CEO of the bank, was not given adequate time to evaluate his real contributions to the bank and it is difficult to measure or contrast his achievements with the rest of executives of the bank. However, it is evident that profitability of indicators of EPS, ROA, and ROE shown improvements when compared with the preceding executive. Assets of the bank, deposits mobilized and capital have grown-up too during this period. Loans extended, in contrast, have declined slightly when compared to the performance of his forerunner. He inaugurated the opening of three new branches during the period of his direction. CEO five, the existing executive, has sustained growth in profitability indicators during his two years of leadership period both in EPS and ROE though declined slightly in the year that follow. Under his leadership the bank’s profit surpassed Birr 200 million for the first time in the bank’s history and opened about seven new branches each year on average. The bank’s capital has grown significantly and asset, loans and deposits have shown faster growth rates too during this period. When evaluating financial performance of the banking industry, it is important to examine Profitability and financial resource measurements separately. This is due to the reason that, performances related to deposits and loans have implications on the profitability of the bank. The difference in the interest rate of deposits and loans constitute the largest proportion of the profit the bank obtains during the accounting period.
With regard to profitability of the bank, the data collected across the operational period of the bank reveals that each successor of the management (CEO) position has improved the performance of the bank in his/her first year. Amongst the entire management group only two of them were unable to sustain profitability throughout their leadership period. Consequently, these two CEOs departed from the leadership position of the bank at the time when the profitability performance of the bank is at its minimum.

Throughout the operational period of the bank, all the profitability indicators of Earning per share, Return on asset profitability, Return on equity and profit shown improvements under the supervision of each new management. Return on equity, however, has registered slight reduction during the leadership of CEO three.

With regard to paying higher returns to shareholder, significant growth rates were registered by CEO two followed by CEO five. The average growth rate of CEO three is minimal and its growth was insignificant when compared to the preceding management.

For the last fifteen years Return on Assets has been constant within the leadership period of all CEOs registering 2% with the exception of CEO one, who had registered 1% on average. It took the bank more than twelve years to hit profit of more than 100 million. CEO four was the first to register this result and CEO five has maintained it with remarkable growth rate.

When the performance of the management group is evaluated with regard to the mobilization and utilization of financial resources, the results obtained from the data shows a varied manifestation. Accordingly, the performance of the third CEO is the second best of the bank even though her performance regarding profitability indicators was the poorest. In mobilizing deposits, for instance, she was able to collect deposits by more than the sum of deposits collected during the management period of her predecessors. In utilizing available financial resources through disbursement of loans, CEO three is at the forefront of the ranking. The growth of the bank’s capital had also registered the second highest together with deposits and asset. CEO four, on the other hand, has exhibited a better performance in collecting deposits and expanding asset of the bank when compared the first and the second leaders
regardless of the shortness of his leadership period. Bearing in mind that the period of management of CEO one greater than that of CEO two, one can judge that the performance of the first and the second CEOs are more or less similar. The fifth CEO has been successful enough in respects of raising and utilizing financial resources of the bank. In disbursing loans, however, he stood next to the third CEO.

3.3.2. Performance analysis of BoA in contrast to the performances of Competitors

Non-financial success paves the ground for the performance of the company explained in monetary terms presented in the financial statements. This section will analyze the implication of combined monetary and non-monetary achievement of the peer banks on the stability of the management group.

3.3.2.1 Financial Perspective

Bank of Abyssinia S.C. has commenced operation on similar accounting period with Dashen Bank S.C. but a year after Awash International Bank S.C. When we evaluate its performance based up on the financial results, we discover that the bank couldn’t compete in this regard. For instance, the bank has accomplished only below 50% in collecting deposits, disbursing loans, raising assets and capital of the bank and derived revenues when compared to the industry leader of the private commercial banks and the peer group. The bank’s net profit was even the worst from the rest of the indicators to remain only 1/3 of Dashen’s net profit for the year. BoA has paid Birr 54.36 earning per shares of Birr 100 while DB’s payment was almost one to one to the investment made by the shares holders. In contrast, BoA’s provision for non-performing loans is higher by 30% of provision set aside by Dashen Bank implying that the asset quality of BoA is yet lower.

On the other hand, the performance of AIB too is better than that of BoA in the financial regard. In raising deposits, assets and capital of the bank in disbursing loans and revenues derived, Bank of Abyssinia was able to attain only by less than 2/3 of AIB’s achievements. BoA has obtained only 55% of AIB’s net profit of the year. In
paying earning per share for shareholders of the bank, however, BoA succeeded to pay earnings better by 16%, i.e., Birr 54.36 per share, while the earnings of AIB’s shareholders was only Birr 46.90. The provision kept by the bank for non-performing loans is higher than AIB’s provision by 30% as well.

The performance of both AIB and DB was contrasted against the performance of BoA during the year on which the executive leadership role terminated. The service period of the respective each CEO of BoA was contrasted against the results of CEO’s of DB and AIB serving their bank without being replaced by other executive. Accordingly, both the cumulative and individual contributions of each CEO of BoA with regard to financial achievements were the lowest when compared to its peers.

Of the five periods marked for comparison, profitability indicators of RoA and RoE of BoA were a bit greater than AIB’s results for a single instance only. Whereas, BoA has paid EPS better than AIB for its share holders on their investment on the bank for two periods and AIB’s share holders have received better returns than BoA’s shareholders on their investment for three consecutive periods.

Individual contributions of each CEO of BoA were lower than the incumbent leader of AIB in the regards of both profitability indicators and financial resource mobilization and utilization.

Dashen Bank had been irresistible competitor of BoA during the whole period of operation under single executive and stable management. In profitability indicators aspect, both RoA and RoE of Dashen Bank has registered continuous growth exceeding the results of BoA significantly. Due to the massive profit gained each year with high growth rate without fail, shareholder of DB enjoyed the best EPS from the industry at large. The story is the same with regard to mobilization and utilization of financial resources. Dashen bank has been leading by three folds in mobilizing and utilizing its financial resources efficiently.

In both financial terms, BoA’s leaders were unable to compete with the performance of Dashen bank either in aggregate or individual considerations.

The performance of Bank of Abyssinia was the lowest from the peer group in financial perspective. Asset quality measured in terms of ratio of NPLs revealed that BoA’s asset quality is the lowest among the group.

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3.3.2.2 Non-Financial Perspective

Non-financial achievements have contributions on the results presented on the financial statements. To this effect, this study included elements those influence the banks’ performance significantly.

Branch expansion efforts made by Dashen and Awash banks resulted in advancement by nine and thirteen additional branches ahead of Abayssinia’s total number of branches respectively. In addition, Dashen bank pioneered networking of branches and product diversification through the utilization of computer based technologies eleven years before Bank of Abyssinia. Awash International bank also had started to use this technology before six years ahead of BoA. Dashen bank was the first to introduce Hi-Tech payment systems such as POS (Point of Sales) and ATM (Automatic Teller Machine) in addition to card payment systems. So far, Dashen bank has installed 105 ATM and 748 POS terminals at different shopping malls, hotels, commercial centers and branches of the bank. AIB too has started these electronic payment services through switch card payment system infrastructure deployed jointly with NIB International Bank and United Bank. To the contrary, Bank of Abyssinia has introduced none of electronic payment services so far but is finalizing the implementation project of networking of its whole branches through Core Banking technology.

Both Awash International Bank and Dashen Bank have expended abundant of their resources for the construction of own building in Addis Ababa and regional cities. AIB built three branch offices at regional towns and the construction of another branch office building at Ghimbi town and architectural design works of two branches is well underway. The bank also bought three building for use by branch office at three towns. The bank was the first private bank to construct its headquarters jointly with sister company Awash Insurance Company signifying the strength of the bank. Besides, the construction of G+10 complex building was started at Addis Ababa expecting to house the bank’s branch, shop and offices for rent.
Dash bank also built eight branch offices at different regional towns and another four branch offices at regional towns will soon have their own buildings. The construction of two branch offices at Saris and Lideta is in progress. The structural work of the bank’s headquarter building, located at the financial district of the city, has been completed and the finishing work is well under progress. Bank of Abyssinia has owned only two buildings in Addis Ababa, to house branch office and some organs of the head office and in regional town of Bahir Dar which jointly owned with Nile Insurance co. In Addis Ababa it has acquired a piece of land at a place commonly known as “Mexico Square” for the construction future headquarters.

In summary, the utilization of integrated electronic banking technologies, the distribution and number of branches, provision of on-line services and ownership of office buildings have created competitive advantage to Dashen and Awash International Banks in further strengthening asset base customer confidence. This in return, has offered the banks the opportunity to further broaden their customer base to spread the number of the customers to extent of 920,000 and 693,000 for Dashen Awash bank respectively. Bank of Abyssinia was unable to compete in number of customers and it remained below half of the number of customers of AIB, the second highest of the peer banks.
CHAPTER FOUR

SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

In the following chapter summaries of major findings, conclusions and recommendations will be presented. All the issues in this chapter are extracted from data presented and discussion made in the previous chapter.

4.1. Summary of Major Findings

This study has discussed up on the data presented and contrasted the performance of competitors to analyze the significance of executive turnover on the performance of Bank of Abyssinia S.C. From the analysis the following major findings are extracted.

- Each succeeding executive had improved the performance of the bank in his leadership period in terms of profitability indicators.
- Two executives departed the bank when the profitability of the bank is at its minimum while the other one has left his office when the marginal growth of profitability started to decline.
- With regard to mobilization and utilization of financial resources CEO 3 was among the best even though her profitability performance was the poorest.
- Though short lived executive, CEO 4 was able to mobilize deposits better than the first and second executives who led the bank for more than eight years in aggregate.
- Significant growth on EPS was registered by CEO 2 followed by CEO 4.
- RoA has been fairly constant while RoE has grown consistently within the leadership of all executives of the bank.
• In terms of monetary achievements, profitability of Dashen Bank S.C. excelled profitability of BoA by three folds and BoA attained only 55% of the profitability achievement of Awash International Bank S.C.

• In mobilizing and utilization of financial resources, BoA has achieved lower than 50% of Dashen’s accomplishment and attained less than 2/3 of AIB’s achievements.

• With regard to non-financial achievements the bank is going behind its peers. For instance, it took more than eleven years and five years to keep track of DB and AIB respectively in the utilization of electronic banking technologies which has enormous contribution in expanding customer base and product diversification.

• In the regards of both profitability indicators and financial resource mobilization and utilization, the contributions of each single CEO of BoA were lower than the incumbent leaders of both AIB and DB.

4.2. Conclusions

The Objective of this study is to analyze the relationship between executive turnover and organizational performance in the case of Bank of Abyssinia S.C. In order to build-up measurements on the correlation between the variables in this study two techniques were employed. In the first instance, the performances of each executive was analyzed and contrasted with the rest of management members of the bank. In the second case, the overall performance of the bank was evaluated both in financial and non-financial terms to contrast with the performances of two other peer banks. The following conclusions are drawn from the analysis made on the financial and non-financial data in the previous chapter.

1. From the analysis made to find out the significance of management turnover on the performance of Bank of Abyssinia, this study discovered that each succeeding executive has improved the performance of the bank in terms of profitability. In the first year of each CEO’s leadership period,
the success rate was even greater than the rest of their respective year of service. This implies that the BOD of the bank was deceived by the performances of the taking-over executives upon the decisions of replacing management by new one.

However, the results obtained with regard to mobilization and utilization of financial resources conveys clear suggestion that profitability is not the only factor to measure the performance of an executive. From the analysis it is found out that the third executive conquered second from the management group in terms mobilization and utilization of financial resources even though her result in profitability regard was the worst. In her last two years of leadership, for instance, the amount of loans disbursed was the highest ever among the leading four executives. The majority of the earnings of this resource, however, is gained and recorded in the financial statement of the year to follow by understating the profitability performance of the third CEO.

2. Secondly, this study discovered that peer banks those have relatively lower executive turnover rates have better achievements when compared to the performance of Bank of Abyssinia S.C. The average executive turnover rate of both banks in the peer group is only two which is much lower than the rate of BoA.

In terms of monetary achievements, for instance, profitability of Dashen Bank S.C. excelled profitability of BoA by three folds and BoA attained only 55% of the profitability achievement of Awash International Bank S.C.

In mobilizing and utilization of financial resources, BoA has achieved lower than 50% of Dashen’s accomplishment and attained less than 2/3 of AIB’s achievements. Besides, the rate of provision for Non-performing loans of the bank is the highest among the peer banks implying that the bank’s financial assets quality is the lowest.

In terms of non-financial achievements the bank is going behind its peers. For instance, it took more than eleven years and five years to keep track
of DB and AIB respectively in the utilization of electronic banking technologies which has enormous contribution in expanding customer base and product diversification.

3. Thirdly, this study discovered that the contribution of each executive is lower than the performance of the incumbent executives of both Awash International Bank and Dashen Bank.

4. Finally, this study found out that the higher executive management turnover rate of Bank of Abyssinia implied that the bank is losing its competitive ground which in turn contributed to lower performance trend in both in financial and non-financial perspectives. The higher turnover rate of the bank has not allowed the management to have consistency in management style and decision making. Besides, it contributed to the lack of proactive leadership and foresightedness. Hence, the bank is lagging far behind by more than two and three years, for instance, from DB and AIB in customer base growth through branch expansion. On the other hand, the net profit of bank for the year 2012 was the mediocre from the private banks that it stood sixth headed by additional three banks those joined the bank lately but not included in this study.

The bank has not been competent enough in further strengthening its asset base and in utilization of IT based banking technologies and product developments. These issues require long-term project planning, implementation and follow-up activity entailing stability of management. The experience from the banks reveals that these banks have registered consistent growth both in monetary and non-monetary perspectives as a result of stability in management in addition to other factors which are not included by this study.
4.3. Recommendations

In order to remain in business and to be competent, the performances of the bank need to be improved. As a result, based on the findings raised in the above section, the researcher has forwarded the following recommendations.

- Reducing the rate of management turnover, if not culminating, is among the major way outs from the current low performance state of the bank. Hence, the Board of Directors of the bank should give due attention and commitment in assisting and offering sufficient period of time to the executives. Besides, should not be deceived by immediate results of the successors. Policy issues of the bank and Strategic decisions are often made by top management members or Executives. The evaluation of the effectiveness of decisions made on these issues require prolonged process and time which needs close follow up of the executive.

- To follow the industry trend to catch up with the achievements of competitors of the bank, application of state-of-the-art banking technology and responsiveness in new product development.

- Build up the capacity of top management to produce far-sighted and efficient decision making executives so that the bank regains competitive advantages in strategic decisions and move proactively to discover new ways, markets, products and the like.
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Annex