

**YANGON UNIVERSITY OF ECONOMICS  
DEPARTMENT OF COMMERCE  
MASTER OF BANKING AND FINANCE PROGRAMME**

**EFFECT OF CORPORATE GOVERNANCE ON  
FINANCIAL PERFORMANCE OF AYEYARWADDY  
FARMERS DEVELOPMENT BANK (ABANK)**

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## **ABSTRACT**

This study examines the effect of corporate governance practices on financial performance of Ayeyarwaddy Farmers Development Bank Public Co.,Ltd (ABank) and makes analysis on the effect of corporate governance practices on the financial performance of ABank. Descriptive and quantitative method are used in this study, 36 respondents (69%) out of total (52) staff who are working at top management level at ABank are selected to get the primary data. In corporate governance practices, the study found that leverage of ABank has significant effect on financial performance. Therefore, the member of BoD should be more represented with large creditors. The board size, board composition, CEO duality and leverage are included as independent variables and dependent variable is financial performance. The study found that the board regularly meet to review financial performance and operations during the year, non-executives directors face more challenge and discipline than the CEO and management, debts affect the performance of a firm.

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## **List of Abbreviation**

ABank - Ayeyarwaddy Farmers Development Bank

AGM - Annual General Meeting

BOD - Board of Directors

CEO - Chief Executive Officer

ALCO – Asset-Liability Committee

AM&FC - Accounting Management and Financial Control

COO - Chief Operating Officer

IFRS - International Financial Reporting Standards

ROA - Return on Assets

ROE - Return on Equity

SPSS - Statistical Package for Social Sciences

BOS - Board Size

BODCOMP – Board Composition

CEODUAL – CEO Duality

OECD - Organization for Economic Co-operation and Development

ACMF – ASEAN Capital Markets Forum

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DEVELOPMENT BANK (ABANK)**

A thesis submitted as a partial fulfillment towards the requirements for  
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# CHAPTER I

## INTRODUCTION

Corporate governance is the system of practices, rules, and processes by which a firm is directed and controlled. Corporate governance essentially comprises balancing the interests of a company's many stakeholders, such as senior management executives, shareholders, customers, suppliers, financiers, the government, and the community. Corporate governance is the system by which companies are directed and controlled. The Board of directors are responsible for the corporate governance of their companies. In corporate governance, the shareholders's role is to appoint the directors and the auditors and to satisfy themselves that proper governance structure is in place.

According to The Cadbury Report which was released in the UK in 1991 outlined that "Corporate governance is the system by which businesses are directed and controlled." Good corporate governance is a key factor in depend the integrity and efficiency of a company. A company's potential was weakened by poor corporate governance, and it leads to financial difficulties and in some cases can cause long-term damage to a company's reputation.

**Comment [U1]:** <https://www.pearse-trust.ie/blog/bid/108866/the-core-principles-of-good-corporate-governance>

A company which operates the core principles of good corporate governance; fairness, accountability, responsibility and transparency, will usually exceed other companies and will be able to attract investors, whose support can help to finance further growth.

In Arabian Journal of Business and Management Review, Muhammad Ali, 2016 stated that "the relationship between the corporate board and firm's financial performance and found out that setting up corporate board rules leads to the better performance of the company. A study was conducted with the same objective to create a variable to measure corporate governance and found that the board mechanism will impact on the performance.

**Comment [U2]:** <https://www.omics-online.org/open-access/impact-of-corporate-governance-on-firms-financial-performance-a-comparative-study-of-developed-and-non-developed-mark>

### 1.1 Rationale of the Study

Professor PHD Eugeniu TURLEA, 2010, Corporate Governance in the banking industry stated that "Banks play a central role within the economy. They attract citizens' savings in the form of deposits, offer means of payment for goods and

services and finance the development of businesses. Banks are subject of stricter regulations in **comparison** with other entities, because they are responsible for protecting the rights of the depositors, ensuring the stability of the payment system and reducing systemic risk. Moreover, the activity in the banking industry is characterized by the complexity of the operations, which increases information asymmetry and diminishes the stakeholders' capacity to monitor the decisions of bank managers. These aspects lead to the fact that corporate governance of banking institutions has certain characteristic features.”

**Comment [U3]:** Mocanu\_Corporate governanceinthebankingindustry.pdf

The lack of the corporate governance may lead to the financial crisis in Myanmar. So need to assessment is important how does the following the corporate governance **system** and practices. Now-a-days corporate governance committees are well organized in strong public organization and that are connection among bank managements, board of directors, independent directors, experts, consultants and professional peoples. The major committee of Local bank are Asset-Liability Committee (ALCO), Risk Management Committee, Credit Committee, Remuneration & Corp. Governance Committee, Audit Committee. The number of the committees Meeting and follow up activities are imported in Annual report of every public bank and these are images of those bank.

**Comment [U4]:** [https://studenttheses.cbs.dk/bitstream/handle/10417/3943/bjoern\\_kaellen\\_og\\_tobias\\_nordblom.pdf?sequence=1](https://studenttheses.cbs.dk/bitstream/handle/10417/3943/bjoern_kaellen_og_tobias_nordblom.pdf?sequence=1) idea copy

## 1.2 Objectives of the Study

The objectives of this study are:

1. To identify the corporate governance of ABank (Ayeyarwaddy Farmers Development Bank and
2. To analyze the effect of the corporate governance practices on financial performance of ABank.

## 1.3 Scope and Method of the Study

This study selected one of the Semi Government Banks which is Ayeyarwaddy Farmers Development Bank Public Co.,Ltd (ABank). The study targeted to analyze the effects of corporate governance on financial performance of Ayeyarwaddy Farmers Development Bank (ABank). In order to conduct the analysis, the descriptive method and quantitative method are used with primary data from

interviews of responsible persons including board of directors, top management and middle management. Both primary and secondary data were analyzed to find out any outcome(s) which might be revealed to the objectives of the study. Secondary data is collected from published annual reports and websites of the related bank in this industry. Primary data is collected by using interview with survey questionnaires.

#### **1.4 Organization of the Study**

This study is organized with five chapters. Chapter I is introduction of the thesis which consists rationale of study, objectives of study, scope and method of the study. In chapter II, the theoretical framework of the study includes background, fundamental and principles of corporate governance in banks. Chapter III deals with the overview of corporate governance structure in Ayeyarwaddy Farmers Development Bank (ABank). Chapter IV includes the effect of corporate governance on financial performance of ABank. Final Chapter, Chapter V presents the conclusion pertaining findings, suggestions and recommendation needs for further study as the further researches.

## CHAPTER 2

### THEORETICAL BACKGROUND

This chapter presents the theoretical backgrounds of corporate governance which included the definition of corporate governance, core principles of good corporate governance, role of shareholders, role of stakeholders, transparency and disclosure and responsibilities of board.

#### 2.1 Definition of Corporate Governance

Regarding the Cadbury Report which was released in the UK in 1991 outlined that "Corporate governance is the system by which businesses are directed and controlled." Good corporate governance is a key factor in underpinning the integrity and efficiency of a company. Poor corporate governance can weaken a company's potential, can lead to financial difficulties and in some cases can cause long-term damage to a company's reputation.

#### 2.2 The Core Principles of Good Corporate Governance

In this the Cadbury Report, stated that the core principle of good corporate governance are fairness, accountability, responsibility, transparency.

##### (a) Fairness

Fairness refers to equal treatment, for example, all **shareholders** should receive equal consideration for whatever shareholdings they hold. However, some companies prefer to have a shareholder agreement, which can include more extensive and effective minority protection. In addition to shareholders, there should also be fairness in the treatment of all stakeholders including employees, communities and public officials. The fairer the entity appears to stakeholders, the more likely it is that it can survive the pressure of interested parties.

##### (b) Accountability

Corporate accountability refers to the obligation and responsibility to give an explanation or reason for the company's actions and conduct. The board should present a balanced and understandable assessment of the company's position and prospects. The board is responsible for determining the nature and extent of the

**Comment [U5]:** <https://www.pearse-trust.ie/blog/bid/108866/the-core-principles-of-good-corporate-governance>

1. Pearse Trust, 2014, The Core Principles Of Good Corporate Governance

significant risks it is willing to take. The board should maintain sound risk management and internal control systems. The board should establish formal and transparent arrangements for corporate reporting and risk management and for maintaining an appropriate relationship with the company's auditor, and the board should communicate with stakeholders at regular intervals, a fair, balanced and understandable assessment of how the company is achieving its business purpose.

**(c) Responsibility**

The Board of Directors are given authority to act on behalf of the company. They should therefore accept full responsibility for the powers that it is given and the authority that it exercises. The Board of Directors are responsible for overseeing the management of the business, affairs of the company, appointing the chief executive and monitoring the performance of the company. In doing so, it is required to act in the best interests of the company.

Accountability goes hand in hand with responsibility. The Board of Directors should be made accountable to the shareholders for the way in which the company has carried out its responsibilities.

**(d) Transparency**

A principle of good governance is that stakeholders should be informed about the company's activities, what it plans to do in the future and any risks involved in its business strategies.

Transparency means openness, a willingness by the company to provide clear information to shareholders and other stakeholders. For example, transparency refers to the openness and willingness to disclose financial performance figures which are truthful and accurate.

Disclosure of material matters concerning the organization's performance and activities should be timely and accurate to ensure that all investors have access to clear, factual information which accurately reflects the financial, social and environmental position of the organization. Organizations should clarify and make publicly known the roles and responsibilities of the board and management to provide shareholders with a level of accountability.

Transparency ensures that stakeholders can have confidence in the decision-making and management processes of a company.

### 2.3 The principles of good corporate governance

Lakshna Rathod, 2019, wrote in What Are the Principles of Good Corporate Governance?, “Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.” The OECD principles also take into account the importance of good corporate governance to the economy as a whole:

“The Principles are developed with an understanding that corporate governance policies have an important role to play in achieving broader economic objectives with respect to investor confidence, capital formation and allocation. The quality of corporate **governance** affects the cost for corporations to access capital for growth and the confidence with which those that provide capital – directly or indirectly – can participate and share in their value-creation on fair and equitable terms. Together, the body of corporate governance rules and practices, therefore, provides a framework that helps to bridge the gap between household savings and investment in the real economy. As a consequence, good corporate governance will reassure shareholders and other stakeholders that their rights are protected and make it possible for corporations to decrease the cost of capital and to facilitate their access to the capital market.”

The basic principles of corporate governance involve how the board should develop, take action and be held accountable. The first principle of the Code states that: *Every organisation should be headed by an effective board.* The board’s effectiveness is widely regarded as a prerequisite for sustained corporate success. “The quality and effectiveness of directors determine the quality and effectiveness of the board. Formal processes for appointment, induction and development should be adopted.”

Leadership is the first aspect addressed by the *Principles* of good corporate governance, the Institute points out:

- **The role of the board.** Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.

**Comment [U6]:** <https://diligent.com/en-gb/blog/principles-good-corporate-governance/>

2. Lakshna Rathod, 2019, What Are the Principles of Good Corporate Governance?

- **Division of responsibilities.** There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.
- **The chairman.** The chairman is responsible for the leadership of the board and ensuring its effectiveness in all aspects of its role.
- **Non-executive directors.** As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.

With the components of leadership determined, the *Principles* consider the board's composition and operations:

- **The composition of the board.** The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.
- **Appointments to the board.** There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.
- **Commitment.** All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.
- **Development.** All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.
- **Information and support.** The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.
- **Evaluation.** The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.
- **Re-election.** All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

The evaluation of the board is not the same as its accountability, but rather a hard look at its performance, and that of individual members.

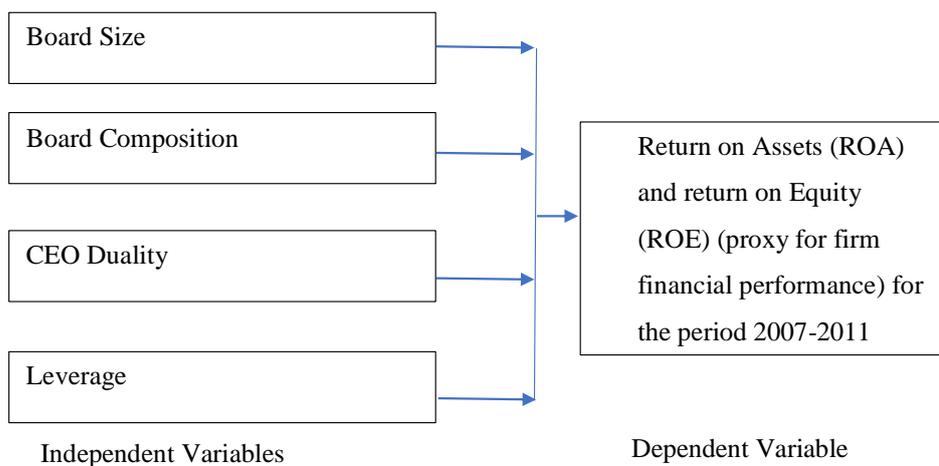
Transparency is a key principle of good corporate governance, and so accounting and reporting are a critical part of it:

- **Financial and business reporting.** The board should present a fair, balanced and understandable assessment of the company's position and prospects.
- **Risk management and internal control.** The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.
- **Audit committee and auditors.** The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.

#### 2.4 Previous Study

David Wanyonyi Wanyama, 2013 studied Effects of Corporate Governance on Financial Performance of Listed Insurance companies in Kenya. In this study, dependent variables, financial performance that includes Return on Assets (ROA) and return on Equity (ROE) and independent variables consist of board size, board composition, leverage and duality of CEO. The study found that the board composition, CEO Duality are strongly effect on financial performance of the insurance companies in Kenya.

**Figure (2.1) Conceptual Framework of the previous study**



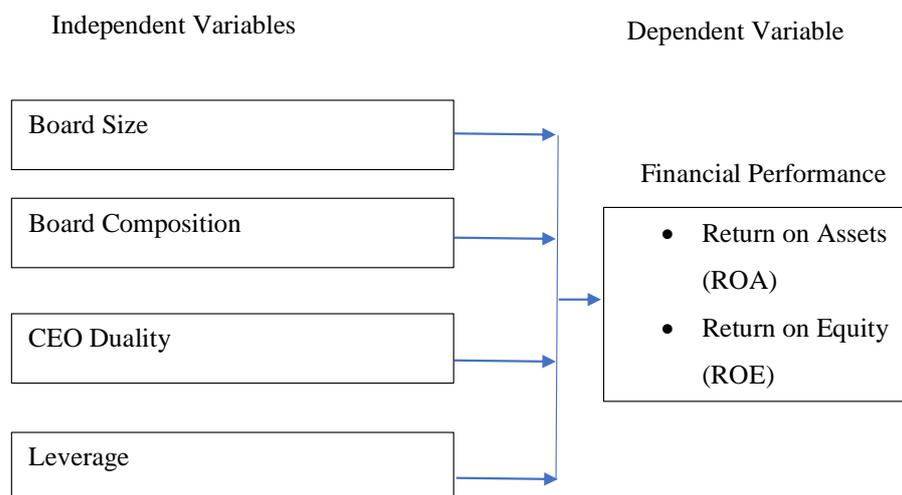
Sources: David Wanyonyi Wanyama, (2013)

Kyereboah – Coleman, Biekpe, 2006; Alsaeed, 2006) examined the relationship between Corporate Governance practices and financial performance of Companies in Japan. In their attempt to justify taking leverage as a control variable, these studies have revealed that the debt has an effect on the financial performance of a Company.

## 2.5 Conceptual Framework of the study

Figure (2.2) is the relationship between board size, board composition, CEO Duality, Leverage and financial performance of ABank and how to effect of the Corporate Governance.

**Figure (2.2) Conceptual Framework of the study**



Sources: Adopted from David Wanyonyi Wanyama, (2013)

The main purpose of the study is examining the corporate governance practices effect on financial performance dependent variables and independent variable. Independent variables include corporate governance practices on the board size, board composition, duality of CEO and leverage. On the other side, financial performance is dependent variable in this study. Based on above Conceptual Framework, Figure (2.2), this study attempts to analyze the effect of Corporate Governance on Financial Performance in Chapter (4).

## **CHAPTER III**

### **PROFILE AND CORPORATE GOVERNANCE STRUCTURE IN AYEYARWADDY FARMERS DEVELOPMENT BANK**

Chapter III, consists of Ayeyarwaddy Farmers Development Bank Profile, vision, mission, branches, corporate governance structure, duties and responsibilities, committees, composition of board of directors and corporate governance practices of ABank.

#### **3.1 Profile of Ayeyarwaddy Farmers Development Bank**

The Ayeyarwaddy Farmers Development Bank (ABank) is a commercial bank established by (3/2014) Instruction of Central Bank of Myanmar. It's under Financial Institutions Law of Myanmar. Mother company is Ayeyar Hinthar Holdings Co.,Ltd and background businesses are agrobusiness such as rice trading and export, eatable oil import, construction and health care services. The bank under the permission granted by the Central Bank of Myanmar, the Ayeyarwaddy Farmers Development Bank opened its Head Office and Patheingyi Branch on 27 November 2015 with the Paid-up-Capital of Kyat 15 billion. The bank has now (17) branches in around the country. The Ayeyarwaddy Farmers Development Bank Paid-up-Capital was increased to Kyat 40 billion at the end of September 2019.

The Ayeyarwaddy Farmers Development Bank started with the intentions of banking services to the developing banking industry in Myanmar. The bank try to provide top quality banking services to local people and currently providing the following banking services,

- Deposits ( Savings, Current and Fixed Deposit Accounts )
- Remittance (Foreign and Local Banks )
- Commercial Loans ( Loans and Overdraft )
- Hire Purchase
- Housing Mortgage Loans
- Performance Bank Guarantee and
- International Trade and Finance Services

### **3.1.1 Vision and Mission**

The vision and mission of Ayeyarwaddy Farmers Development Bank are as follows;

#### **Vision**

To become an innovative and dynamic bank in Myanmar with strong commitments to cultivate positive and sustainable outcomes for all stakeholders.

#### **Mission**

1. To deliver authentic, accessible, adjustable, advanced and accommodating products and services.
2. To employ asset-light, cost-efficient and digital-driven approach.
3. To leverage our network of local and international partners to deliver positive impacts.
4. To strengthen national financial inclusion efforts with providing accessible and equal financial opportunity for all underserved populations through innovative channels.

### **3.1.2 Branches and current employee of ABank**

Ayeyarwaddy Farmers Development Bank firstly opened and operated its banking business at No. 33, Mahabandoola Road, Patheingyi Township, Ayeyarwaddy Division. It's extension (2) branches in 2016. In 2017, ABank opened (3) branches, and another (4) branches were opened in 2018. In the end of 2019, ABank was opened (7) branches and it has totally (17) branches including Myawaddy and Muse branches such as boarder trade area. At the end of December 2019, total employees became (554) persons. Therefore ABank need to build Good Corporate Governance practices for check and balance in organization.

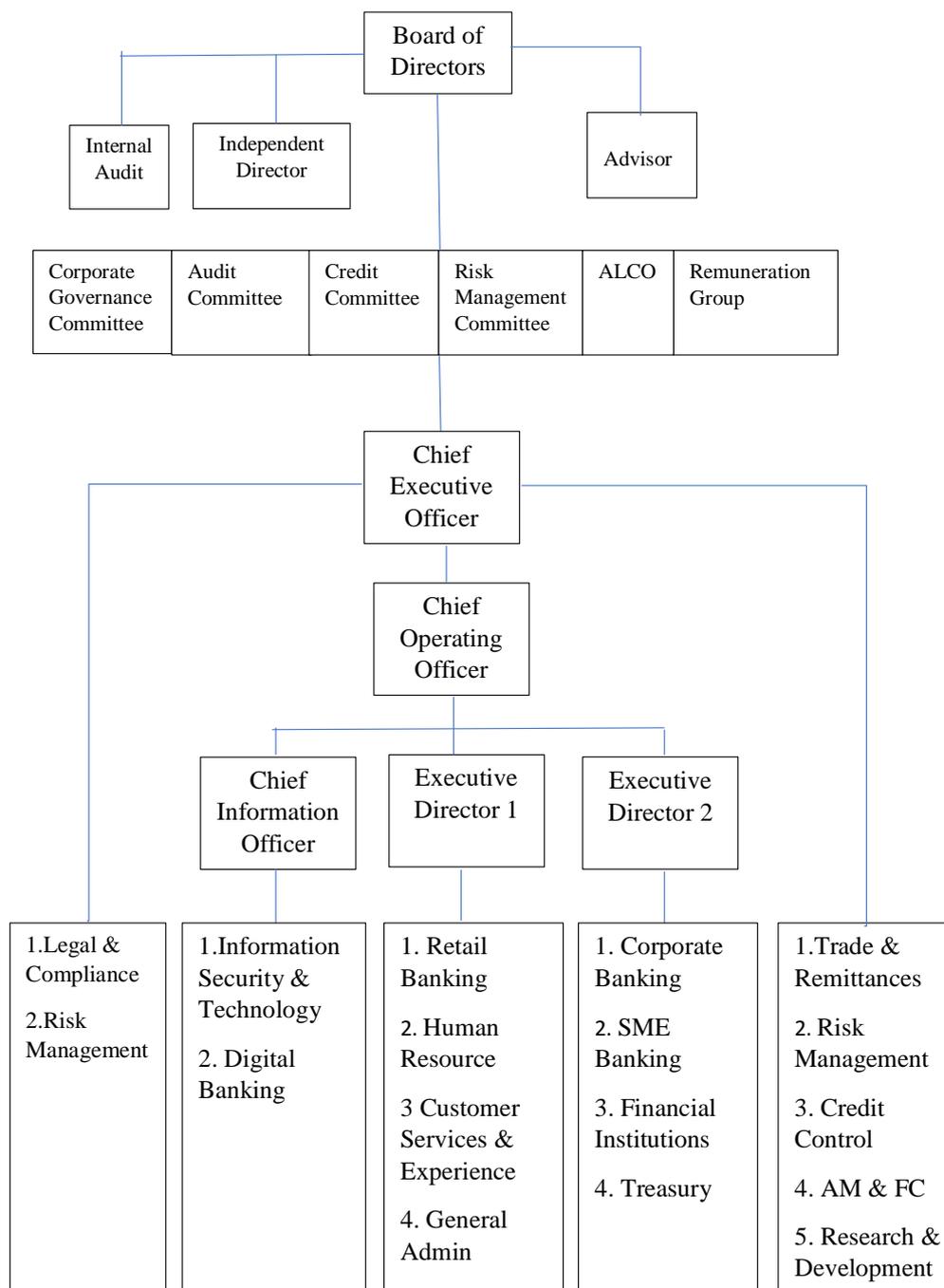
### **3.3 Organization Structure of ABank**

Ayeyarwaddy Farmer Development Bank has a proper organization structure which is shown as below. The Board of Directors sits on the top of the organization chart which directly goes down to Chief Executive Officer. The Chief Executive

Officer is supported by Chief Operating Officer in second tier. The Bank Management Board includes eight members.

The Bank has one Chairman, one Vice Chairman, one Chief Executive Officer, one Chief Operating Officer, one Chief Information Officer, two Executive Directors, five General Managers and sixteen Heads of Departments to its respective department. The number of Bank's Employee reached total (554) persons at the end of December 2019. The Bank's Management and Organization Structure are shown as in Figure (3.1).

**Figure (3.1) Ayeyarwaddy Farmers Development Bank Organization Chart**



\*AM & FC – Accounting Management & Financial Control

Source: Ayeyarwaddy Farmers Development Bank, 2019

### **3.4 Corporate Governance Structure in ABank**

Board of directors are selected in two way in ABank, the first group come from shareholder, the second one are selected by expertise in professional field. This is two tier supervisory board system. Moreover Independent Director must be composed at least two person in BOD. The board of directors selected Chief Executive Director, Chief Operating Officer, Chief Information Officer, Executives Directors and Head of Department in their monthly BoD Meeting.

#### **3.4.1 Duties and Responsibilities of BOD in ABank**

Board of directors are comprised in Leading Committee in ABank and they need to sit monthly BoD Meeting. If they absent to attend BoD meeting over three time, they will leave Board member as per Financial Institution Law (2016). In Annual General Meeting (AGM), all of the board must leave and reassigned as per shareholder voting. Before (1) months prior to held AGM meeting, they need to submit CV to CBM as per CBM Directive 9/2019 for approval under the Directive on Fit and Proper Criteria. The term of a director not exceed than (3) years and not more than 3 consecutive times.

#### **3.4.2 Composition of Board of Directors in ABank**

The Board of Directors consist of (10) members in ABank and include: (1) Chairman, (1) Vice Chairman, (2) Independent Directors, (3) governance representative directors , (1) Managing Director and (2) Directors. Besides there are two consultants, who are legal expertise and banking expertise. It's match the Financial Institution Law (2016) of CBM and strong corporate governance.

#### **3.4.3 Corporate Governance Committee in ABank**

There are (6) corporate governance committees in ABank. They are (1) Corporate Governance Committee, (2) Audit Committee, (3) Credit Committee, (4) Risk Management Committee (5) Asset and Liability Management Committee (ALCO) and (6) Remuneration Committee.

### **(1) Corporate Governance Committee**

The main duties of Corporate Governance Committee are review and recommend to the Board with policies, codes, rules and guidelines to ensure the highest standards, recommend the appropriate size and composition of the Board and Board Committees, recommend the criteria and methods for the periodic evaluation of the performance of the Board and Committees, report the results to the Board in ABank.

### **(2) Audit Committee**

The main duties of Audit Committee in ABank are review the Bank's financial statements to ensure accuracy and adequacy, review and ensure that the Bank has suitable and efficient internal control system and internal audit that internal audit function is independence, ensure compliance with the laws, regulations and other relevant regulators including compliance report prepared by the Bank's Compliance unit, select, nominate and recommend remuneration of the Bank's external auditor, approve audit-related and other services engagements with the Bank's external auditor, review connected transaction or transaction that may lead to conflict of interest and disclosed in compliance with the law, review the appropriateness of corrective measures and actions taken by management in response to the reports or instructions from related regulators.

### **(3) Credit Committee**

The main duties of Risk Management Committee in ABank are to approve credits, credit restructuring, NPL Write-off , NPA acquisition , NPL sales & NPL write-off, These responsibilities are to approve which exceed the management's approval authority and are NOT related parties or customer group that limits NOT exceeding the Single Lending Limit (SLL).The another duties is to review specific credit proposals for related parties or in which group limits exceed the SLL prior to submission to the Board for approval, to review the credit decisions of the most senior executive credit committees, to approve credit and related risks for transactional investments or underwriting commitments which exceed the management's approval authority.

#### **(4) Risk Management Committee**

The main duties of Risk Management Committee are propose to the Board for overall risk management in ABank, including major risks such as credit risks, market risks, liquidity risks, operational risks, strategic and reputational risks, etc. The committee need to advise the Board on its risk appetite, tolerance and strategy for the Bank and its business units, to recommend the risk and concentration levels for approval by the Board and alignment with the Board's risk appetite, to approval significant policies and framework that govern the management of risks, including risk governance matters, and which have been delegated to Risk Management Committee by the Board.

The Risk Management Committee need to formulate strategies, that are consistent with the risk management policy and which can assess, monitor and ensure that risks are at appropriate levels, to approve the supplemental risk limits as defined in the relevant policies and frameworks, to review the adequacy of the Bank's risk management policy and systems and the effectiveness of policy and systems implementation in terms of identifying, measuring, aggregating, controlling and reporting these risks, to review and monitor all risks and risk management practices, including internal control and compliance processes and systems.

The appointment, review of committee structure and composition, and roles and duties of the management – level risk management committees, to report the risk management performance and all risk management matters and measures to BOD and Audit Committee for any improvements required, to advise on the development and maintenance of a supportive culture, in relation to the management of risk, appropriately embedded through procedures, training and leadership actions, to advise on the alignment of compensation structures in relation to the management of risk.

#### **Scope and Responsibility of Risk Management Committee in ABank**

1. To report the risk management performance and all risk management matters and measures to the Board and to the Audit Committee for any improvements needed to ensure the effectiveness of the policy implementation.
2. To advise on the development and maintenance of a supportive culture, in relation to the management of risk, appropriately embedded through procedures, training and leadership actions so that all employees are alert to the wider impact of their actions on the Bank and its business units.

3. To advise on the alignment of compensation structures in relation to the management of risk, within the Board’s risk appetite.

**(5) Asset and Liability Management Committee (ALCO)**

The main duties of Asset and Liability Management Committee are assess the probability of various liquidity shocks and interest-rate scenarios, position the bank to handle the most likely of these scenarios at minimum cost (impact on earnings and capital) while still achieving a reasonable level of profitability, allocate the bank’s remaining assets and liabilities to meet risk and profitability objectives, review the accuracy and reliability of the Bank’s interest rate and review performance and profitability of each product.

**(6) Remuneration Committee**

The main duties of Remuneration Committee are review the overall remuneration structures policies and practices of the Group, including those on benefits, performance evaluation, incentive awards and severance payments to ensure they are consistent with the decisions of the Board and the ABank’s culture, objectives, strategy and control environment and take fair account of the roles, responsibilities, management of risk and performance of the individuals concerned and of market benchmarks and make recommendations to management and the Board as appropriate, review the overall remuneration structures policies and ensure to consistent with the decisions of the Board. Recommend the amount of actual remuneration and benefits of members of the Board and of Board Committees. Approve the actual remuneration and benefits, including any incentive award or severance payment of Senior Management.

**Table (3.1) Committee Structure of ABank**

No.	Committee Name	Participant Position	Committee Responsibility
1.	Corporate Governance Committee	Chairman Vice Chairman BODs Independent Directors CEO	Chairman Member Member Member Member

		COO Executives Directors	Member Secretary
2.	Asset & Liabilities Management Committee	Vice Chairman CEO COO Executive Director (1) Executive Director (2) Head of Credit Control Dept Head of Currency Head of Treasury Dept Head of AM & FC Dept	Chairman Member Member Member Member Member Member Secretary
3.	Risk Management Committee	CEO Director Independent Director COO Executive Director (2) Head of AM&FC Legal & Compliance	Chairman Member Member Member Member Member Secretary
4.	Remuneration Committee	CEO COO Director Executive Director Head of HR	Chairman Member Member Member Secretary
5.	Audit Committee	Independent Director Independent Director (Legal) Consultant Head of Internal Audit	Chairman Member Member Secretary
6.	Credit Committee	Vice Chairman CEO Director Executive Director (1) Executive Director (2) Head of AM & FC Dept Head of SME Dept Head of Credit Control Dept	Chairman Member Member Member Member Member Member Secretary

Sources: ABank Corporate Structure

**CHAPTER IV**

**ANALYSIS ON EFFECT OF CORPORATE GOVERNANCE ON  
FINANCIAL PERFORMANCE OF AYEYARWADDY FARMERS  
DEVELOPMENT BANK**

Chapter IV consists of research design, demographic profile of respondents who are top management level and analysis of effect on corporate governance practices on financial performance of ABank.

**4.1 Research design**

To examine the current practices of corporate governance practices in ABank, descriptive method and quantitative methods are used in this study. The study sampled is (36) respondents which sample are 69% of total Population who are working at top managements including board of directors, CEO, department heads at head office and heads of branch. Secondary information is collected from websites, annual report, references, relevant books, previous thesis papers, professor.

Major instrument in survey are printed question paper and data are collected by questionnaires. The questionnaires consist of three parts. The first part of the survey questionnaire is demographic information of respondents, the second part deals with corporate governance practices pertaining board size, board composition, CEO duality, Leverage of corporate governance of ABank and the last part, part three describe the financial performance of ABank. The agreement levels of Respondents are measured by 5 points Likert Scales (1 is Not at all, 2 is Small extent, 3 is Moderate extent, 4 is Large extent, 5 is Very large extent). The numbers in a Likert scale are ordered such that they indicate the presence or absence of a characteristic being measured. Data collected was mostly quantitative in nature and was analyzed by descriptive analysis techniques using tools such as Statistical Package for Social Sciences (SPSS).

## 4.2 Demographic Profile of Respondents

All the data received from the questionnaires are interpreted and summarized in frequency distribution and percentage distribution. Demographic profile of respondents presents the respondents' gender, age, marital status, educational level.

### 4.2.1 No. of Respondents by Gender

The first analysis of the demographic characteristics of respondents is the gender. The gender of the respondent is simply classified into male and female groups. Table (4.1) shows the result of gender of respondents, as follows.

**Table 4.1 No. of Respondents by Gender**

Gender	Frequency	Percentage
Male	23	63.9
Female	13	36.1
Total	36	100.0

Source: Survey data, 2019

According to Table 4.1, the respondents consists of 63.9% males and 36.1% females. Thus, male group is more than female group.

### 4.2.2 No. of Respondents by Age

There are five classifications in the age of respondents. They are from 30 years and less, 31-40 years, 41-50 years, 51-60 years old, 61 years and above.

**Table 4.2 No. of Respondents by Age**

Age	Frequency	Percentage
30 years and less	1	2.8
31-40 years	7	19.4
41-50 years	16	44.4
51-60 years	6	16.7
61 years and above	6	16.7
Total	36	100

Source: Survey data, 2019

According to Table 4.2, the respondents consists of middle age in 63.8% and other are younger and older generation.

#### **4.2.3 No. of Respondents by Qualification**

There are four type of qualification in respondents, degree, master degree, professional certificate and others. They are from 30 years and less, 31-40 years, 41-50 years, 51-60 years old, 61 years and above.

**Table 4.3 No. of Respondents by Qualification**

Qualification	Frequency	Percentage
Bachelor Degree	16	44.4
Master Degree	18	50.0
Professional Certificate	1	2.8
Other (Please describe)	1	2.8
Total	36	100.0

Source: Survey data, 2019

According to Table 4.3, half of the respondents are master degree holders and 44% of the respondents are bachelor degree holders, and nearly 3% of the respondents are professional certificate holders and the remaining percentage is others.

#### 4.2.3 No. of Respondents by Occupational Level

In the survey study, there are four type of occupational level such as board of director, executive director, head of department and head of branch.

**Table 4.4 No. of Respondents by Occupational Level**

Position	Frequency	Percentage
BOD	14	38.9
Department Head	14	38.9
Branch Head	8	22.2
Total	36	100.0

Source: Survey data, 2019

According to Table 4.4, 14% of respondents are Board of Director members, another 14% are department head of Abank, and the remaining 8% is the branch head.

#### 4.3 Analysis of Corporate Governance of ABank

The study used the Likert type scale as the rating scale in questionnaires. Likert scales are the easiest to construct and are based upon the assumption that each statement/item on the scale has equal attitudinal value, importance or weight in terms of reflecting an attitude towards the issue in question. This study focused on Corporate Governance characteristics namely board size, board composition, CEO Duality and Leverage. Dependent and independent variables were grouped into components; namely, independent variables which consist of board size, board composition, CEO Duality and leverage and dependent variables which consist of performance indicators namely, Return on Assets and Return on Equity. The terms of measurement to be used are described as in table below.

### 4.3.1 Board Size of Corporate Governance in ABank

In this section, the study sought to ascertain the effects of board size on financial performance of ABank. Board Size is measured by (7) items such as being the size, meeting regularly to review financial performance and operations during the year, reviewing strategic matters and other issues that impact on the bank, being important between the board and senior management, and being effective check their senior management.

**Table (4.5) Effect of board size on financial performance of ABank**

Particular	Mean	Standard Deviation
Size of the board influence the financial performance in ABank	3.67	1.195
Board meet regularly to review financial performance and operations during the year	4.72	0.454
Board review strategic matters and other issues that impact on the bank	4.53	0.506
Outside formal board meetings are important between the board and senior management are held.	4.03	0.910
Board members usually use themselves to support management on areas of their expertise.	2.97	1.028
The board is effective check their senior management	3.61	1.022
The board take on self-evaluation and review of its performance	3.61	0.645
Overall Mean	3.88	

Source: Survey Data (2019)

According to Table (4.5) the study found that majority of the respondents rated the following to a very great extent, Board touches regularly during the year to review financial performance and operations as shown by mean of 4.72. The board

considers strategic matters and other issues that impact on the bank and the board is effective at monitoring senior management as shown by mean of 4.53.

These findings concur that size of the board and the financial performance in ABank are not strongly related. Large boards may result to increase in agency problems as some directors may tag along as free-riders. Board members usually avail themselves to support management on areas of their expertise the respondent who indicated yes.

### 4.3.2 Board Composition

In this section, the study sought to present board composition of ABank. The questions of Board composition of ABank include impacts on financial performance of bank, impacts on the way the board communicates with other stakeholders, impacts on the board strikes the performance, and etc.,

**Table (4.6) Board composition of ABank**

Particular	Mean	Standard Deviation
Board composition impacts on financial performance of bank	4	0.414
Board composition impacts on the way the board communicates with other stakeholders	3.86	0.931
The number of non-executive directors impacts on the board strikes the performance	3.78	0.959
Outside directors are more fit than CEO and management to face the challenge and discipline	4	0.894
Boards composed of directors with good mix of skills, experience and competences to improve the business to greater heights	3.69	0.951
The board should be handling for selecting top management staff	3.72	1.031

The Boards can do better where expatriates sit on them	3.19	1.091
The work of the board includes active supervising of the activities of management and resolution of internal conflicts.	3.53	0.941
An expatriate CEO has excellent knowledge and is likely to improve the performance of ABank	2.97	1.028
<b>Overall Mean</b>	3.75	

Source : Survey Data (2019)

The study found that majority of the respondents rated the following to a very great extent, the board composition impacts the financial performance of bank as shown by mean of 4 and outside directors are more fit than CEO and management to face the challenge and discipline in ABank as shown by mean of 4.

These findings concur that the board composition is important for the effectiveness of financial performance in Abank and outside directors are face the challenge and discipline than internal CEO and management. Therefore ABank should be careful consideration on these facts.

#### **4.3.3 CEO Duality and firm performance**

Table (4.7) presents the mean scores on CEO duality of ABank. To measure these mean scores, in this study (4) items are asked to respondents.

**Table (4.7) CEO duality of ABank**

Particular	4Mean	Standard Deviation
Roles of Chairman of Board and CEO are clear and not authority in the same person	4.14	0.961
Bank's CEO of ABank occupied is fixed	3.89	0.887
The remuneration of CEO is linked to performance of ABank	4.53	0.506
The monitoring role of board is not strong when the CEO is also Chair Person	4.06	0.984
<b>Overall Mean</b>	4.15	

Source: Survey Data (2019)

The study found that the remuneration of CEO is linked to performance of ABank as shown by mean of 4.53. Besides, roles of Chairman of Board and CEO should be clear and not should be authority in the same person.

These findings concur that CEO salary should be linked to performance of the bank, Roles of Chairman of Board and CEO should be clearly defined in ABank and strongly related the financial performance of ABank. The total mean of the CEO duality is 4.15 and it is strongly related the financial performance of ABank.

#### **4.3.4 Leverage and firm performance**

In this study, Leverage in ABank is measured by impact the ABank' performance, large amount of liability performig better than other banks, and being large creditors representing board of directors. Table (4.8) represents the mean score of leverage in ABank.

**Table (4.8) Leverage in ABank**

Particular	Mean	Standard Deviation
Debts impact the ABank' performance	3.56	0.877
ABank with large amount of liability performs better than other bank with no or little debts	3.08	0.967
the board of directors of ABank represents large creditors	2.89	0.979
<b>Overall Mean</b>	3.18	

Sourec: Survey Data (2019)

The study found that the statement on Debts impact the ABank' performance has the highest mean score with 3.56 and the board of directors of ABank represents large creditors has the lowest mean score with 2.89.

#### 4.4 Financial Performance in ABank

Financial Performance in ABank is presented in Table (4.9). Financial performance is measured by perception on profitability, Return on Asset (ROA) and Return on Equity (ROE).

**Table (4.9) Financial Performance in ABank**

Particular	Mean	Standard Deviation
Good corporate governance of ABank makes profitable to organization in terms of higher return in assets investment.	4.33	0.586
Good corporate governance of ABank makes profitable to organization in terms of higher return in equity.	4.39	0.549
Annual ROA of ABank is increasing year by year because of its good corporate governance practices	4.00	0.717
The ROE of ABank is increasing year by year because of its good corporate governance practices	3.94	0.715
<b>Overall Mean</b>		4.17

Source: Survey Data (2019)

The study found that Good corporate governance of ABank makes profitable to organization in terms of higher return in equity is showed as 4.39. Otherwise profitable to organization in terms of higher return in assets investment is 4.33. Total mean value of financial performance is 4.17 and it is good performance on financial performance.

#### 4.5 Effect of Corporate Governance on Financial Performance of ABank

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used Statistical Package for Social Sciences (SPSS V 20) to code, enter and compute the measurements of the multiple regressions Regression.

**Table (4.10) Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.446 <sup>a</sup>	.199	0.096	0.23429

Source: Survey Data (2019)

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table, the value of adjusted R squared was 0.096 indicating at 1 percent level of significance.

**Table (4.11) Effect of Corporate Governance on Financial Performance**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Constant	3.768	0.546		6.906	.000
	Board Size	-0.77	0.162	-0.092	-0.478	.639
	Board composition	.042	.108	.077	.390	.711
	CEO Duality	.054	.085	.117	.631	.452
	Leverage	.096*	.049	.366	1.943	.053

Dependent Variable: Financial Performance

\*1 at the 1 percent level of significant

Source: Survey Data (2019)

This shows that financial performance of ABank change depend on four variables. This is Board size, Board Composition, CEO duality and Leverage.

$$Y = 3.768 - 0.77 X_1 + .042 X_2 + .054X_3 + .096 X_4$$

From the finding on the correlation analysis between Financial and various Corporate Governance practices, the study found that there was a positive correlation

coefficient between financial performance and board composition, CEO Duality, and leverage as shown by correlation factor of 3.768.

According to the result, leverage is the most significance and show the positive effect of leverage on financial performance. This result reveals that there is no significance effect of Board size, Board Composition and CEO duality on financial performance of ABank.

## **CHAPTER V**

### **CONCLUSION**

The chapter presents the findings from the analysis of data by questionnaires survey with Board of Directors, top managements and branches head of ABank about the corporate governance on financial performance. It is also recommended to current practices and its conclusion section has three parts as follows.

#### **5.1 Findings and Discussion**

Regarding to the analysis of Corporate Governance on financial performance of ABank, the study found that the various aspects of CEO Duality to a great extent. From the regression analysis, the board size was found to negatively affect the financial performance of ABank. On the effect of CEO Duality of the board affect the financial performance of ABank.

In the demographic profile analysis, survey finds out more male respondents than female respondents although the female percentage are more than male in organization. Age level is also found (31) years above and under (50) years. So it is in the young working group and the bank's future is good. The board size and board composition in ABank are related impact to the financial improvement.

#### **5.2 Suggestions**

With good corporate governance, there will more attractive to investors, find easier to raise more capital from outsider for bank growth and less risky. The scorecard was created by the ASEAN Capital Markets Forum (ACMF) in collaboration with the Asian Development Bank to reinforce and align capital market standards and practices across ASEAN countries. It is based on the OECD Principles of Corporate Governance. It is benchmarked against international good practices to encourage companies to go beyond legislative requirements. Like Pwint Thit Sa, the Scorecard uses publicly available information. The ACGS is currently being used in Malaysia, Thailand, Philippines, Indonesia, Vietnam, and Singapore to track and rank (mostly publicly listed) companies for corporate governance

### **5.3 Need to Further Study**

This research is only emphasized on one bank named ABank. Among the several performance management systems, this study only focuses on the practices of corporate governance system in that bank. And thus, study does not cover the whole banking system of Myanmar and does not include other organizational management system. This survey was only based on 36 respondents who are top management level organization because of time limit. Thus this research cannot represent the whole employees at that company. If the study can be conducted on the basis of larger sample size, the result will be more favorable outcome. Moreover, the future analysis on the relative importance to each characteristics at corporate governance mechanism, such as, fairness, accountabilities, responsibilities, transparency, governance structure, ethics, etc. The performance of ABank is not only the practices of corporate governance at ABank. There are other influencing variables like special marketing achieving activities and performance of employees. It could be concluded that ABank should continue practicing good corporate governance system and also continue its marketing efforts, employee learning and growth, building learning organization culture, and trainings which are aimed to improve more organizational performance, in general.

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## APPENDIX

Yangon University of Economics

Department of Commerce

Master of Banking and Finance Program

Questionnaires for **Effect of Corporate Governance Practices on Financial Performance of Abank .**

### PART I : DEMOGRAPHIC INFORMATION

(a) Gender

Male	Female

(b) Age Group

30 years and less	31-40 years	41-50 years	51-60 years	61 years and above

(c) Qualification

Degree	Master Degree	Professional Certificate	Other (Please describe)

(d) Position in the Organization (Any Person)

BoD	Department Head	Branch Head	Other Position (Please describe)

PART II : CORPORATE GOVERNANCE PRACTICES

(a) Board Size

Sr.	Particular	Not at all	Small extent	Moderate extent	Large extent	Very large extent
1.	Do you think that size of the board influence the financial performance in Abank					
2.	Do you think that the board touches regularly during the year to review financial performance and operations					
3.	Do you think that the board review strategic matters and other issues that impact on the bank					
4.	Do you think that Outside formal board meetings are important between the board and senior management are held.					
5.	Do you think Board members usually use themselves to support management on areas of their expertise.					
6.	Do you think the board is effective check their senior management					
7.	Do you think the board take on self-evaluation and review of its performance					

(b) Board Composition and effectiveness of financial performance

Sr.	Particular	Not at all	Small extent	Moderate extent	Large extent	Very large extent
1.	Do you think that Board composition strikes the financial performance of bank					
2.	Do you think that Board composition strikes the way the board communicates with other stakeholders					
3.	Do you think that the number of non-executive directors on the board strikes the performance					
4.	Do you think that the Outside directors are more fit than CEO and management to face the challenge and discipline					
5.	Do you think boards composed of directors with good mix of skills, experience and competences to improve the business to greater heights					
6.	Do you think that The board should be handle for selecting top management staff.					
7.	Do you think that the Boards can do better where expatriates sit on them					
8.	The work of the board includes active supervising of the activities of management and resolution of internal conflicts.					
9.	An expatriate CEO has excellent knowledge and is likely to improve the performance of ABank					

(c) CEO Duality and Effectiveness of Financial Performance

Sr.	Particular	Not at all	Small extent	Moderate extent	Large extent	Very large extent
1.	Do you think that Roles of Chairman of Board and CEO should be clear and not authority in the same person					

2.	Do you think that CEO occupied should be fixed					
3.	Do you think that remuneration of the CEO should be linked to performance of ABank					
4.	Do you think that the monitoring role of board is not strong when the CEO is also Chair Person					

(d ) Leverage and Effectiveness of Financial Performance

Sr.	Particular	Not at all	Small extent	Moderate extent	Large extent	Very large extent
1.	Do you think that debts may cause the trouble of ABank					
2.	Do you think that the Bank with huge Liability may perform better than other bank with little or no debts					
3.	Do you think that large creditors' trust depend on the board of directors					

### III FINANCIAL PERFORMANCE

#### Financial Performance of ABank

Sr.	Particular	Not at all	Small extent	Moderate extent	Large extent	Very large extent
1.	Good corporate governance of ABank makes profitable to organization in terms of higher return in assets investment.					
2.	Good corporate governance of ABank makes profitable to organization in terms of higher return in equity.					
3.	Annual ROA of ABank is increasing year by year because of its good corporate governance practices					
4.	The ROE of ABank is increasing year by year because of its good corporate governance practices					