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Practices and Challenges of Corporate Governance at Ethiopian Electric Utility

By

Azeb Kebede Mamo

**A project work submitted to Addis Ababa University School of Commerce in
Partial Fulfillment of the Requirement of the Award of Masters of Art Degree
in Business Leadership.**

Advisor: - Solomon Markos, Ph.D.

Addis Ababa University School of Commerce

Addis Ababa, Ethiopia

June, 2023

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DECLARATION

I the undersigned, declare that this project study on "Practice and Challenges of Corporate Governance at Ethiopian Electric Utility" is my original work prepared under the guidance of , Solomon Markos, (Ph.D.) and all the sources material used for this project have been properly acknowledged in the reference.

Name

Signature

Date

LETTER OF CERTIFICATION

This is to certify that Azeb Kebede has carried out her project work on the topic entitled "Practice and Challenge of Corporate Governance at Ethiopian Electric Utility" under my guidance and supervision. Accordingly, I here assure that her work is appropriate and standard enough to be submitted for the award of Master of Arts in Business Leadership.

Advisor

Signature

Date

Solomon Markos (Ph.D.)

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Internal Examiner

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Date

External Examiner

Signature

Date

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Azeb Kebede

June 2023

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ABBREVIATION AND ACRONYMS

EEU	Ethiopian Electric Utility
OECD	Organization for Economic Cooperation and Development
SD	Standard Deviation
SPSS	Statistical Package for Social Science Studies

ABSTRACT

The purpose of this study was to assess the Practices and Challenges of Corporate Governance at Ethiopian Electric Utility. The study adopted a descriptive type of research design. The research was done based on primary and secondary data where the primary data was collected through questionnaires and the secondary data is obtained from previous study, books, articles, journals, company records and proclamations. A total of 98 questionnaires were distributed to directorates, middle level managers and employee representatives at the corporate level of the utility. The study used SPSS version 26 software to analyze collected data. Findings from the respondents were summarized as practice of the Corporate Governance and challenges in application of corporate governance in the utility. According to the respondents, most of the corporate governance principles are practiced in the utility. However unclear strategy, insufficient focus on basic and fundamental issues, existence of political interference in the operation of the utility and lack of alignment between management and board are the most challenging factors in practicing corporate governance principles in the utility

Key words: Corporate Governance, Corporate Governance Practices, Corporate Governance Challenge.

CHAPTER ONE

INTRODUCTION

Background of the Study

The concept of corporate governance traditionally originates from corporate business, meaning managing people and controlling resources of the entity to deliver on the expectations of stakeholders. It also ensures a good balance between the interest of the organization and its stakeholders (Amore & Bennedsen, 2016). According to Rezaee, (2009), corporate governance is the process affected by a set of legislative, regulatory, legal, market mechanisms, listing standards, best practices, and efforts of all corporate governance participants, including the company's directors, managers, auditors, legal counsel, and financial advisors, which creates a system of checks and balances between shareholder value and interests of other stakeholders.

Corporate governance has also been defined as the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all aspects of their business activity (Solomon, 2010).

Corporate governance is not just corporate management; it is something much broader to include a fair, efficient, and transparent administration to meet certain well defined objectives. It is structuring, operating and controlling a company with a view to achieving long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers and to comply with the legal and regulatory requirements, apart from meeting environmental and local community needs (Fernando, 1997).

Corporate governance is a system of rules and institutions that determine the control and direction of a company and that define relations among the company's primary participants including board of directors, managers, shareholders and other stakeholders (Hussein, 2012).

The purpose of corporate governance is to help build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies (OECD, 2015).

Corporate Governance is a mechanism for the corporate success and helps to improve efficiency of an organization by better utilizing resources. Effective governance in the public sector

encourages better decision making, efficient use of resources and strengthens accountability for the stewardship of resources (Mutahaba, 2014).

Good governance is characterized by strong inspection which provides important pressures for enhancing public sector performance and tackling misconduct. It also improves management, leading to more effective implementation of the chosen interventions, better service delivery and better outcomes (IFAC, 2013).

Background of the organization

Ethiopian Electric Utility is a monopoly public Utility which was established on October 2013 by the Council of Ministers Regulation No. 303/2013 as amended by Regulation No. 382/2016. Ethiopian Electric Utility is mandated to deal with the operation of Substations & power transmission lines up to 66 kV, to undertake construction works & operation of off-grid electricity generation, to construct and administer electric distribution networks, to sell and purchase bulk electric power on transmission lines up to 66 kV and is mandated to initiate electric tariff amendments. (www.eeu.gov.et).

Ethiopian Electric Utility is governed by public Utility proclamation no. 25/1992 & is operating under a Board of Management while it is organized under Ethiopia Investment Holding. The Ethiopian Electric Utility has its head office in Addis Ababa around Piazza at a building it owns and has 13 regional offices following the State's government structure; there are more than 28 districts and 554 customer service offices led by those regions (www.eeu.gov.et).

Problem Statement

Most industrialized economies are characterized by open and competitive markets firmly rooted in the rule of law, with private enterprises as the predominant economic actors. However, in some other countries, including many emerging economies, state owned enterprises represent a not insubstantial part of GDP, employment and market capitalization. Even in countries where state owned enterprises play only a minor role in the economy, they are often prevalent in utilities and infrastructure industries, such as energy, transport, telecommunications and in some cases also hydrocarbons and finance, whose performance is of great importance to broad segments of the population and to other parts of the business sector. Consequently, good

governance of state owned enterprises is critical to ensure their positive contribution to economic efficiency and competitiveness (OECD, 2015).

Electricity is a very important infrastructure to support economic growth, encourage investment and industrialization, which has a sustainable impact on job creation and economic growth. It is essential to ensure the availability of an adequate, reliable, and affordable electricity supply. In particular, the availability of electric supply, which is internationally competitive in terms of capacity, price, and quality, has an outstanding role in sustaining the country's growth and building a strong economy.

Corporate governance aims at facilitating effective monitoring and efficient control of business. Its essence lies in fairness and transparency in operations and enhanced disclosures for protecting the interests of different stakeholders (Arora & Bodhanwala , 2018). Good corporate governance contributes to the efficient mobilization and allocation of capital, the efficient monitoring of corporate assets, the effectiveness of overall corporate performance, and improved national economic performance. On the other hand, bad corporate governance reduces a country's competitiveness and constrains its economic growth potential.

The practices of good corporate governance can be used to solve a number of existing problems that continuously observed in the low practice of transparency, accountability, responsibility and fairness. Such challenges are difficulties that obstruct the process of providing quality service.

Transparency is a good management principle which focuses on informing the stakeholders about the firm's activities, plans and risks in line with its business strategies. It refers to the company's desire to provide clear information to the stakeholders, mainly shareholders. Financial and non-financial information is important for investors to make and apply investment related decisions. Corporate governance principles constitute a set of understanding and arrangements which ensure that financial and non-financial information requirements of all the stakeholders are met effectively (Ayboga, 2020).

Most of the studies were undertaken on the corporate governance practices in Ethiopian financial sectors for instance Abebe, (2015) examined corporate governance practices in banking institutions centering on Construction and Business Bank. Abreham & Raju , (2015) studied the impact of corporate governance mechanisms on the performance of Ethiopian insurance company. Another study by Minga (2013) focused on corporate governance and ownership

structure of large business sectors in Ethiopia. Asamnew (2016) studied the relationship between corporate governance and Ethiopian insurance industry using internal and external corporate governance mechanisms. Gardachew (2015) studied effect of corporate governance on financial performance of insurance industry in Ethiopia.

After reviewing literatures and interviewing the utility's personals in managerial level, the researcher observed the existence of some critical problem with respect to practicing corporate governance principles in the utility, In addition the researcher also observed that most of the studies with respect to corporate governance practices, particularly in the context of Ethiopia were done in the banking and insurance sectors.

Therefore, this study aimed to bridges the gap by assessing the current practices and challenges of Corporate Governance at Ethiopian Electric Utility in comparison with the OECD principle and public enterprise law Ethiopia. The assessment is carried out by using the key principles of corporate governance which are transparency, accountability, responsibility and risk management because those elements are related with the raised problem.

Objectives of the Study

The main objective of this study was to assess the practices and challenges of Corporate Governance at Ethiopian Electric Utility in view of the OECD principles and Ethiopia public enterprise law and specifically the study seek:-

- I. To assess the Corporate Governance Practices in Ethiopian Electric Utility
- II. To examine the Internal Control, Risk and Compliance management of the Utility
- III. To examine Transparency and Disclosures practice of the utility.
- IV. To identify the challenges of Corporate Governance in the Utility

Research questions

- I. What is the current Corporate Governance Practices of the Utility?
- II. What is the Internal Control, Risk and Compliance management practice of the Utility?
- III. Is there Transparency and Disclosures practice in the utility?
- IV. What are the main challenges of Corporate Governance in the Utility?

Significance of the study

As the study focus on practices and challenge of Corporate Governance at Ethiopian Electric Utility, comparison with the OECD principles and the Ethiopia public enterprise law the assessment result will expected to have the following significance :-

- To provide input to the utility's management about the corporate Governance practices and challenge.
- To create awareness about the practices and challenges of corporate governance at the Utility.
- To explain how corporate governance plays a critical role in service quality and economic development of the utility.
- To provides the opportunity to gain knowledge on application and practice of corporate Governance in the utility

Scope of the study

The scope of this study is limited to assessment of practices and challenges of Corporate Governance at Ethiopian Electric Utility in light of the OECD principles and public enterprise law of Ethiopia. The study also takes four characteristics of corporate Governance i.e. transparency, responsibility, accountability and risk management which are more related to the raised questions.

Organization of the project paper

The project paper organized in five chapters which includes Introduction; literature review; research methodology; results and discussion; and summary, conclusion and recommendation.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

The concept of corporate governance

The concept or the definition of corporate governance differs from country to another and from study to another, as each corporate system or theory has its own definition (Solomon & Solomon, 2004). Corporate Governance has been defined from a narrow perspective as “the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment” (Shleifer & Vishny, 1997). On the other hand, Gourevitch & Shinn, (2005) defined Corporate Governance from wider perspective as “authority structure of the firm” which lies at the heart of important issues in the society”

Corporate governance could be defined as ‘‘the application of a set of powerful micro-policy instruments in an organization to ensure an efficient and effective use of resources in achieving the main objectives of its capital providers, succeed in the competitive market, as well as maximizing its positive influence on other stakeholders and at the same time, minimizing its negative impacts on them’’ (Agyemang & Castellini, 2015).

Corporate governance is about what the board of a company does and how it sets the values of the company, and it is to be distinguished from the day-to-day operational management of the company by full-time executives (Gyamerah & Agyei, 2016).

The World Bank’s definition of corporate governance is present in two different approaches. First, from the stand point of a corporation, emphasis is placed upon the existing relations between the management board, the owners and the stakeholders who include customers, investors, employees and communities. The main advantage in corporate governance is presented to the board and its ability to achieve a sustainable value by balancing the interests (Mulili & Wong , 2010). From the public policy point of view, corporate governance is defined as the provision for the development, growth and survival of a company and its accountability in the exercise of power and control over entities or companies. Public policy is mandated to discipline companies and business entities as well as ensure that they minimize differences between social and private interests (World Bank, 2010).

According to Mehran, (2003) corporate governance is the relationships among management, the board of directors, shareholders, and other stakeholders in a company. These relationships provide a framework within which corporate objectives are set and performance is monitored. According to Rezaee, (2009) corporate governance is "the process affected by a set of legislative, regulatory, legal, market mechanisms, listing standards, best practices, and efforts of all corporate governance participants, including the company's directors, managers, auditors, legal counsel, and financial advisors, which creates a system of checks and balances with the goal of creating and enhancing enduring and sustainable shareholder value, while protecting the interests of other stakeholders". Corporate governance has also been defined as: "The system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all aspects of their business activity" (Solomon, 2010).

A strong corporate governance foundation is critical for any developing economy. Strong corporate governance must comprise of applicable laws as well as checks and balances, sound financial and accounting practices as well as corporate practices that are in line with the international standards. The legal framework must be clear, timely and consistently enforced. Establishing effective corporate governance is of particular importance for developing countries since its success not only important for the growth of a healthy corporate sector but also for sustaining a healthy market economy (Tricker, 2010).

An overview of corporate governance practices of public sector organizations in developing countries

Effective and efficient management of public sector organizations is an issue of concern in many countries. Melese, et al. (2004) argues that public sector organizations are increasingly being held more accountable for their performance and are therefore expected to operate efficiently and effectively. This means that public sector organizations have to search for ways to improve on their activities. Notable approaches include the use of performance contracts. Similarly, activity based management practices can increase transparency and efficiency when conducting government activities thereby assisting public sector organizations to achieve their objectives (Baird, 2007, Melese et al., 2004).

The proper management of public sector organizations is therefore an issue of concern in developed and developing countries. It has been noted that the concept of governance has existed for centuries. However, many African economies began to pay particular attention to the ideals of good governance in the beginning of the 1980s. According to Qudrat-I Elahi (2009), the term good governance was first mentioned in 1989 World Bank report on Sub-Saharan Africa but since the 1990s many donor agencies have sought the pursuit of good governance. Currently, corporate governance is a buzzword in the business world. In Ethiopia, businesses have been regulated by the new Commercial code; Proclamation No. 1243/2021 and Public Enterprises like Ethiopian Electric Utility is regulated by Public Enterprises Law Proclamation No. 25/1992.

Theoretical review

Principles of good corporate governance

Good corporate governance comprised of the rules and practices that govern the relationship between the managers and shareholders of corporations, as well as stakeholders, such as creditors and employees. It also contributes to financial stability and growth by reinforcement of market confidence, financial market integrity and economic efficiency (OECD, 2004).

According to OECD (2015), effective corporate governance requires a sound legal, regulatory and institutional framework that market participants can rely on when they establish their private contractual relations. This corporate governance framework typically comprises elements of legislation, regulation, self-regulatory arrangements, voluntary commitments and business practices that are the result of a country's specific circumstances, history and tradition.

Basic Theories of Corporate Governance

The concept of corporate governance ranges between narrow and wide concepts. The narrow approach concerns the relationships between corporate managers, boards of directors and shareholder. A narrow view of corporate governance restricts the concept merely to the relationship between the business corporation's management and its owners, the shareholders. This view is reflected in the Agency Theory (Solomon & Solomon, 2004). Baklouti et al. (2016) also observed that the agency theory is an analytical expression of the contractual relationship existing between two parties. On the other hand, the wide definition of corporate governance imposes upon the business corporation responsibility for its shareholders, stakeholders and its

entire community (Solomon & Solomon 2004). In this regard, a broader view includes the stakeholders of the business corporation such as employees, suppliers, creditors, customers, in addition to the corporation management and shareholders (Solomon & Solomon, 2004). Accordingly, this definition reflects the Stakeholder Theory too.

Agency Theory

This theory focuses on the contractual relationship nature between shareholders and management. According to this theory, the shareholder's work as principals and management are considered as the agent of owners (Khan, 2011). Agency theory focuses on the opportunistic behavior of managers where they try to put their interests first by sacrificing shareholders' interests. As a result, the cost of solving agency problems is increased because under the corporate governance mechanism several measures need to be taken by the board of directors such as the establishment of numerous committees (Yusoff & Alhaji, 2014).

Stakeholder Theory

Stakeholder theory is the further extension of agency theory. It is argued that agency theory has limited scope because it identifies the interest of shareholders only. The stakeholder theory suggests that a firm should create value for all stakeholders, not just shareholders (Freeman et al., 1984). In the current business environment not only owners or shareholders are more interested in the success of the business but also the suppliers, creditors, employees, potential investors, government & regulatory organizations, local community, lenders, trade associations, and the general public have a direct or indirect interest in business activities. This notion brings stakeholders theory to a more prominent position, where all stakeholders' interest has been considered and acknowledged. This theory refers to dealing with all stakeholders on fairer basis (Harrison et al., 2015, Klepczarek, 2017). The stakeholder theory was criticized because the performance of a firm is not and should not be measured only by gains to its stakeholders (Jensen, 2002).

Resource Dependence Theory

Resource dependence theory introduces accessibility to resources are a crucial aspect of corporate governance discussion. Resource dependence theory is the study of how the external environmental resources of organizations affect the behavior of the organization. The basic

proposition of this theory is based on creating links between the firm and the external environment; directors are responsible to match the changing environment trends with the firm capabilities (Klepczarek, 2017, Yusoff & Alhaji , 2014). Resource dependence theory highlights the role of the board of directors that they play in acquiring and securing critical resources of the firm by their linkage to the external environment. Thus, board of directors brings different types of resources such as skills, information, raw materials, and uses their expertise to connect business with the resources. Based on this notion board of directors are considered as a key source that connects an organization to the external environment and provide resources to the firm.

Stewardship theory

Stewardship theory is based on the assumption that shareholders give more power and trust to managers (stewards) and in return managers will maximize their wealth (Yusoff & Alhaji, 2014). As a result of this theory, shareholders enjoy more profits and returns on their investments and managers will be able to achieve intrinsic and extrinsic rewards (Abdullah & Valentine, 2009). The primary emphasis of stewardship theory is to understand how managers can be motivated to contribute to the achievement of business goals.

Corporate Governance Practices

According to OECD (2004) principle, the integrity level, the power and the level of resources to handle their duties in a professional and objective manner of those supervisory, regulatory and enforcement authorities are badly important. In Ethiopia case the public enterprises like Ethiopian Electric Utility governed by Public Enterprises Law Proclamation No. 25/1992 to be a legal framework under which public enterprises other than those which have to stay under government control, are operated.

Board of directors and executive management practices

The responsibility of board members in directing an organization towards its strategic goals is necessary. Ethical standards and corporate values need to be established by the Board of Directors for the top-management and the board itself. Mechanisms must be created to ensure some type of accountability. The needs for framework by which the supervisory authority can oversee and discipline management are hence mandatory. Both internal and external governance

are necessary to bring control and accountability. Some of the internal governances are creating unbiased board of directors, establishing appropriate responsibilities and norms within the ranks of executive management, creating code of conduct and developing independent control groups including legal, risk management, internal audit. External governance usually includes those governances from the external body that develop and enforce policies and directives. In theories of management studies the resource based view is one of the most debated and successful (Nason & Wiklund, 2018). Likewise, the level of board members in both education and experience would determine the level of contributions they can make to the organization. According to Minichilli & Hansen ,(2007) knowledge and skills of the board of directors is recognized as critical traits to craft strategic issues for an organization. This idea is also supported by Pugliese et al. ,(2009), boards are legally responsible for the strategy and they are in an excellent position to contribute to strategy. The board members knowledge and experience on overall industry situation, customers demand, expectation and technology are a prerequisite for board involvement in the strategic decision process (Hillman & Dalziel, 2003).

According to Nahapiet & Ghoshal ,(1998) board of directors need to have firm-specific knowledge so that they can speak a common business language that can widen strategy relate discussion in the board meeting room. Boards' ability to oversee the overall aspect of an organization from crafting strategy to review of its implementation will have a good reward at end. As Schmidt & Brauer, (2006) noted boards attention in value creation through active engagement in strategic formulation are worthwhile.

Composition of the board

The expertise level, educational background, gender and size of board members are critical in determining attain better corporate performance achievements, splitting the role of chairman and chief executive to make independent decision is vital. From the agency theory point of view boards have played crucial role in alleviating agency problems that arise from the separation of ownership and control of firms (O'Connell & Cramer 2010).

The composition of board member also helps a company to have diversified pool of talent and expertise in sub committees. As per the Ethiopian Electric Utility rule of procedure of the board, the board shall have four sub committees that regularly report to the full board. The planning and investment subcommittee is responsible for review and evaluate the project and program strategy

and forward with recommendation to the board. The customer service subcommittee is responsible for review and evaluates the customer service strategy and forward with recommendation to the board. The human resource affairs subcommittee provides formal and transparent proposal on the employment and removal of senior management members. The Finance and audit subcommittee is responsible to provide independent review and evaluate financial reporting and internal control system. The audit committee is a subcommittee of the board of directors which plays a very important role in corporate governance and the internal audit procedure by monitoring managers' activities concerning financial disclosure (Sarens & Abdolmohammadi, 2011). The role of the audit committee is strongly connected to internal control and risk management. Filatotchev et al. , (2018) observed that the audit committees contribute immensely to detective and preventive controls, given that the committee is independent of management and autonomous to validate large volumes of accounting and financial information.

Transparency and Disclosure

Every organization shall prepare financial statements reflecting a true and fair view of the operations of the organization during the financial year. The financial statements must include among others, the balance sheet and profit and loss accounts; the sources and application of funds, giving information about the generation and utilization of funds; the value added statement report, the wealth created by the company during the financial year.

Accountability

Accountability is an essential requirement of all public entities, usually enforced by the board, which represents the interest of all stakeholders in the public sector. This duty ensures that public funds are applied according to financial provisions and properly accounted for while they provide value for money (Lartey et al, 2020). Accountability requirements involve setting financial reporting and compliance standards as a priority and ensuring that the entire organization abides by it and considers it the right thing to do (Wang & Sarkis , 2017).

Board Effectiveness

Board effectiveness is defined as achieving the desired result with a given resource and within a specified period of time. Board effectiveness requires technical knowledge, resources, processes

and system supports. Based on industry experience, directors with a relatively higher age average are deemed qualified due to their vast technical know-how (COSO, 2018). The study presumes that if the board is composed of members with the requisite experience and technical knowledge it could be more aligned with the principles of good governance and that will influence delivery on the expectations of stakeholders.

Board Member Qualification

The performance of the board depends on key elements such as competence and the technical knowledge required overseeing and discharging quality supervisory work. In the views of (Dong et al. (2017) the board requires the services of qualified persons with vast knowledge about how things work in accordance with the strategy to sustain the entity long enough to meet its strategic objectives. In other words a good mix of knowledge, integrity, experience and technical knowhow can build an effective board that will enhance good governance.

OECD Principles of Corporate Governance

The purpose of corporate governance is to help build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies (OECD, 2015) .

- Ensuring the Basis for an Effective Corporate Governance Framework- The corporate governance framework should promote transparent and fair markets, and the efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement.
- The rights and equitable treatment of shareholders and key ownership functions -The corporate governance framework should protect and facilitate the exercise of shareholders' rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights
- Institutional investors, stock markets, and other intermediaries - The corporate governance framework should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance

- Role of Stakeholders in Corporate Governance -The corporate governance framework should recognize the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.
- Disclosure and transparency- The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.
- The responsibilities of the board - The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

Over view of Ethiopian Public Enterprises Law Proclamation No 25, 1992

State owned public enterprise like Ethiopian Electric Utility is governed by Public Enterprises Law Proclamation No. 25/1992. The Organization and management of the enterprises have supervising authority, which is designated by the Council of Ministers with a view of protecting the ownership rights of the state.

The supervising authority has powers and duties of appoint and remove the members and chairperson of the board. The number of members of the board shall be at least three but not more than twelve. The maximum of one-third of the members of the board elected by the general assembly of the workers and the rest of the board members is appointed by the supervising authority. The members of the board appointed or elected on the basis of profession, experience and competence. The term of the members of the board is at least 3 but not more than 5 years. The board meets at least once a month and the agenda of the meeting communicated to the board members in advance. The decision of the board is taken by majority vote, in case of a tie, the chairperson cast the vote.

The General Manager of the enterprise attended board meetings without having the right to vote. The board decide on policy issues other than those to be sublimed to the supervising authority, appoint and dismiss the general manager of the enterprise ,approve the employment, assignment and dismissal of employees accountable to the general manager, approve internal regulations, work program and budget of the enterprise;

The general manager organize, direct, administer and control the enterprise's day to day activity; represent the enterprise in all dealings with third parties and in legal proceedings, employ, assign and dismiss the employee of the enterprise accountable to him (Public Enterprises Proclamation, No. 25/1992).

Empirical review

Most of the studies have been conducted in the area of corporate governance in comparison with organization performances. However, assessments on corporate governance practices and challenges were not done to the level of the necessity. (Hussein, 2012) , in his Article "Overview of Corporate Governance in Ethiopia" examines law of company in Ethiopia with specific reference to the powers, composition and remuneration of board of directors in light of corporate governance principles and best practices and found out that the board should be suitably composed of non executive and truly independent members who should be professionally competent. Generally, earlier studies have made immense contributions to corporate governance and financial performance; they were inclined towards the developed countries. Some studies are made in Ethiopia on the topic Effect of corporate governance on firm financial performance in the area of financial institutions such as insurance and banks and little study on non-financial sectors.

Chilumuri (2013) wrote a journal with the purpose of evaluating the practice of corporate governance in state of bank of India with a particular focus on the country's largest commercial bank. In order to do that, he took board practices, stakeholder's service and discloser and transparency of information as a variable of measurement. Based on his finding, the State of bank of India is implementing all the provisions of corporate governance according to the Reserve Bank of India directions. In terms of boards practice and disclosure of information, the state of bank of India conducts different board meetings regularly to provide effective leadership on functional matters and to monitor banks performance. Moreover, it is found that the state of bank of India established clear documentation and transparent management processes for policy development, implementation, decision making, monitoring, control and reporting. Concerning to stakeholders service, the state is performing well in terms of increasing the e-banking service customer accounts and engagement in social service activities. However Chilumuri (2013),

points out that there are some drawbacks that hinder the good performance of the bank and implementation of the corporate governance provisions. These include ineffectiveness of customer service committee, poor risk management and poor internal control system. Finally, he suggests that the corporate governance practice in the State Bank of India should improve for best investment policies, appropriate internal control systems, better credit risk management, better customer service and adequate automation in order to achieve excellence, transparency and maximization of stakeholder's value and wealth.

The study made by Ayandele & Emmanuel (2013) on Corporate Governance Practices and Challenges in Africa examined that the practice of corporate governance in developing countries, and specifically in Africa by using the efficacy of corporate governance mechanisms and legal (legislation) framework. The study show that legislation relating to corporate governance and analysis of the standard of corporate governance in Africa the institutions and the legal framework for effective corporate governance appear to be at a dismal level and compliance and enforcement appear to be weak or nonexistent. Further, the study observe that with effective corporate governance based on core values of integrity and trust, companies will have competitive advantage in attracting and retaining talent and generating positive reactions in the marketplace. The study also observes a slow pace of operational performance in most African companies especially with those with poor ethical and corporate governance practices and concludes that corporate governance practices in most African countries are ineffective, inefficient and have ultimately failed.

Firehiwot (2016) on her study on the effect of corporate governance in financial performance of the banking industry takes a sample of none banks from the existing 18 commercial banks operating in Ethiopia using a quantitative and qualitative technique. ROE was considered as a dependent variable and board Members 'industry experience, board size, board gender diversity, board members educational qualification, size of audit committee and frequency of board meeting were used as independent variables. The findings of the study revealed that an increase in board size, audit committee size and meeting frequency would lead to less effectiveness and efficiency in monitoring the activities of management. However, board members educational qualification, industry specific experience of directors and effect of new corporate governance directive positively affected financial performance of the banks.

Okpara (2010) in his study *Perspectives on Corporate Governance Challenges in a Sub-Saharan African Economy* revealed that barriers hindering the implementation and promotion of effective Corporate Governance in Nigeria including misuse of inactive shareholders' rights, lack of board commitment, breach of the regulatory framework, poor enforcement and monitoring systems, and absence of transparency and disclosure.

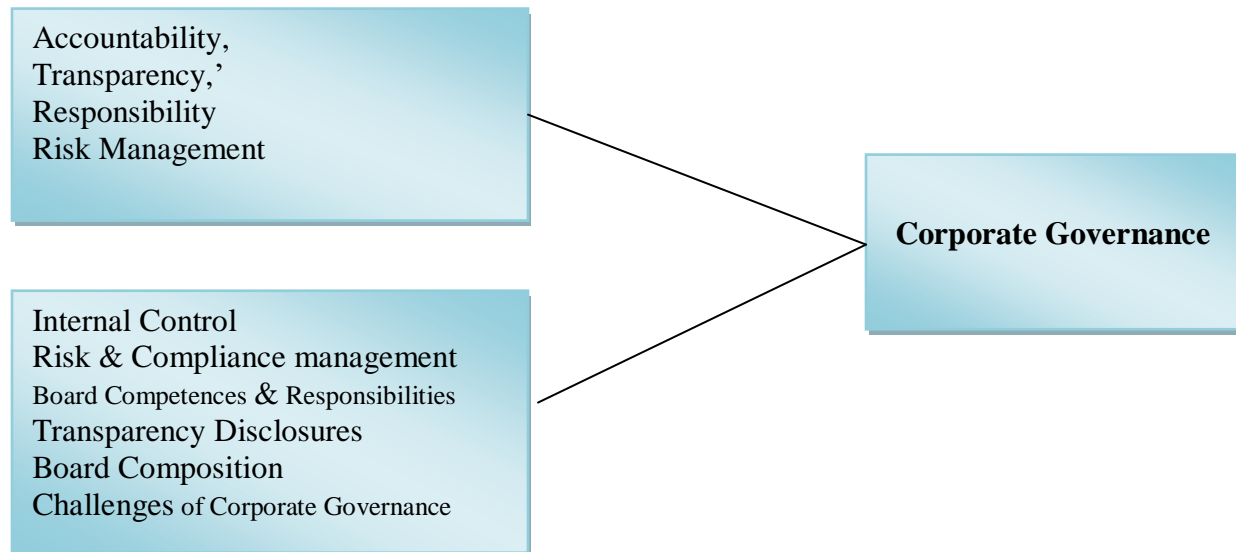
Solomon (2010) , in his study *assessment of Corporate Governance Practices in the Ethiopian Insurance industry* pointed out that the right of shareholders and equitable treatment of shareholders were adequately addressed in the governance practice of the insurance companies. Overall, with some limitations in the importance of insurance associations and executive board of directors; the governance framework of insurance companies is consistent with the principle.

A study made by Kebede (2018) to examine the policies and practices of corporate governance in the Commercial Bank of Ethiopia by considering the basis of best practices and 20 principles which endorsed by Basel committee on Banking Supervision found that Commercial Bank of Ethiopia has a corporate governance policy, which adopted the principles enshrined in Basel Committee and OECD guidelines. The bank uses these basic principles to guide the roles and responsibilities of key corporate actors, design of remuneration structure, performance management systems, and internal audit, risk, and compliance management processes of the bank. In addition, he found out that both internal and external factors affect the effectiveness of the policies and practices of corporate governance. Based on the findings, the study recommended that the board, senior management, National Bank of Ethiopia, and the government should work together to ensure the integrity and effectiveness of the policies and practices of corporate governance in the bank

The study on *Corporate Governance Issues in the Public Sector board Perspective and Peculiarities* by Lartey et al .(2020) in Ghana concluded that board leadership, accountability, effectiveness, board members' qualifications and the audit committee are strong determinants of good governance. Similar to the other studies the result showed that board size is negatively associated with corporate governance irrespective of the sector. The study also concludes that aligning the board to good governance principles is a difficult task without the support of an independent audit committee consisting of majority non-executive directors.

Conceptual Framework

Based on the review of literatures and the study objectives, the conceptual framework developed as shown below Conceptual Framework to assess the Practice and challenges of Corporate Governance Ethiopian Electric Utility.



CHAPTER THREE

RESEARCH METHODOLOGY

This chapter is an outline of the methodology that is used by the researcher to achieve the research objectives. The chapter describes, the research design, Data Source, Procedures of Data Collection and instrument, Method of Data Analysis and Ethical Consideration

Research Design

The study used descriptive research design. Descriptive research allows the researcher to assess and describe the present situation of practices and challenges of Corporate Governance at Ethiopian Electric Utility. This method was chosen because it is purely on a theoretical basis where the researcher collect data, analyses, interpret and then presents it in an understandable manner. According to Best and Kahn (2006) descriptive survey is a research design which aims at describing, recording, analyzing and interpreting existing conditions that yield valid and reliable education research results

Data Source

Both primary and secondary data sources were used. Primary data collected from directorates, middle management and employee representatives in head office through structured questionnaires. The secondary data obtained from previous study, books, articles, journals, company records and proclamations from the internet.

Procedures of data collection

Structured questionnaires were used to generate the quantitative information relevant to answer the research questions. The questionnaire is self-administered and prepared in English language. The researcher gave the questionnaires to each respondent by hand, and collects the questionnaires from the respondents. .

The instrument of data collection

Structured close ended types of questions used in the questionnaires to collect primary data. The questionnaires contain standard questions as used by Rob Johns, 2010 involving the construction of multiple-item measures, known as Likert scales.

Target Population

Since the study done on Corporate Governance issues, it's mainly understood and related by high level management. Therefore, the target population was only directorate, managerial staff and employee representatives at corporate level. The total target population includes 98, of which total number of managers in directorate level 17, in middle management level 79 and two of them were employee representatives. The study used the census survey method.

Method of data analysis

Descriptive statistics such as percentages, frequency tables mean and standard deviation using Statistical Package for Social Sciences (SPSS) software were used to analyze the collected data.

Ethical Consideration

Ethical obligations were taken in to consideration by the researcher in the course of developing these studies. Permission of all respondents was considered before administrating the questionnaire. In addition, the researcher ensured the respondent that findings of the study and the use of the information is only for academic purposes. Information obtains kept in strict confidentiality by the researcher and findings of the research were present without any variation from the outcome of the research.

CHAPTER FOUR

RESULT AND DISCUSSION

Introduction

This chapter covers presentation of data analyses using percentages, frequency, mean and standard deviation. Total of 98 questionnaires were distributed to directorates, middle level managers and employee representatives at corporate level. Of which 90 (92%) questionnaires were valid and used for analysis. Eight questionnaires were not properly filled and are thus excluded from analysis.

Socio demographics characteristics of respondents

The respondents' socio-demographics characteristics i.e. gender, age group, education, work experience and level of responsibility are discussed.

Table 1 Respondents Socio-demographics characteristic

		Frequency	Percentage %
Gender	Male	64	71%
	Female	26	29%
	Total	90	
Age	31-40	4	4%
	41-50	46	51%
	>50	40	44%
	Total	90	
Education	PhD	0	0%
	Masters	22	24%
	Degree	68	76%
	Diploma	0	0%
	Total	90	
Work Experience	1 --10	0	0%
	11 -- 15	2	2%
	>15	88	98%
	Total	90	
Level of Function	Directorate	17	19%
	Middle Manager	71	79%
	Employee Representative	2	2%
	Total	90	

Source: own survey, 2023

Table 1 describes the socio demographic characteristic of the respondents.

From the total of 90 respondents, 64 (71%) of respondents were male while 26 (29%) were female and thus it is possible to suggest that the gender distribution of respondents shows the majority of the respondents were male.

Regarding age, 4(4%) of the respondents were in the age category of 31-40 years, 46 (51%) of the respondents were in the age category of 41-50 years old, 40 (44%) of the respondents were in the age category of above 50 years. Thus, from this it is possible to suggest that the majority of respondents were in the age category of 41-50 years.

Regarding educational background, none of the respondents were at Ph.D. or Diploma level. Whereas 22 (24%) of the respondents were at Masters level, 68 (76%) of the respondents were at degree level. From this it is possible to suggest that the majority of the respondents were on degree.

As shown in the above table, 2 (2 %) of the respondents had 11-15 years work experience, 88 (98%) respondents had above 15 years work experience and none of the respondents had below 10 years of work experience. From this it is possible to suggest that the majority of the respondents had above 15 years of work experience.

Finally, the level of function of respondents was also described in the table above. 17(19%) of respondents were at the directorate level, 71(79%) of respondents were at the middle management level and 2(2%) of respondents were employee representatives. Generally, respondent's demography can show a considerable amount of expertise was included for the study in providing valuable information.

Corporate Governance Practices

The respondent's level of agreement in relating to corporate governance practices is discussed below

Table2: Corporate Governance Practices in Ethiopian Electric Utility

Corporate Governance Practice		Response					Mean	SD
		Strongly Disagr.	Disagree	Neutral	Agree	Strongly Agree		
EEU has corporate governance policy and/or procedure that govern its operation on regular basis.	Freq.	0	0	1	69	20	4.21	0.43
	%	0%	0%	1%	77%	22%		
The policy and/or procedures of the utility clearly set the selection, roles, and responsibilities of the board, senior management, and other level managements.	Freq.	0	0	31	34	25	3.93	0.79
	%	0%	0%	34%	38%	28%		
The policy and /or procedure of the utility include performance and remuneration standards for senior management in line with the performance of the utility.	Freq.	0	12	19	24	35	3.91	1.06
	%	0%	13%	21%	27%	39%		
EEU has the guidelines that follow in Risk management, Internal auditing, and compliance management.	Freq.	0	0	0	64	26	4.29	0.45
	%	0%	0%	0%	71%	29%		
The policy and /or procedure of corporate governance allow the utility to meet its goals and objectives at the corporate level.	Freq.	0	0	24	47	19	3.94	0.69
	%	0%	0%	27%	52%	21%		
The policies and /or procedures of corporate governance are well communicated at all levels of the management in EEU.	Freq.	0	40	17	16	17	3.11	0.43
	%	0%	44%	19%	18%	19%		
The Vision, mission, and values of the Utility are clearly communicating to all level of staffs.	Freq.	0	0	11	69	10	3.99	0.48
	%	0%	0%	12%	77%	11%		
EEU has ongoing program to raise employees' awareness on corporate governance issues.	Freq.	0	8	63	19	0	3.12	0.53
	%	0%	9%	70%	21%	0%		
EEU has a policy and/or procedure for payment of board allowance fee.	Freq.	0	0	11	45	34	4.26	0.66
	%	0%	0%	12%	50%	38%		
EEU has regular board meeting schedule	Freq.	0	0	13	44	33	4.22	0.68
	%	0%	0%	14%	49%	37%		
EEU has long term strategic planning and direction	Freq.	0	0	10	38	42	4.36	0.67
	%	0%	0%	11%	42%	47%		
EEU board has a trend of Participatory decision making	Freq.	0	0	10	38	42	4.27	0.77
	%	0%	0%	11%	42%	47%		
Executive management selections is done by the involvement of the board	Freq.	0	31	21	16	22	3.32	1.18
	%	0%	34%	23%	18%	24%		
There is a free and fair atmosphere for a board to undertake activities.	Freq.	0	35	11	20	24	3.36	1.26
	%	0%	39%	12%	22%	27%		
Total N= 90 , Aggregated mean(μ)= 3.88 , S.D = 0.93								

Source: own survey, 2023

As shown in the table 2 above, most of the respondents reflect their level of agreement for those questions in relation to the practice of corporate governance principles in the utility. By this the statement long term strategic planning and direction scores the highest mean value of 4.36 with standard deviation 0.67 followed by the statement EEU has the guidelines that follow in Risk management, Internal auditing and compliance management with a mean value of 4.29 and standard deviation 0.45. On the other hand most of the respondents reflect their reservations on questions "EEU has ongoing program to raise employees' awareness on corporate governance issues" with a mean value of 3.12 and standard deviation 0.53. Whereas 44% of the respondents reflect the level of disagreement on the question policies and /or procedures of corporate governance are well communicated at all levels of the management in EEU, with a mean value of 3.11 and standard deviation 0.43. As shown in the OECD principle, the corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company. The board's responsibility lay on reviewing and guiding corporate strategy, major plans of action, risk management policies and procedures, annual budgets, and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions, and divestitures. Even though some of the respondents reflect their reservations in few questions of the practice of the corporate governance of the utility, most of the respondent's reflect their agreement on the applicability of the corporate governance principles in the utility. By this it can be suggested that the utility practices the basic principles of corporate governance in line with OECD principle and Public enterprise law of Ethiopia. But there is some gap in communication of the policies and /or procedures of corporate governance in all levels of management.

Internal Control, Risk and Compliance management

The respondent's level of agreement in relating to Internal Control, Risk and Compliance management of utility is discussed below.

Table3: The Practices of Internal Control, Risk and Compliance management

Internal Control, Risk and Compliance management		Response					Mean	SD.
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree		
The board and senior management provide the internal audit function with full and unconditional access to any records, file data and physical properties of the utility.	Freq	0	0	19	41	30	4.12	0.73
	%	0%	0%	21%	46%	33%		
There is an ongoing communication about the risk issues and challenges across the utility.	Freq	0	0	49	15	26	3.74	0.88
	%	0%	0%	54%	17%	29%		
The board sub committees' that advise the board and senior management on the utility's compliance with applicable laws, rules and standards.	Freq	0	10	11	40	29	3.98	0.73
	%	0%	11%	12%	44%	32%		
Internal audit reports are provided to the board or its audit committee without filtering of senior management.	Freq	0	10	20	27	33	3.92	1.01
	%	0%	11%	22%	30%	37%		
Total N= 90 , Aggregated mean(μ)= 3.94 , S.D = 0.91								

Source: own survey, 2023

As shown in the table3 above, most of the respondents reflect their level of agreement for those questions in relation to the practice of Internal Control, Risk and Compliance management of the utility. The statement "the practice of the board and senior management in providing the internal audit function with full and unconditional access to any records, the file, data and physical properties of the utility" scores the highest mean value of 4.12 with standard deviation of 0.73. As shown the OECD principle the board should demonstrate a leadership role to ensure that an effective means of risk oversight is in place. Ensuring the integrity of the essential reporting and monitoring systems will require the board to set and enforce clear lines of responsibility and accountability throughout the organization. From the above result it can be suggest that the utility is in line with the OECD principle and Ethiopian public enterprises Law.

Board Competences and Responsibilities

The respondent's level of agreement in relating to Board Competences and Responsibilities of utility is discussed below.

Table 4: Board Competences and Responsibilities

Board Competences and Responsibilities		Response					Mean	SD
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree		
Board members provide mutual support and monitor the operations of the utility.	Freq	0	0	27	46	17	3.89	0.89
	%	0%	0%	30%	51%	19%		
Board members have the required knowledge and skills to perform their oversight roles	Freq	0	9	23	28	30	3.88	0.99
	%	0%	10%	26%	31%	33%		
The board review the performance of the CEO and other executive members and determines remunerations	Freq	0	0	55	2	33	4.18	0.73
	%	0%	0%	19%	44%	37%		
The Board formulates long term strategy of the organization.	Freq	0	0	57	3	30	4.26	0.59
	%	0%	0%	8%	59%	33%		
The board defines and communicate to management their powers, roles and responsibilities	Freq	0	74	16	0	0	3.90	0.81
	%	0%	7%	18%	54%	21%		
The board approves proposals from the management after thorough scrutiny, debate and analysis	Freq	0	6	12	44	28	4.04	0.85
	%	0%	7%	13%	49%	31%		
Total N= 90, Aggregated mean(μ)= 4.02 , S.D = 0.80								

Source: own survey, 2023

As shown in the table 4 above, most of the respondents reflect their level of agreement on Board Competences and Responsibilities. The statement ‘‘the board reviews the performance of the CEO and other executive members and determines remunerations’’ scores the highest mean of 4.18 with standard deviation of 0.73. As stated in the OECD principles the boards should regularly carry out evaluations to appraise their performance and assess whether they possess the right mix of background and competences and the board members should be able to commit themselves effectively to their responsibilities. By this it can be suggested that the utility practices the basic principles of corporate governance in line with OECD principle and Public enterprise law of Ethiopia.

Transparency and Disclosures

The respondent's level of agreement in relating to Transparency and Disclosures practice of utility is discussed below.

Table5: Transparency and Disclosures

Transparency and Disclosures		Response					Mean	SD
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree		
The board and management members are transparent to stakeholders	Freq	0	26	46	18	0	2.91	0.70
	%	0%	29%	51%	20%	0%		
All material natures are being reported including related party, fixed asset, technology	Freq	0	0	39	19	32	3.92	0.89
	%	0%	0%	43%	21%	36%		
The utility discloses full information about the members of its board, their qualification, and other company directorship and selection process.	Freq	0	37	19	34	0	2.97	0.89
	%	0%	41%	21%	38%	0%		
EEU prepares and discloses information in accordance with accounting standards and financial and non-financial disclosure.	Freq	0	0	46	10	34	3.87	0.94
	%	0%	0%	51%	11%	38%		
EEU has a trend of posting Audited financial reports on newspaper/ website.	Freq	0	90	0	0	0	2	0
	%	0%	100%	0%	0%	0%		
There is Clarity of rules, regulations and decisions in the utility	Freq	0	14	17	38	21	3.73	0.99
	%	0%	16%	19%	42%	23%		
Total N= 90 , Aggregated mean (μ)= 3.23 , S.D = 1.06								

Source: own survey, 2023

As shown in the above table, the respondents on the transparency and disclosures, all material natures are being reported including related party, fixed asset, technology identified with the highest mean of 3.92, standard deviation of 0.89, whereas 41 % of the respondent reflect their level of disagreement on the question the utility disclose full information about the members of its board, their qualification, and other company directorship and selection process with mean value of 2.97 and standard deviation 0.89 and the trend of posting financial reports on newspapers/ websites with mean value of 2.00, standard deviation of 0.00. From the result it can be suggested that the utility applies some of the corporate governance practice in line with the OECD principles and Public enterprise law of Ethiopia but there is a gap in disclosing full information about the members of its board, their qualification, and other company directorship and selection process and a trend of posting Audited financial Statements on newspaper/ website..

Board Composition of the utility

The respondent's level of agreement in relating to Board Composition of utility is discussed below.

TABLE 6: Board Composition of the utility

Board Composition of the utility		Response					Mean	SD.
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree		
The boards are composed of competent members	Freq	0	0	18	59	13	3.94	0.59
	%	0%	0%	20%	66%	14%		
The board members have diverse educational qualification	Freq	0	0	18	32	40	4.24	0.77
	%	0%	0%	20%	36%	44%		
The board members have adequate knowledge and skill in industry	Freq	0	0	21	52	17	3.96	0.65
	%	0%	0%	23%	58%	19%		
The board have different board subcommittee such as Planning and Investment, Customer Service Finance and Audit	Freq	0	4	20	35	31	4.03	0.87
	%	0%	4%	22%	39%	34%		
The Board have composed of Executive members which are managers, officers or employees of the utility	Freq	0	3	11	59	17	4.00	0.67
	%	0%	3%	12%	66%	19%		
The Board have composed Non-exclusive board members which are those who are not linked to the company's daily management and who are not employed by the company	Freq	0	0	19	43	28	4.10	0.72
	%	0%	0%	21%	48%	31%		
The presence of female in the board of directors in terms of boards' diversity	Freq	0	0	15	41	31	4.21	0.71
	%	0%	0%	17%	46%	38%		
Total N= 90 , Aggregated mean (μ)= 4.03, S.D = 0.78								

Source: own survey, 2023

As shown in the above table, the reflections of respondents level of agreement on the Board Composition of the utility with the highest mean value of 4.24, standard deviation of 0.77, was the board members have diverse educational qualification, whereas the boards are composed of competent members had lowest mean value of 3.94, standard deviation of 0.59. However, the board members have adequate knowledge and skill in industry had a moderately lower mean value of 3.96 with standard deviation 0.65. As stated in the Ethiopian public enterprises Law and OECD principle, the member of the board shall be appointed on their profession, experience and competency. From this it can be suggest that the utility's corporate governance practice in relation to Board Composition is in line with OECD principle and Ethiopian public enterprises Law.

Corporate Governance Challenges

The respondent's level of agreement in relating to Challenges of Corporate Governances discussed below.

TABLE 7: Challenges of Corporate Governance

Challenges of Corporate Governance		Response					Mean	Std Dev.
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree		
Insufficient focus on basic and fundamental issues	Freq	0	0	0	67	23	4.26	0.44
	%	0%	0%	0%	74%	26%		
Existence of political interference in the operation of the utility	Freq	0	0	0	63	27	4.30	0.46
	%	0%	0%	0%	70%	30%		
Lack of alignment between Management and board	Freq	0	0	19	42	29	4.11	0.73
	%	0%	0%	21%	47%	32%		
Unclear strategy	Freq	0	0	11	34	45	4.38	.70
	%	0%	0%	12%	38%	50%		
Unwillingness to challenge	Freq	0	15	11	39	25	3.82	1.02
	%	0%	17%	12%	43%	28%		
Delay in providing service	Freq	0	20	17	33	20	3.74	1.04
	%	0%	22%	19%	37%	22%		
Unwillingness to bear responsibility	Freq	0	12	20	40	18	3.71	0.94
	%	0%	13%	22%	44%	20%		
Knowledge gaps	Freq	0	0	29	29	32	4.03	0.83
	%	0%	0%	32%	32%	36%		
Lack of independence or conflicts of interest	Freq	0	0	14	76	0	3.84	0.36
	%	0%	0%	16%	84%	0%		
Misallocated resources	Freq	0	48	10	32	0	2,82	0.83
	%	0%	53%	11%	36%	0%		
Existence of short-term focus	Freq	0	0	15	49	26	4,12	0.67
	%	0%	0%	17%	54%	29%		
Excessive commitments	Freq	0	18	23	26	23	3.60	1.08
	%	0%	20%	26%	29%	26%		
Total N= 90 , Aggregated mean (μ)= 3.89, S.D = 0.88								

Source: own survey, 2023

As shown in the table above most of the respondents reflects their level of agreement that all stated above are the challenges of the utility in practicing corporate governance with different levels. Of them the most challenging factors in the practicing corporate governance are the existence of unclear strategy with the highest mean value of 4.38 and standard deviation 0.70 followed by existence of political interference in the operation of the utility with mean value of 4.30 and standard deviation 0.46, insufficient focus on basic and fundamental issues with mean value of 4.26 and standard deviation 0.44, existence of short-term focus with mean value of 4.12 and standard deviation 0.67 and lack of alignment between management and board with mean value of 4.11 and standard deviation 0.73.

Strategy helps to achieve the organization's visions that define the long term objective of the organization. Without a clear strategy the organization cannot meet long term objectives. As stated in the OECD principle and Public enterprise Law of Ethiopia the corporate governance is a long term issue that the board needs to focus on long term corporate targets. As stated in the OECD principle Supervisory, regulatory and enforcement authorities should have the authority, integrity and resources to fulfill their duties in a professional and objective manner.

CHAPTER FIVE

SUMMARY, CONCLUSION and IMPLICATION

Summary of Major Findings

The objective of this project is to assess the practices and challenges of corporate governance at Ethiopian Electric Utility in relation to the OECD Principles and Public enterprise Law of Ethiopia and in particular to examine the internal control, risk and compliance management practice of the utility, to examine transparency and disclosure practices of the utility and identify the corporate governance challenges in the utility

Summary of findings on Corporate Governance Practices of the utility

Most of the respondents reflect their level of agreement for those questions in relation to the practice of corporate governance principles in the utility. By this the statement long term strategic planning and direction scores the highest mean value of 4.36 with standard deviation 0.67 followed by the statement EEU has the guidelines that follow in Risk management, Internal auditing, and compliance management with a mean value of 4.29 and standard deviation 0.45 On the other hand most of the respondents reflect their reservations on questions 'EEU has ongoing program to raise employees' awareness on corporate governance issues ' with a mean value of 3.12 and standard deviation 0.53 and the policies and /or procedures of corporate governance are well communicated at all levels of the management in EEU, with a mean value of 3.11 and standard deviation 0.43. Most of the respondent's reflect their agreement on the applicability of the corporate governance principles in the utility by this it can be suggested that the utility practices the basic principles of corporate governance in line with OECD principle and Public enterprise law of Ethiopia. The result also indicates that the corporate governance policy and procedure did not communicate well to all level of managers.

Summary of findings on the Practices of Internal Control, Risk and Compliance management practice of the utility

Most of the respondents reflect their level of agreement for those questions in relation to the practice of Internal Control, Risk and Compliance management of the utility. The statement 'the practice of the board and senior management in providing the internal audit function with full and unconditional access to any records, the file, data and physical properties of the utility'

scores the highest mean value of 4.12 with standard deviation of 0.73. Followed by the statement board sub committees' that advise the board and senior management on the utility's compliance with applicable laws, rules and standards with mean value 3.98 standard deviation of 0.73. From the result it can be suggest that the utility is in line with the OECD principle and Ethiopian public enterprises Law.

Summary of Findings on the Board Competences and Responsibilities of the utility

Most of the respondents reflect their level of agreement on Board Competences and Responsibilities. The statement the Board formulates long term strategy of the organization. scores the highest mean of 4.26 with standard deviation of 0.59 followed by the board reviews the performance of the CEO and other executive members and determines remunerations with the mean value 4.18 and standard deviation of 0.73 and the board approves proposals from the management after thorough scrutiny, debate and analysis with the mean value 4.04 and standard deviation 0.85. As stated in the OECD principles the boards should regularly carry out evaluations to appraise their performance and assess whether they possess the right mix of background and competences and the board members should be able to commit themselves effectively to their responsibilities. From the result it can be suggested that the utility practices the basic principles of corporate governance in line with OECD principle and Public enterprise law of Ethiopia.

Summary of Findings on the Transparency and Disclosures practice of the utility

Most of the respondents on transparency and disclosures reflect their level of agreement for question all material natures are being reported including related party, fixed asset, technology identified with the highest mean of 3.92, standard deviation of 0.89, followed by the utility prepares and discloses information in accordance with accounting standards and financial and non-financial disclosure with mean value 3.87 and standard deviation 0.94. As stated in the OECD principles the corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company. Whereas 41 % of the respondent reflect their level of disagreement on the question the utility discloses full information about the members of its board, their qualification, and other company directorship and selection process with mean value of 2.97 and standard deviation 0.89 and none of the

respondents reflect the level of agreement on the question the utility has a trend of posting Audited financial reports on newspaper/ website and scored the lowest mean value of 2.00, standard deviation of 0.00. As showed in the OECD principles the corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company. From the result it can be suggested that the utility applies some of the corporate governance practice in line with the OECD principles and Public enterprise law of Ethiopia but there is a gap in disclosing full information about the members of its board, their qualification, and other company directorship and selection process and a trend of posting Audited financial reports on newspaper/ website.

Summary of findings on the Board Composition of the utility

Most of the respondents reflect their level agreement on the question in related to Board Composition of the utility with the highest mean value of 4.24, standard deviation of 0.77, was the board members have diverse educational qualification followed by the statement presence of female in the board of directors in terms of boards' diversity with mean value 4.21 and standard deviation 0.71 and the board have different board subcommittee such as Planning and Investment, Customer Service Finance and Audit with the mean value 4.03 and standard deviation 0.87. As stated in the Ethiopian public enterprises Law and OECD principle, the member of the board shall be appointed on their profession, experience and competency. From this it can be suggest that the utility's corporate governance practice in relation to Board Composition is in line with OECD principle and Ethiopian public enterprises Law.

Summary of findings on Challenges of Corporate Governance in the utility

Most of the respondents reflect their level of agreement that all stated challenges in the questioner are the challenges of the utility in practicing corporate governance with different levels. Of them the most challenging factors in the practicing corporate governance are the existence of unclear strategy with the highest mean value of 4.38 and standard deviation 0.70 followed by existence of political interference in the operation of the utility with mean value of 4.30 and standard deviation 0.46, insufficient focus on basic and fundamental issues with mean value of 4.26 and standard deviation 0.44, existence of short-term focus with mean value of 4.12 and standard deviation 0.67 and lack of alignment between management and board with mean

value of 4.11 and standard deviation 0.73. As stated in the OECD principle and Public enterprise Law of Ethiopia the corporate governance is a long term issue that the board needs to focus on long term corporate targets and supervisory, regulatory and enforcement authorities should have the authority, integrity and resources to fulfill their duties in a professional and objective manner.

Conclusion

The main objective of this study was to assess the practices and challenges of Corporate Governance at Ethiopian Electric Utility in view of the OECD principles and Ethiopia public enterprise law.

In regard to Corporate Governance Practices of the utility, the study concluded that the utility practices the basic principles of corporate governance in line with OECD principle and Public enterprise law of Ethiopia. But there is some gap in communicating the policies and /or procedures of corporate governance in all levels of management.

In regard to Internal Control, Risk and Compliance management, Board Competences, Responsibilities and Board Composition the study concluded that the utility practices in line with OECD principle and Public enterprise law of Ethiopia.

In regarding to transparency and disclosure practice of the utility the study concluded that the utility applies some of the corporate governance practice in line with the OECD principles and Public enterprise law of Ethiopia but there is a gap in disclosing full information about the members of its board, their qualification, and other company directorship and selection process and posting Audited financial Statement on newspaper/ website.

In regarding the challenge in practicing corporate governance, the study concludes that insufficient focus on basic and fundamental issues, existence of political interference in the operation of the utility, lack of alignment between management and board, unclear strategy and existence of short-term focus are the most challenging factors in the utility in practicing corporate governance principles.

Recommendation

Based on the findings, the researcher's recommendations discussed below

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 (OECD, 2015).

The purpose of corporate governance is to help in building an environment of trust, transparency, and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies (OECD, 2015).

Good governance is characterized by strong inspection which provides important pressures for enhancing public sector performance and tackling misconduct. It also improves management, leading to more effective implementation of the chosen interventions, better service delivery and better outcomes (IFAC 2013).

- Corporate governance policy and procedure of the utility should communicate to all level of managers and employees.
- The management should disclosed timely and accurate disclosure on all material matters regarding the utility's operation, including the financial situation, performance and governance of the utility.
- The management should disclose full information about the members of its board, their qualification, and other company directorship and selection process
- The utility should timely post Audited financial statement on newspaper/ website

Further Research

The study assesses the practice and challenge of corporate governance in the Ethiopian Electric Utility in comparison with OECD principles and the public enterprise law of Ethiopia. The researcher recommends further research be conducted in similar industries like the energy sector and other public enterprises, led by Public Enterprises Proclamation No. 25/1992, to analyze the practice and challenge of corporate governance in public sectors in Ethiopia.

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Appendix

Questionnaire

Addis Ababa University

College of Business and Economics

School of Commerce

Questionnaire

Dear respondents,

The study is being conducted in partial fulfillment to the requirements of the Master's Program in Business Leadership at Addis Ababa University, School of Commerce. The study aims to assess the practices and challenges of Corporate Governance at Ethiopian Electric Utility.

As part of the research, survey questionnaire is planned to be addressed to the Directors, Middle management and employee representative position of the utility. Since you are one of the selected representatives of the organization, you are kindly requested to participate in the study by responding to the survey questionnaire. This questionnaire is prepared only for the purpose of gathering information to assess the practices and challenges of Corporate Governance of the utility. It is assured that the data provided and the identity of the respondents will be kept confidential to the researcher and will only be used for meeting the study objectives.

Thank you for your cooperation.

Azeb Kebede – azebkebede22@gmail.com +251-91-345-3462

Section I

General Information (Please tick in the appropriate option)

Gender: Male Female

Age : 20-30 31-40 41-50 >50

Education: PhD Masters Degree Diploma

Work Experience; 1-5 Years 6-10 Years 11-15 Years >15 Years

Level of Function: Director Middle Manager Employee Representative

Section II

Corporate Governance practices

Please tick one box for each statement below to show how much you agree or disagree with it. The scale of 1– 5 is consider as 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree.

The extent of Corporate Governance Practices in Ethiopian Electric Utility

No	Description	1	2	3	4	5
1	EEU has corporate governance policy and/or procedure that govern its operation on regular basis.					
2	The policy and/or procedures of the utility clearly set the selection, roles, and responsibilities of the board, senior management, and other level managements.					
3	The policy and /or procedure of the utility include performance and remuneration standards for senior management in line with the performance of the utility.					
4	EEU has the guidelines that follow in Risk management, Internal auditing, and compliance management.					
5	The policy and /or procedure of corporate governance allow the utility to meet its goals and objectives at the corporate level.					

6	The policies and /or procedures of corporate governance are well communicated at all levels of the management in EEU.					
7	The Vision, mission, and values of the Utility are clearly communicating to all level of staffs.					
8	EEU has ongoing program to raise employees' awareness on corporate governance issues.					
9	EEU has a policy and/or procedure for payment of board allowance fee.					
10	EEU has regular board meeting schedule					
11	EEU has long term strategic planning and direction					
12	Executive management selections is done by the involvement of the board					
13	EEU board has a trend of Participatory decision making					
14	There is a free and fair atmosphere for a board to undertake activities.					

Internal Control, Risk and Compliance management of Ethiopian Electric Utility

No	Description	1	2	3	4	5
1	The board and senior management provide the internal audit function with full and unconditional access to any records, file data and physical properties of the utility.					
2	There is an ongoing communication about the risk issues and challenges across the utility.					
3	The board sub committees' that advise the board and senior management on the utility's compliance with applicable laws, rules and standards.					
4	Internal audit reports are provided to the board or its audit committee without filtering of senior management.					

Board Competences and Responsibilities

No	Description	1	2	3	4	5
1	Board members provide mutual support and monitor the operations of the utility.					
2	Board members have the required knowledge and skills to perform their oversight roles					
3	The board review the performance of the CEO and other executive members and determines remunerations					
4	The Board formulates long term strategy of the organization					
5	The board defines and communicate to management their powers, roles and responsibilities					
6	The board approves proposals from the management after thorough scrutiny, debate and analysis					

Transparency and Disclosures

No	Description	1	2	3	4	5
1	The board and management members are transparent to stakeholders					
2	All material natures are being reported including related party, fixed asset, technology					
3	The utility discloses full information about the members of its board, their qualification, and other company directorship and selection process.					
4	EEU prepares and discloses information in accordance with accounting standards and financial and non-financial disclosure.					
5	EEU has a trend of posting Audited financial reports on newspaper/ website.					
6	There is Clarity of rules, regulations and decisions in the utility					

- **Board Composition of the Utility**

No	Description	1	2	3	4	5
1	The boards are composed of competent members					
2	The board members have diverse educational qualification					
3	The board members have adequate knowledge and skill in industry					
4	The board have different board subcommittee such as Planning and Investment, Customer Service Finance and Audit					
5	The Board have composed of Executive members which are managers, officers or employees of the utility					
6	The Board have composed Non exclusive board members which are those who are not linked to the company's daily management and who are not employed by the company					
7	The presence of female in the board of directors in terms of boards' diversity					

Challenges of Corporate Governance

No	Description	1	2	3	4	5
1	Insufficient focus on basic and fundamental issues					
2	Existence of political interference in the operation of the utility					
3	Lack of alignment between Management and board					
4	Unclear strategy					
5	Unwillingness to challenge					
6	Delay in providing service					
7	Unwillingness to bear responsibility					
8	Knowledge gaps					
9	Lack of independence or conflicts of interest					
10	Misallocated resources					
11	Existence of short-term focus					
12	Excessive commitments					