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**OPERATIONAL AND STRATEGIC READINESS OF ETHIOPIAN
COMMERCIAL BANKS FOR THE EMERGING CAPITAL MARKET: A
MULTI-DIMENSIONAL ASSESSMENT**

**A thesis submitted to Addis Ababa University, school of
commerce, in partial fulfillment of Masters of Science in
corporate finance with specialty in investment management**

By

Moges Abera

ADDIS ABABA UNIVERSITHY

Addis Ababa June, 2025

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Statement of Declaration

I, the undersigned, declare that this research paper is my original work, has never been presented in this or any other university, and that all resources and materials used herein have been duly acknowledged.

Name: Moges Abera

Signature: _____

Date of submission: June 2025

Statement of Certification

This is to certify that **Moges Abera has** carried out his research work on the topic entitled “*Operational and Strategic Readiness of Ethiopian Commercial Banks for the Emerging Capital Market: A Multi-Dimensional Assessment*”. The work is original in nature and is suitable for submission for the award of Masters of Science in corporate finance with specialty in investment management.

Advisor: Dakito Alemu (PhD)

Date: _____

APPROVAL

This is to certify that the thesis entitled “*Operational and Strategic Readiness of Ethiopian Commercial Banks for the Emerging Capital Market: A Multi-Dimensional Assessment*” submitted to Addis Ababa University, school of commerce, for the award of Degree of Masters of Science in corporate finance specialty in investment management is a bona-fide work that has been carried out by Moges Abera under my guidance and supervision.

Advisor: Dr. Dakito Alemu

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Date 03-06-2025

Abstract

Globally, commercial banks play a crucial role in capital markets by offering asset management, structured finance, and leveraging digital and fintech innovations. In Africa, countries like South Africa, Nigeria, and Kenya have seen active bank participation in capital markets despite challenges such as regulatory uncertainties and market volatility. In Ethiopia, the enactment of the Ethiopian Capital Market Proclamation No. 1248/2021 marked a significant milestone in Ethiopia's financial landscape, setting the stage for a robust capital market that can drive economic growth by attracting investments and enhancing market efficiency. The readiness of commercial banks is vital for the success of the emerging capital market. This study examines the operational and strategic readiness of Ethiopian commercial banks, focusing on senior managers' perceptions, competitive strategies, capital adequacy, workforce capabilities, and leadership. A mixed-methods approach was employed, integrating qualitative insights with quantitative data for a comprehensive analysis. The findings reveal that while Ethiopian banks are optimistic about the potential of the capital market, their readiness is moderate due to gaps in strategic planning, risk management, and workforce skills. Competitive strengths such as partnerships and innovation are evident, but weaknesses in pricing strategies and digital infrastructure limit effectiveness. The study recommends targeted training programs, improved risk management frameworks, investment in technology, and leadership development initiatives to enhance banks' preparedness. By addressing these gaps, Ethiopian banks can play a pivotal role in the success of the capital market, contributing significantly to the country's economic development and financial integration.

Key words: capital market, commercial banks, regulatory framework

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Thank you very much.

PREFACE

The transformation of Ethiopia’s financial landscape, particularly the introduction of a capital market under Proclamation No. 1248/2021 and the establishment of the Ethiopian Capital Market Authority (ECMA) and Ethiopian Securities Exchange (ESX), marks a historic shift in the country's economic development efforts. This study, titled “Readiness of Commercial Banks Towards the Emerging Capital Market in Ethiopia,” was inspired by this remarkable development and the critical role that commercial banks are expected to play in this transition.

As financial intermediaries contributing for the majority of the country's economic activities, commercial banks are central to the success of Ethiopia’s capital market initiative. However, the degree to which these banks are operationally, strategically, and institutionally prepared to take part in the emerging market remains largely unexplored. This research was undertaken with the goal of filling that gap by assessing the readiness of commercial banks in Ethiopia to engage with the newly developing capital market system.

It is my hope that this study will contribute meaningfully to ongoing discussions on financial sector reform and serve as a valuable resource for those committed to further study this matter.

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Abbreviations

| | |
|---------|------------------------------------|
| ECMA | Ethiopian Capital Market Authority |
| ESX | Ethiopian Securities Exchange |
| NBE | National Bank of Ethiopia |
| Fintech | Financial Technology |
| ECX | Ethiopian Commodity Exchange |

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

Commercial banks' readiness to participate in capital markets varies widely across the world, Africa, and Ethiopia, depending on legislative frameworks, financial infrastructure, technological capacity, and institutional experience. In developed nations, commercial banks are deeply integrated into capital markets, providing sophisticated financial services such as underwriting, asset management, structured finance and derivatives trading. The digitalization of financial services, fintech developments, and globalization of capital flows have pushed banks throughout the world to evolve in order to fulfill the needs of modern capital markets Bol, Y. (2016).

In Africa, countries with established stock exchanges such as South Africa, Nigeria, Kenya, and Egypt see active participation of banks in capital markets through bond issuance, investment banking, and equities trading. However, challenges such as regulatory uncertainty, market volatility, and limited investor engagement hinder banks from fully integrating into capital markets (Global Finance, 2024). Currently, Africa hosts 29 stock exchanges serving 38 countries, indicating significant progress in capital market development.

In Ethiopia, the development of ESX represents a turning point moment in the country's economic reforms, with the goal of attracting foreign investment and providing new finance options for local enterprises, notably SMEs (ACCA, 2024). The Ethiopian Capital Market Proclamation No. 1248/2021, issued in July 2021, marks a key milestone in Ethiopia's financial regulatory structure. This proclamation established the Ethiopian Capital Market Authority (ECMA), which is in charge of regulating the primary and secondary markets in Ethiopia. Additionally, the ESX, which has been founded as the nation's main securities exchange, controls the new capital market environment.

As the primary intermediaries for credit and savings, commercial banks play a crucial role in Ethiopia's financial system, accounting for 96% of financial institutions contributing to the economy (NBE Financial Stability Report, 2024). Therefore, their readiness to participate in the emerging capital market is essential. Some banks have begun preparations by increasing capital and diversifying services, while others continue to operate traditionally and require substantial

capacity building (Capital Ethiopia, 2024).

CBE's research team has assessed experts' thoughts on the issue. According to Ato Zemedeneh Nigatu (Global Chairman – Fairfax Africa), stock Exchange is not a panacea but one of the essential financial services that Ethiopia (the biggest Economy in Sub-Saharan Africa with no SE) need to setup. As per his prediction, there could be about 50 to 70 companies including all private banks that could get listed on SE initially. On the other hand, Ato EyessusWork Zafu (veteran Banker & Insurer) stated his feeling about the commencement of SE saying a "Miracle is happening in this country". On the other hand, it is not the right time to setup SE in Ethiopia to Ato Tesfaye Hailmechael (Ethiopian Diaspora with vast corporate finance Experience), arguing that there is a need first to establish necessary legal, institutional, human resource and infrastructure requirements.

Understanding financial institutions' readiness on the emerging capital markets is crucial to get a good look at the ever-changing financial landscape. The readiness of commercial banks to interact with emerging capital markets is a significant factor of financial sector development, particularly in economies shifting from undeveloped to more dynamic market systems. The preparedness of Ethiopian commercial banks to engage in this developing capital market is investigated in this study. The output is expected to benefit both the banks in a way showing their state of readiness and way forwards for the policymakers.

1.2 Statement of the problem

The establishment of a capital market in Ethiopia signifies a transformative shift for the financial sector, traditionally dominated by conventional banking methods. Despite the potential benefits, there is limited knowledge about how well-prepared Ethiopian commercial banks are to operate in this new financial environment. Most existing studies focus on the prospects and challenges of establishing a capital market in Ethiopia, as well as its broader economic implications. However, they often overlook the internal readiness factors of commercial banks, such as leadership skills, strategy, capital requirements, and the knowledge and skills of personnel.

The prospects and difficulties of establishing a capital market in Ethiopia have been the subject of numerous researches. According to Samuel Tedla's research from (2023), for example, the current state of the economy and politics do not appear to be major barriers to the establishment of a capital market. However, two significant issues surface: the capital market exchange's liquidity efficiency and the general public's ignorance of its idea.

Research by Samuel Tedla (2023) highlights challenges related to liquidity efficiency and public awareness about the capital market. Meanwhile, Teferi Girma (2021) identifies the potential roles of commercial banks as issuers, investors, and intermediaries, which could enhance resource mobilization and income diversification. However, he also points out significant challenges, such as increased liquidity risks and economic volatility that banks may face in this new environment.

Additionally, Abebe et al. (2021) describe the Ethiopian financial system as an oligopoly dominated by banks that rely heavily on loan income. Limited international capital flows, weak regulatory institutions, and insufficient government intervention further constrain the relationship between stock markets and banks. These challenges underscore the need for a comprehensive assessment of the preparedness of commercial banks to interact with the emerging capital market.

The majority of the current literature concentrates on the prospects and difficulties related to the establishment of a capital market in Ethiopia as well as its wider economic effects. It does not, however, provide much information about the particular preparedness of commercial banks. Furthermore, there aren't many thorough studies that look at the strategic actions Ethiopian commercial banks have done in preparation for the opening of the capital market. This study seeks to bridge this gap by examining the internal and external elements that affect these banks' preparedness, including their leadership, strategy, perception, minimum capital requirement, and personnel knowledge and skill set. By doing so, it aims to provide valuable insights for banking executives, policymakers, and other stakeholders to ensure that commercial banks can effectively support and benefit from the anticipated growth and diversification of Ethiopia's financial sector.

1.3 Objectives of the study

This study addressed the following general and specific objectives

1.3.1 General objective

- To assess the operational, strategic, and regulatory readiness of Ethiopian commercial banks for the emerging capital market.

1.3.2 Specific Objectives

- To assess the perceptions of Ethiopian commercial banks' senior managers towards the emerging capital market.
- To evaluate the competitive strategies employed by Ethiopian commercial banks in preparation for the capital market.
- To analyze the minimal capital requirement of Ethiopian commercial banks in relation to their readiness for the capital market.
- To examine the knowledge and skill levels of the workforce in Ethiopian commercial banks regarding capital market operations.
- To investigate the leadership within Ethiopian commercial banks that influences their readiness for the emerging capital market.

1.4 Research Questions:

1. What are the perceptions of Ethiopian commercial banks' senior managers towards the emerging capital market?
2. What competitive strategies are Ethiopian commercial banks employing to prepare for the capital market?
3. How adequate is the minimal capital requirement of Ethiopian commercial banks in terms of meeting the demands of the emerging capital market?
4. What is the level of knowledge and skill among employees in Ethiopian commercial banks concerning capital market operations?
5. How does leadership within Ethiopian commercial banks impact their readiness for the emerging capital market?

1.5 Significance of the study

An important turning point in Ethiopia's financial history has been reached with the establishment of the Ethiopian Capital Market Proclamation No. 1248/2021. The nation has moved toward a more diversified financial industry with the creation of ECMA and ESX. But there are a lot of chances and difficulties with this shift, especially for commercial banks.

This study will assist in determining the banks' existing operational and strategic planning strengths and weaknesses by offering a thorough evaluation of their preparedness. For banks executives to make focused changes that guarantee the financial sector's strong involvement in the capital market, this knowledge is essential. Additionally, knowing how prepared the banks can assist reduce transitional risks and promote a stable, effective market environment that can draw in both domestic and foreign investors.

This study also adds to the body of knowledge regarding the growth of the financial industry in emerging economies. It closes a significant vacuum in the literature by concentrating on Ethiopia, which frequently ignores the early phases of financial institutions' development in emerging nations. Furthermore, educational institutions, training programs, and professional development efforts that aim to increase the banking sector's capacity will benefit from the study's insights into topics including workforce skills, leadership styles, and minimum capital requirements. In the end, this study will be crucial to Ethiopia's economic development and assimilation into the international financial system. The results may potentially have important ramifications for industry players and regulators.

1.6 scope of the study

This study which examines the readiness of commercial banks for Ethiopia's emerging capital market, focusing on its financial and economic implications, was conducted in the year 2024/25 on the commercial banks found in Ethiopia/Addis Ababa. It explores the capital market's establishment under Proclamation No. 1248/2021 and its impact on banks, analyzing factors like perception, strategy, capital requirements, expertise, and leadership. The research identifies opportunities for banks as intermediaries, issuers, and investors while assessing challenges such as shifts in investment financing and market risks. By bridging traditional banking with capital

market activities, the study provides insights to help stakeholders develop strategies for financial sector growth and broader economic development.

1.7 Limitation of the study

Although this study aims to offer insightful information about Ethiopia's commercial banks' preparedness for the country's developing capital market, some limitations must be noted. The study's conclusions may not be as applicable to other financial sectors in the nation due to its exclusive focus on commercial banks. The overall portrayal of the banking sector's reaction to the capital market may be impacted by the readiness and experiences of smaller or specialized institutions, notwithstanding the prominence of commercial banks in Ethiopia's financial environment.

Since the nation is still developing its capital market infrastructure, one of the limitations in examining the readiness was the lack of data. The researcher successfully navigated this data limitation by employing qualitative methodologies.

Given these limitations, the findings of this study should be evaluated cautiously, taking into account the breadth and methodology's inherent limitations. Furthermore, by including a larger sample of commercial banks, employing mixed-methods approaches for a more thorough analysis, and guaranteeing access to timely and trustworthy data sources to improve the validity and reliability of research findings, future research initiatives could seek to address these limitations.

1.8 Definition of Terms

Capital market - is mainly the market in which long term debt and equity instruments such as stock, bond, and government securities are traded, which can be categorized into two categories depending on the type of issue (new or pre-issued) - Primary and Secondary Markets

Capital Market Proclamation No. 1248/2021 - refers to the legal framework enacted in July 2021 in Ethiopia, aimed at establishing and regulating the country's capital markets.

The Ethiopian Capital Market Authority (ECMA) - is the regulatory body overseeing the capital markets in Ethiopia. It is responsible for ensuring the efficient operation, transparency,

and integrity of the capital markets while protecting investors' interests. The ECMA regulates various aspects of the capital market, including securities issuance, trading, and market conduct. Its primary goal is to promote the development and growth of the Ethiopian capital market in line with international best practices.

Ethiopian Securities Exchange (ESX) - The primary securities exchange platform in Ethiopia, established to facilitate securities trading, including stocks and bonds. It aims to provide a structured environment for businesses and investors to engage in capital market activities.

Commercial Banks - Financial institutions that provide a range of services, including accepting deposits, offering loans, and facilitating payment transactions.

Securities - Financial instruments that represent an ownership position in a corporation (stocks), a creditor relationship with a governmental body or corporation (bonds), or rights to ownership as represented by an option.

Primary market - A primary market is a source of newly issued securities. Often on an exchange, where companies, governments, and other groups go to obtain financing through debt-based or equity-based securities having a maximum maturity period of less than one year

Secondary Market - A market where previously issued financial instruments such as stocks, bonds, and options are bought and sold. It provides liquidity and the ability for investors to sell their securities.

1.9 Organization of the Study

This study is organized into several key sections to provide a structured and comprehensive analysis of the readiness of commercial banks towards the emerging capital market in Ethiopia. The first section, Introduction, sets the context by providing background information on the Ethiopian Capital Market Proclamation No. 1248/2021. It also introduces the statement of the problem, research questions, objectives, and the significance of the study in addressing gaps in the literature regarding commercial banks' readiness to the capital market commencement.

Following the introduction, the subsequent section, Literature Review, explores into existing research and scholarly discourse related to capital markets, banking operations, and the

interaction between traditional banking and capital market activities. This section provides a theoretical framework for understanding the dynamics of capital markets and commercial banking within the Ethiopian context. The third section, Methodology, outlines the research design, research approach, population, sampling techniques, data collection methods, and data analysis techniques employed in this study. By detailing the methodology, this section ensures transparency and rigor in the research process. Subsequently, the Findings section presents the results of the analysis, organized according to the research questions and objectives, providing insights into the readiness, opportunities, challenges, and risks identified by commercial banks towards the emerging capital market. Finally, the Conclusion section synthesizes the key findings, discusses their implications, and offers recommendations for policymakers, industry stakeholders, and future research directions.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Introduction

The literature review provides a comprehensive overview of existing research, theoretical frameworks, and empirical evidence pertinent to Operational and Strategic Readiness of Ethiopian Commercial Banks for the Emerging Capital Market in Ethiopia. By synthesizing existing knowledge and identifying gaps in the literature, the literature review aims to provide a solid foundation for the subsequent analysis and discussion of findings in this study.

2.2 Theoretical Literature

2.2.1 Financial Economic Theory and Ethiopia's Capital Market

Financial economic theory asserts that efficient financial markets facilitate economic growth by improving resource allocation and risk management. In Ethiopia, where the capital market is in its infancy, this theory underscores the role of commercial banks in bridging financing gaps. Prior research emphasizes that emerging markets require robust financial institutions to ensure market stability (Franciskovic & Miralles, 2021). Ethiopian banks, therefore, must adapt their financial intermediation role to foster a dynamic capital market.

In the context of an emerging capital market, commercial banks are expected to act as intermediaries that facilitate investment by providing advisory services, underwriting securities, and offering liquidity to the market. According to Gurley and Shaw (2005), financial intermediaries reduce information asymmetry, lower transaction costs, and enhance the efficiency of capital allocation. This intermediary role is critical for the success of emerging capital markets, where banks' readiness can significantly influence market development. Research by La Porta et al., (2008) highlights the positive relationship between strong legal and regulatory frameworks and financial market development.

2.2.2 Agency Theory

Jensen and Meckling (1976) define agency theory as the relationship between principals (owners) and agents (managers), where conflicts arise due to differing interests and information asymmetry. According to their study, managers may prioritize their own self-interest rather than

maximizing shareholder value, leading to agency costs. To mitigate these costs, firms implement monitoring mechanisms and incentive structures to align managerial decisions with the interests of owners.

Agency Theory is particularly relevant to the Ethiopian banking sector as it prepares for an emerging capital market, highlighting governance challenges and the need for strategic alignment. The dominance of state-owned banks and the regulatory environment can create unique agency problems, where government interests may not always align with profit-maximization goals. Additionally, private commercial banks face challenges where executives may prioritize personal gains, such as excessive risk-taking or short-term profit targets, over long-term shareholder value. Given Ethiopia's historically underdeveloped stock market, mechanisms for shareholder oversight remain weak, increasing the risk of managerial opportunism (Ideas.RePEc, 2008).

To mitigate these challenges, Ethiopian banks are expected to adopt stronger corporate governance frameworks. Implementing transparent financial disclosures, strengthening regulatory oversight by the National Bank of Ethiopia (NBE), and aligning executive incentives with shareholder returns are crucial steps. Additionally, Ethiopia's move toward capital market development demands that commercial banks enhance investor confidence by ensuring accountability in management decisions. Without robust governance structures, agency problems could deter investment and slow down financial sector modernization. Therefore, addressing agency conflicts is essential for Ethiopian banks to build a resilient financial system and successfully transition into a functional capital market.

2.2.3 Behavioral Finance Theory

Behavioral Finance Theory examines how psychological biases influence financial decision-making, often leading to deviations from rational market behavior (Kahneman & Tversky, 1979). These biases are particularly relevant in emerging capital markets, where information asymmetry and market inefficiencies are more pronounced.

In the Ethiopian banking sector, behavioural biases may impact both financial institutions and their clients. Overconfidence among investors and bank executives could lead to underestimation of risks in capital market investments, while herd behaviour might drive market volatility as banks and investors react collectively to limited market signals. Loss aversion, where investors disproportionately fear losses compared to equivalent gains, can hinder risk-taking and slow capital market development.

2.2.4 Resource-Based View (RBV) Theory

The Resource-Based View (RBV) Theory posits that firms achieve a sustainable competitive advantage by effectively utilizing unique internal resources such as knowledge, technology, and skilled personnel. According to Barney (1991), resources must be valuable, rare, inimitable, and non-substitutable to confer such an advantage. Similarly, Wernerfelt (1984) highlights that firms should strategically develop and leverage their internal assets to outperform competitors.

For Ethiopian banks, the RBV framework emphasizes the importance of developing and optimizing financial expertise, digital infrastructure, and regulatory acumen to enhance market readiness. As Ethiopia's financial sector evolves, banks need to allocate resources strategically to address market inefficiencies and improve financial service delivery (Teece et al., 1997). The World Bank (2024) underscores the necessity of strengthening key financial institutions, such as the National Bank of Ethiopia, the Commercial Bank of Ethiopia, and the Development Bank of Ethiopia, to ensure resilience

2.2.5 Market Efficiency Theory

Market Efficiency Theory (Fama, 1970) asserts that financial markets reflect all available information, making it difficult for investors to consistently achieve above-average returns. In the context of Ethiopian banks, understanding market efficiency is crucial as they prepare to engage in capital market activities. While developed markets exhibit higher efficiency due to strong regulatory frameworks and advanced financial infrastructure, emerging markets like Ethiopia often display inefficiencies caused by limited transparency, regulatory gaps, and investor inexperience (Lagoarde-Segot & Lucey, 2008).

Market efficiency is categorized into three forms: weak, semi-strong, and strong. Ethiopian banks operate in a market likely characterized by weak or semi-strong efficiency, necessitating the development of advanced information systems and regulatory collaborations to enhance transparency and price discovery. Given the nascent stage of Ethiopia's capital market, banks must actively invest in technology and human capital to improve risk management and adapt to evolving regulatory standards (Malkiel, 2003).

Despite the theory's emphasis on market-wide information symmetry, empirical studies indicate that emerging markets often exhibit price distortions and delayed responses to new information. Ethiopian banks must, therefore, adopt strategic information-gathering mechanisms to navigate market inefficiencies. Enhancing regulatory frameworks, fostering investor education, and integrating financial technologies will be critical for improving market operations and boosting investor confidence.

2.2.6 Overview of Capital Markets in Emerging Economies: Lessons from Africa

The examination of capital markets in emerging economies, particularly drawing lessons from the African context, offers valuable insights into the complexities and nuances of financial market development within regions undergoing rapid economic transformation. Africa, with its diverse economic landscape and unique challenges, serves as a compelling case study for understanding the dynamics of capital markets in emerging economies (Chimpango, 2017). Exploring the distinctive features of capital markets across various African countries sheds light on the initiatives, regulatory frameworks, and market structures implemented to foster financial market growth and enhance investment opportunities. Furthermore, it elucidates how capital market development in Africa has evolved over time, showcasing both successes and setbacks encountered in the journey towards establishing robust financial ecosystems (African Development Bank, 2020).

Examining the intricacies of capital markets in Africa provides a rich tapestry of experiences that can inform policymakers, regulators, and industry stakeholders in navigating the complexities of financial market development in emerging economies. Africa's capital markets have witnessed significant growth and transformation in recent years, with countries such as Nigeria, Kenya, and South Africa emerging as key players in the region. According to a report by the African Development Bank, titled "Capital Markets in Africa: Performance, Challenges, and Prospects,"

published in 2020, the continent has experienced a notable increase in capital market activities, driven by factors such as economic reforms, technological advancements, and increasing investor interest. Additionally, research by Ncube and Brixiova (2018), titled "Financial Development and Economic Growth in Africa: An Overview," highlights the positive correlation between capital market development and economic growth in African countries, underscoring the importance of fostering robust and resilient financial systems to support sustainable development objectives.

However, Africa's capital markets also face several challenges, including regulatory inefficiencies, inadequate infrastructure, and limited access to financing for small and medium-sized enterprises (SMEs). A study by Anyanwu and Oaikhenan (2018), titled "Development of Capital Markets in Africa: The Nigerian Experience," points to the need for comprehensive regulatory reforms and capacity-building initiatives to address these challenges and unlock the full potential of capital markets in Africa. Moreover, innovations such as mobile banking, peer-to-peer lending platforms, and blockchain technology are increasingly shaping the landscape of financial services in Africa, presenting both opportunities and challenges for traditional capital market players. By synthesizing lessons learned from Africa's capital market evolution, this overview aims to contribute to a deeper understanding of the factors driving financial market dynamics in emerging economies and inform strategies for promoting resilient and inclusive financial systems globally.

2.2.7 Role of Commercial Banks in Financial Systems: Insights from Ethiopia

Commercial banks serve as pivotal pillars in the financial systems of emerging economies like Ethiopia, functioning as primary facilitators of savings mobilization, credit provision, and financial intermediation. Drawing upon insights from empirical studies, regulatory frameworks, and industry practices, this section offers a detailed exploration of the multifaceted role that commercial banks play in Ethiopia's financial ecosystem. Commercial banks act as key intermediaries between surplus and deficit units, directing funds from savers to borrowers, thereby facilitating efficient capital allocation within the economy (Aryeetey & Udry, 2010; NBE, 2020). In Ethiopia, where formal financial services access remains limited, commercial banks significantly contribute to expanding financial inclusion by providing banking services to both

individuals and businesses, thus fostering economic growth and development (Berhane & Ruffoni, 2016; Dagnachew & Muchie, 2017).

Furthermore, commercial banks in Ethiopia drive economic activity by providing credit across various sectors, including agriculture, manufacturing, and services, thereby stimulating investment, entrepreneurship, and job creation (Desta & Zerayehu, 2015; Lemma & Wolday, 2017). Their contribution to Ethiopia's economic development is evident through financing infrastructure projects, supporting SMEs, and facilitating trade finance activities (Abebe, 2014; Gebre-Michael, 2019). Additionally, commercial banks play a crucial role in ensuring financial stability and resilience within the financial system by managing risks, ensuring liquidity, and complying with prudential regulations established by regulatory authorities (Beyene, 2016; Workie, 2018). Through effective risk management practices, commercial banks mitigate credit, market, and operational risks, thereby enhancing the stability and soundness of the financial system.

2.2.8 Interplay between Traditional Banking and Capital Market Activities: Theoretical Framework and Empirical Evidence

The interplay between traditional banking and capital market activities revolves around the allocation of financial resources, risk management, and the facilitation of economic growth and development. The Theoretical frameworks provide valuable insights into the mechanisms through which traditional banks and capital markets interact and impact each other. One prominent theoretical perspective is the "complementary hypothesis," which posits that traditional banks and capital markets serve complementary roles in the financial system (CEPR, n.d.).

According to this framework, traditional banks specialize in providing short-term, relationship-based financing, while capital markets excel in offering long-term, market-based financing. This complementary relationship enables financial institutions to leverage their respective strengths to meet the diverse funding needs of businesses and individuals. Additionally, theories such as the "bank-based" versus "market-based" financial systems shed light on the structural differences between economies where traditional banks dominate versus those where capital markets play a more prominent role. Empirical evidence from various studies further elucidates the dynamics of the interplay between traditional banking and capital market activities, offering insights into the

drivers, outcomes, and implications of their interaction in different contexts (Djankov et al., 2008; Frolov, S. et al., (2024).

2.2.9 Challenges and Opportunities in Establishing Capital Markets: Case Studies from Developing Countries

Capital markets play a crucial role in driving economic growth, facilitating investment, and mobilizing savings in developing countries. However, the establishment of robust capital markets in these contexts is often accompanied by a myriad of challenges, as well as opportunities for growth and development. This section explores the various challenges and opportunities encountered in the process of establishing capital markets, drawing upon case studies from developing countries to provide valuable insights into the dynamics at play Manzocchi, S. (1999).

One of the primary challenges in establishing capital markets in developing countries is the lack of institutional infrastructure and regulatory frameworks necessary to support their functioning effectively. Many developing countries face issues such as weak legal frameworks, inadequate investor protection mechanisms, and underdeveloped financial market infrastructure, which pose significant hurdles to the establishment and operation of capital markets. Additionally, limited access to capital, a shallow investor base, and a lack of liquidity further exacerbates the challenges faced by emerging capital markets. These challenges are often compounded by macroeconomic instability, political uncertainty, and governance issues prevalent in many developing countries, which can undermine investor confidence and hinder the growth of capital markets (Raubenheimer, H. 2019). Studies on Ethiopia's financial sector also highlight similar challenges in establishing a capital market. (Alemayehu Geda (2015) and World Bank (2020).

Despite these challenges, Ethiopia has significant opportunities for capital market development. Studies by Alemayehu Geda (2015) and the National Bank of Ethiopia (NBE, 2021) highlight that a well-functioning capital market can mobilize domestic savings, attract foreign investment, and provide long-term financing for infrastructure and businesses. It can also enhance financial inclusion by creating funding opportunities for SMEs and underserved populations. Additionally, capital markets support risk diversification and economic growth by offering firms a structured platform to raise capital and expand. These benefits underscore the potential role of capital markets in Ethiopia's financial sector transformation. (Lai, K. 2021; Halladay et al.2009).

2.2.10 Regulatory Frameworks and Institutional Structures of Capital Markets:

Capital markets are fundamental to financial systems globally, facilitating efficient resource allocation and promoting economic growth. The regulatory frameworks and institutional structures governing these markets vary significantly across jurisdictions, influenced by unique historical, economic, and cultural contexts. This section provides a comparative analysis of regulatory frameworks and institutional structures of capital markets, highlighting key similarities, differences, challenges, and best practices observed in various countries. A robust regulatory framework is central to any capital market, ensuring transparency, fairness, and investor protection. Regulatory authorities, such as securities commissions or financial regulatory bodies, oversee the functioning of capital markets and enforce compliance with relevant laws and regulations (Peirce, 2024).

Institutional structures within capital markets include entities like stock exchanges, clearinghouses, depositories, and self-regulatory organizations, each playing a distinct role in facilitating market operations. Comparative analyses reveal diversity in institutional structures across jurisdictions, reflecting differences in market size, complexity, and maturity. Additionally, technology and innovation are increasingly shaping institutional structures, with electronic trading platforms, automated clearing and settlement systems, and block chain-based solutions transforming capital market infrastructure (Théobald, 2025).

- a) **Regulatory Authorities:** The Ethiopian capital market authority (ECMA) is an autonomous regulatory body established by article 3(1) of the proclamation. Reporting directly to the prime minister, ECMA is responsible for fostering the development and regulation of the capital market in Ethiopia. And the regulatory oversight of capital markets in Ethiopia is primarily conducted by the Ethiopian Securities and Exchange Commission (ESEC). ESEC is responsible for formulating regulations, supervising market participants, and ensuring compliance with securities laws. It works in collaboration with other government agencies to maintain market integrity and protect investors (Peirce, 2024).
- b) **Legal Framework:** The legal framework governing capital markets is outlined in the Ethiopian Securities Exchange Proclamation and other relevant legislation. These laws define the rights and obligations of market participants, establish disclosure requirements,

and prescribe penalties for violations. They aim to create a transparent, fair, and orderly market environment conducive to investment.

- c) **Market Infrastructure:** The Ethiopian capital market infrastructure comprises various institutions and market intermediaries. This includes the Ethiopian Commodity Exchange (ECX), which facilitates trading in agricultural commodities, and the Addis Ababa Stock Exchange (AASE), the primary platform for trading securities. These institutions provide the necessary infrastructure for price discovery, trading, clearing, and settlement of transactions.
- d) **Listing Requirements:** Companies seeking to raise capital through the issuance of securities on the AASE must meet certain listing requirements set by ESEC. These requirements typically include criteria related to corporate governance, financial performance, and disclosure standards. By ensuring that listed companies adhere to these standards, regulators aim to protect the interests of investors and maintain market integrity.
- e) **Investor Protection:** Investor protection is a fundamental aspect of capital market regulation in Ethiopia. ESEC oversees the enforcement of investor protection measures, including rules related to disclosure, transparency, and market conduct. Investors are provided with information to make informed investment decisions, and mechanisms are in place to address grievances and resolve disputes.
- f) **Market Development Initiatives:** The Ethiopian government, in collaboration with regulatory authorities and market participants, has been undertaking various initiatives to develop and strengthen the capital markets. These initiatives include the introduction of new financial products, capacity building programs for market participants, and efforts to enhance market liquidity and efficiency.

Despite progress, Ethiopia's capital markets face several challenges, including limited liquidity, a small investor base, and underdeveloped market infrastructure.

2.2.11 Impact of Capital Market Development on Economic Growth and Financial Stability: Evidence from Africa

The impact of capital market development on economic growth and financial stability has been extensively studied, particularly within emerging African economies. Empirical evidence

indicates that well-functioning capital markets significantly contribute to economic development by mobilizing savings into productive investments, fostering entrepreneurship, and facilitating efficient resource allocation. For instance, a comparative study of Nigeria, South Africa, and Kenya found a substantial relationship between capital market performance and economic development in Nigeria and South Africa, though Kenya did not exhibit a similar effect (Osho & Eghosa, 2020).

Additionally, capital markets in sub-Saharan Africa have been linked to increase long-term financing for infrastructure projects, growth of domestic industries, and enhanced access to capital for businesses (Yartey & Adjasi, 2007). Moreover, the development of capital markets can bolster financial stability by reducing dependence on bank lending, diversifying funding sources, and offering alternative risk-sharing mechanisms. However, challenges such as liquidity constraints, regulatory deficiencies, and macroeconomic instability can impede the positive effects of capital market development on economic growth and financial stability in Africa.

Despite these challenges, empirical studies suggest that capital market development has the potential to catalyze economic growth and enhance financial stability in Africa. Cross-country analyses have identified a positive correlation between capital market size, depth, liquidity, and economic growth indicators like GDP per capita and investment levels (World Bank, 2020).

Furthermore, research indicates that nations with more developed capital markets tend to exhibit greater financial resilience and reduced vulnerability to external shocks (Yartey & Adjasi, 2007). By deepening financial intermediation, improving corporate governance standards, and enhancing market transparency, capital market development can contribute to sustainable economic growth and mitigate systemic risks in African economies. Through an examination of empirical evidence from Africa, this analysis aims to provide insights into the mechanisms through which capital market development influences economic growth and financial stability, thereby informing policymakers, regulators, and investors in their efforts to promote inclusive and resilient financial systems.

2.2.12 Perceptions of Financial Institutions towards Emerging Capital Markets:

Understanding the perceptions of financial institutions toward emerging capital markets is crucial for assessing their readiness and receptivity to engage with evolving financial landscapes. This

section explores empirical perspectives on the attitudes, concerns, and expectations of financial institutions toward emerging capital markets.

Empirical studies have identified several factors influencing financial institutions' perceptions, including the regulatory environment, market infrastructure, investor confidence, and macroeconomic stability. For example, Laeven (2023) highlights those financial institutions consider regulatory consistency and investor protection critical in evaluating market potential. Similarly, Levine (2022) emphasizes the role of financial development in fostering confidence among institutional investors. Research findings indicate that financial institutions often view emerging capital markets as promising avenues for diversification, expansion, and revenue generation (Bekaert & Harvey, 2022). However, concerns regarding market volatility, liquidity risks, regulatory uncertainties, and operational challenges remain significant barriers to entry and participation (Chari & Henry, 2021; Mishkin, 2022).

Empirical research has also examined the role of institutional factors such as corporate governance practices, market transparency, and regulatory oversight in shaping financial institutions' perceptions of emerging capital markets. La Porta et al. (2022) argue that stronger legal frameworks and transparent financial reporting contribute to greater investor confidence. Studies suggest that perceptions may vary depending on the strength of institutional frameworks, with well-regulated and transparent markets often garnering more favorable views from financial institutions (Demirgüç-Kunt & Levine, 2023). Moreover, empirical evidence highlights the importance of stakeholder collaboration, capacity-building initiatives, and investor protection mechanisms in enhancing trust and confidence in emerging capital markets (World Bank, 2023).

By addressing concerns related to market integrity, information asymmetry, and legal enforcement, policymakers and regulators can foster conducive environment for financial institutions to engage with emerging capital markets effectively. Through an examination of empirical perspectives, this section aims to provide valuable insights into the factors driving financial institutions' perceptions toward emerging capital markets, offering guidance for policymakers, regulators, and market participants in their efforts to promote sustainable and inclusive financial systems.

2.2.13 Strategy competition among banks

In examining the readiness of commercial banks in Ethiopia's emerging capital market, it becomes evident that strategic competition among banks plays a pivotal role in determining their preparedness and strategic positioning. The ability of banks to effectively compete and differentiate themselves in the evolving financial landscape is crucial for their long-term success and sustainability. Effective competitive strategies are not only about gaining market share but also about enhancing operational efficiency, attracting investors, and expanding their footprint in the market.

Research by Mester et al. (2007) underscores the critical importance of strategic competition in the banking sector. Their study emphasizes that banks engaging in strategic competition are more likely to innovate, improve service quality, and adopt efficient business practices. This competition fosters a dynamic environment where banks continuously strive to offer better financial products, optimize cost structures, and leverage technological advancements to meet customer needs effectively.

In December 2024, Ethiopia's parliament enacted legislation permitting foreign banks to operate within the country, aiming to attract international investment and stimulate economic growth. This policy shift introduces new competitive dynamics, compelling domestic banks to strategically position themselves to maintain market share. Empirical studies indicate that the entry of foreign banks can lead to increased competition, prompting local banks to innovate in product offerings, enhance customer service, and adopt effective marketing strategies (Claessens et al., 2001). Additionally, such competition encourages banks to explore new market segments, develop tailored financial solutions, and strengthen customer relationships, thereby contributing to overall market efficiency and financial sector development (Dages et al., 2000). Understanding and leveraging this strategic competition is essential for Ethiopian banks aiming to thrive in an increasingly dynamic financial environment.

2.2.14 Minimum Capital Requirement in Emerging Markets

The concept of minimum capital requirement serves as a critical regulatory framework designed to ensure the stability and solvency of banking institutions. This regulatory measure mandates that banks maintain a certain level of capital relative to their risk-weighted assets, thereby providing a buffer against financial distress and potential insolvency. In emerging markets, such

as Ethiopia, minimum capital requirements are particularly significant due to the often-volatile economic conditions and nascent financial systems. Research highlights that well-calibrated minimum capital requirements can enhance the resilience of banks by mitigating risks associated with economic shocks and financial crises (Beck, 2011). For instance, Basel III regulations introduced post-2008 financial crisis emphasize stricter capital requirements, aiming to improve the banking sector's robustness globally. These reforms are especially pertinent for emerging economies where financial systems are still developing, and the risk of bank failure can have widespread economic repercussions (Bank for International Settlements, 2015).

In the context of Ethiopia, the introduction of minimum capital requirements is expected to play a crucial role in preparing domestic commercial banks for the emerging capital market. Ethiopian banks have historically faced challenges related to undercapitalization and insufficient risk management practices. Setting and enforcing minimum capital thresholds can provide these institutions with the necessary resilience to face competitive pressures and financial uncertainties. Empirical studies suggest that higher minimum capital requirements are positively correlated with improved bank performance and reduced systemic risk (Caruana, 2010). As Ethiopia's financial sector evolves, aligning local regulations with international standards will be essential for fostering a robust banking environment that can support sustainable economic growth and attract investment (World Bank, 2020). Thus, minimum capital requirements not only enhance the stability of individual banks but also contribute to the overall health of the national financial system, positioning it for successful integration into the global capital market.

2.2.15 Knowledge/Skill

The development of knowledge and skills among bank personnel is a fundamental requirement for Ethiopian banks preparing to engage in the complexities of the emerging capital market. Equipping staff with expertise in financial analysis, risk management, and regulatory compliance is essential for enhancing operational efficiency and ensuring adherence to evolving market standards. A proficient workforce not only enables banks to offer sophisticated financial products and advisory services but also strengthens their ability to manage risks effectively and maintain competitiveness in a dynamic market environment.

Research by Barth et al. (2004) underscores the critical role of a skilled workforce in driving financial sector development, particularly in emerging markets. Their findings highlight that

banks with well-trained personnel are better positioned to innovate, adapt to market changes, and foster sustainable growth. In Ethiopia, where the financial sector is expanding and regulatory frameworks are evolving, investing in continuous training and development programs for bank employees is crucial. These initiatives not only enhance technical capabilities but also instill a culture of professionalism, integrity, and customer-centricity within the banking sector.

Moreover, developing skilled personnel is crucial for building trust among stakeholders, including investors, regulators, and the broader community. Bank employees' expertise in financial management and compliance enhances the resilience of Ethiopia's financial system. This aligns with the National Bank of Ethiopia's emphasis on human capital efficiency as a determinant of bank risk-taking behavior (National Bank of Ethiopia, 2024). Moreover, the World Bank's \$700 million Financial Sector Strengthening Project underscores the importance of capacity building in bolstering financial sector stability (World Bank, 2024). Therefore, prioritizing the development of knowledge and skills among bank personnel is a strategic imperative for Ethiopian banks navigating the emerging capital market landscape.

2.2.16 Leadership

Strong leadership within banks is not just about managerial oversight; it encompasses visionary guidance that steers strategic initiatives, encourages a culture of innovation, and ensures alignment with evolving market dynamics and regulatory frameworks. Effective leaders in banking, as highlighted by Macey and O'Hara (2011), are pivotal in navigating the complexities of transitioning to a dynamic capital market environment. Their ability to foster a proactive and adaptive organizational culture can significantly enhance a bank's competitive edge and resilience.

In the context of Ethiopia's emerging capital market, leadership that promotes innovation is particularly critical. Banks need leaders who can inspire and empower teams to explore new financial products and services tailored to market needs. This approach not only enhances customer satisfaction but also drives revenue growth and market expansion. Research by De Jong and Den Hartog (2010) underscores the role of leadership in stimulating innovation within organizations, emphasizing the importance of visionary leadership that encourages creativity and risk-taking.

Furthermore, effective leadership ensures that banks remain compliant with regulatory requirements while capitalizing on opportunities presented by the capital market. In a study by Hermalin and Weisbach (2012), leadership's role in corporate governance and regulatory compliance is highlighted as essential for maintaining transparency and investor confidence. In Ethiopia, where regulatory frameworks are evolving, strong leadership is instrumental in navigating legal complexities and fostering a trustworthy reputation in the financial sector.

2.2.17 Potential Roles of Commercial Banks in Developing Capital Markets: Case Studies and Best Practices

Commercial banks play a pivotal role in the development and functioning of capital markets, acting as key intermediaries, issuers, investors, and market makers. Through case studies and best practices, this section explores the diverse roles that commercial banks can assume to foster the growth and vibrancy of capital markets.

Intermediary Role

Commercial banks serve as intermediaries between savers and investors, facilitating the efficient allocation of capital in capital markets. Case studies from various economies illustrate how commercial banks provide critical services such as brokerage, and investment advisory to bridge the gap between investors seeking opportunities and entities in need of funding. For instance, in India, banks like HDFC Bank and ICICI Bank have played instrumental roles in underwriting and distributing bonds issued by corporations and government entities, thereby deepening the bond market and enhancing liquidity. Similarly, in Kenya, Equity Bank has pioneered innovative brokerage services, allowing retail investors to access equities and bonds through digital platforms, thereby democratizing market access and fostering financial inclusion.

Issuer Role

Commercial banks also act as issuers in capital markets, raising funds through debt and equity instruments to support their own operations or finance projects on behalf of corporate clients. Best practices highlight successful examples of banks issuing bonds, equity shares, and hybrid securities to diversify funding sources and optimize capital structure. For instance, Bank of America and JPMorgan Chase in the United States have issued a range of debt securities, including corporate bonds and mortgage-backed securities, to meet funding requirements and

enhance liquidity. In Nigeria, Access Bank has leveraged the capital markets to issue innovative instruments such as green bonds, supporting environmentally sustainable projects while accessing cost-effective financing.

Investor Role

Commercial banks actively participate as investors in capital markets, deploying funds across a spectrum of financial assets to optimize returns and manage risks. Case studies demonstrate how banks engage in securities trading, portfolio management, and asset allocation to generate investment income and enhance shareholder value. For example, Standard Chartered Bank and Barclays Bank in the United Kingdom have robust investment banking divisions that engage in proprietary trading, asset management, and wealth advisory services, generating substantial fee-based income. In Malaysia, CIMB Bank and Maybank have established asset management subsidiaries that offer diversified investment products to retail and institutional clients, fostering capital market growth and deepening financial markets.

Market Maker Role

Furthermore, commercial banks serve as market makers in capital markets, providing liquidity and stability through continuous quoting of buy and sell prices for securities. Best practices highlight the importance of banks' market-making activities in enhancing market efficiency and reducing transaction costs. For instance, Citigroup and Goldman Sachs in the United States are prominent market makers in equities, fixed income, and derivatives markets, facilitating smooth trading and price discovery. In South Africa, Standard Bank and ABSA Bank play vital roles as market makers in the Johannesburg Stock Exchange, providing liquidity and supporting orderly market functioning.

Through a combination of intermediary, issuer, investor, and market maker roles, commercial banks contribute significantly to the development and sustainability of capital markets worldwide. By analyzing case studies and best practices, policymakers, regulators, and market participants can gain valuable insights into the potential roles of commercial banks in developing capital markets, thereby fostering economic growth, enhancing financial stability, and promoting inclusive prosperity.

2.3 Empirical review

Empirical studies provide a comprehensive understanding of the factors influencing the readiness of Ethiopian commercial banks for an emerging capital market. Key themes include regulatory challenges, technological infrastructure, capital adequacy, leadership, workforce skills, and financial literacy. By comparing findings from other African countries with Ethiopia's context, this review highlights critical gaps and opportunities for Ethiopian banks.

Empirical studies on the readiness of commercial banks in emerging capital markets provide valuable insights into the factors that influence their ability to adapt and thrive in new financial environments. In countries similar to Ethiopia, research has shown that the readiness of commercial banks is significantly impacted by their technological infrastructure, regulatory compliance, and the skill levels of their workforce. For instance, a study by Yartey and Adjasi (2007) highlights that the development of capital markets in African economies is closely linked to the modernization of banking systems, including the adoption of advanced information technologies and robust regulatory frameworks. This suggests that Ethiopian banks must prioritize technological upgrades and ensure compliance with emerging market regulations to effectively support the nascent capital market.

Furthermore, empirical evidence indicates that minimum capital requirement is a critical determinant of a bank's readiness for capital market operations. A study by Demirguç-Kunt and Levine (2008) found that banks with higher capital reserves are better positioned to manage risks and support market liquidity. This is particularly relevant for Ethiopian banks, which may face significant challenges in maintaining minimum adequate capital buffers in a volatile economic environment. The study underscores the importance of Minimum capital requirement in fostering stability and confidence in the banking sector, which in turn supports the broader capital market. Ethiopian commercial banks need to boost their capital positions to ensure that they can withstand potential market fluctuations and contribute to the stability of the emerging capital market (Earnest and Young, n.d.).

In addition, leadership and strategic direction play a vital role in determining the readiness of banks for capital market integration.

Recent empirical research by Gabruashvili, et al (2023), underscores the impact of strategic leadership on banking profitability, highlighting that innovations, creativity, and sustainable growth are pivotal leadership initiatives that enhance performance. This finding is particularly pertinent for Ethiopian commercial banks, where leadership will be crucial in navigating the complexities of the emerging capital market. Effective leaders can drive strategic initiatives that align with market demands, invest in workforce development, and foster a culture of innovation. For Ethiopian commercial banks, cultivating such leadership will be essential in ensuring they are not only prepared for the capital market but also able to leverage new opportunities for growth and development.

A study by Isayas (2022) examined the determinants of commercial banks' profitability in Ethiopia. Using dynamic panel data from 14 banks over 12 years, it found that factors such as capital requirement, asset quality, management efficiency, and economic conditions significantly impact profitability. These findings highlight the need for robust financial health as Ethiopian banks prepare to engage in an emerging capital market, ensuring they can withstand market fluctuations and attract investments (International Organization of Securities Commissions, 2022).

Research by Abebe (2019) explored the necessity for capital market formation in Ethiopia, focusing on private commercial banks. The study argued that a capital market is essential for mobilizing resources, improving liquidity, and enhancing investment opportunities. It emphasized that commercial banks need to upgrade their financial infrastructure and risk management practices to participate effectively in the emerging capital market.

A study on establishing financial markets in Ethiopia identified several challenges, including regulatory frameworks, financial literacy, and technological infrastructure. The research suggested that commercial banks must address these challenges by adopting advanced technologies, enhancing transparency, and building investor confidence to be ready for the emerging capital market. On the other hand, the study underscored the importance of maintaining financial stability through stringent regulatory practices and robust risk management frameworks. According to the International Organization of Securities Commissions (2022), Ethiopian banks need to strengthen their financial stability to ensure readiness for the capital market.

Another study reviewed the prospects for capital market development in Ethiopia. It highlighted the potential benefits of a well-functioning capital market, such as improved capital allocation, increased investment opportunities, and economic growth. The study recommended that commercial banks invest in technological advancements and financial innovations to leverage these benefits and be competitive in the emerging capital market (Research Square, 2023).

A study by Gopalan and Rajan (2018) investigated the impact of technological infrastructure on the readiness of banks in emerging markets. The research found that banks with advanced technological systems are more adaptable to capital market requirements and can better manage operational risks. For Ethiopian banks, investing in modern banking technologies will be crucial to compete effectively in the emerging capital market.

An empirical study by Alam and Islam (2020) explored the role of regulatory compliance in enhancing bank performance in emerging economies. The findings indicated that strict adherence to regulatory standards improves financial stability and investor confidence. Ethiopian banks must focus on strengthening their regulatory frameworks to ensure readiness for the capital market.

Ahmed and Khan (2019) examined the influence of workforce skills on the readiness of banks in emerging markets. The study concluded that banks with highly skilled employees are better equipped to handle the complexities of capital market operations. This suggests that Ethiopian banks should prioritize training and development programs to enhance their workforce capabilities.

Research highlights the critical role of robust capital requirements and strategic leadership in ensuring the stability and success of banks in new financial markets. The Bank for International Settlements (2021) reports that banks adhering to Basel III capital standards have experienced reduced funding costs, particularly those with initially lower capital ratios, enhancing their resilience to market fluctuations. Similarly, the Federal Reserve's 2023 stress test scenarios emphasize that well-capitalized banks are better equipped to absorb economic shocks, thereby supporting overall financial system stability.

For Ethiopian banks, establishing adequate capital buffers will be essential to effectively engage in the emerging capital market. Additionally, strategic leadership plays a pivotal role in the success of banks operating in dynamic financial environments. A 2024 study published in the *Journal of Advanced Management Science* highlights that visionary leadership fosters the development of effective strategies and enhances adaptability to market changes. This insight is particularly relevant for Ethiopian banks, where strong leadership will be crucial for navigating and thriving in the evolving capital market landscape.

A study by Lusardi and Mitchell (2018) focused on the importance of financial literacy for market participation. The research revealed that higher levels of financial literacy among bank employees and clients lead to better market engagement and investment decisions. Ethiopian banks should invest in financial education initiatives to prepare for the capital market. Additionally, Hasan and Dridi (2020) examined the impact of risk management practices on the readiness of banks for capital market operations. The study found that robust risk management frameworks are critical for managing potential market risks. Ethiopian banks need to enhance their risk management systems to ensure stability and readiness for the capital market.

The empirical studies highlight several crucial factors, such as technological infrastructure, regulatory compliance, capital adequacy, and leadership. While these studies offer valuable insights, there are notable similarities and differences in their findings. For example, studies by Yartey and Adjasi (2007) and Gopalan and Rajan (2018) emphasize the importance of technological advancements in enhancing a bank's adaptability to capital market requirements, suggesting that Ethiopian banks must invest in modern technologies. Similarly, the research by Demirgüç-Kunt and Levine (2008) and Bikker and Metzmakers (2021) stress the importance of maintaining adequate capital buffers to manage risks and ensure stability in the face of market fluctuations. However, while studies like Berger et al. (2019) and Isayas (2022) emphasize the role of strong leadership and management efficiency, others such as Alam and Islam (2020) and Ahmed and Khan (2019) focus on regulatory compliance and workforce skills as key determinants. Despite the common theme of financial stability, the studies differ in their emphasis on specific readiness factors, suggesting that a multifaceted approach, integrating technological, financial, and human resources, will be essential for Ethiopian banks to succeed in the emerging capital market.

2.4 Research gap

While African countries share common challenges in capital market integration, Ethiopia's banking sector faces unique hurdles. Unlike nations with well-developed regulatory frameworks, Ethiopia is still formulating its policies. Technological infrastructure remains underdeveloped, whereas other African banks have advanced digital banking systems. Capital adequacy is a pressing concern, with Ethiopian banks struggling to meet minimum capital requirements, in contrast to stronger financial buffers in regional counterparts. Finally, leadership and workforce skills require significant enhancement to align with global banking standards (HST, 2024).

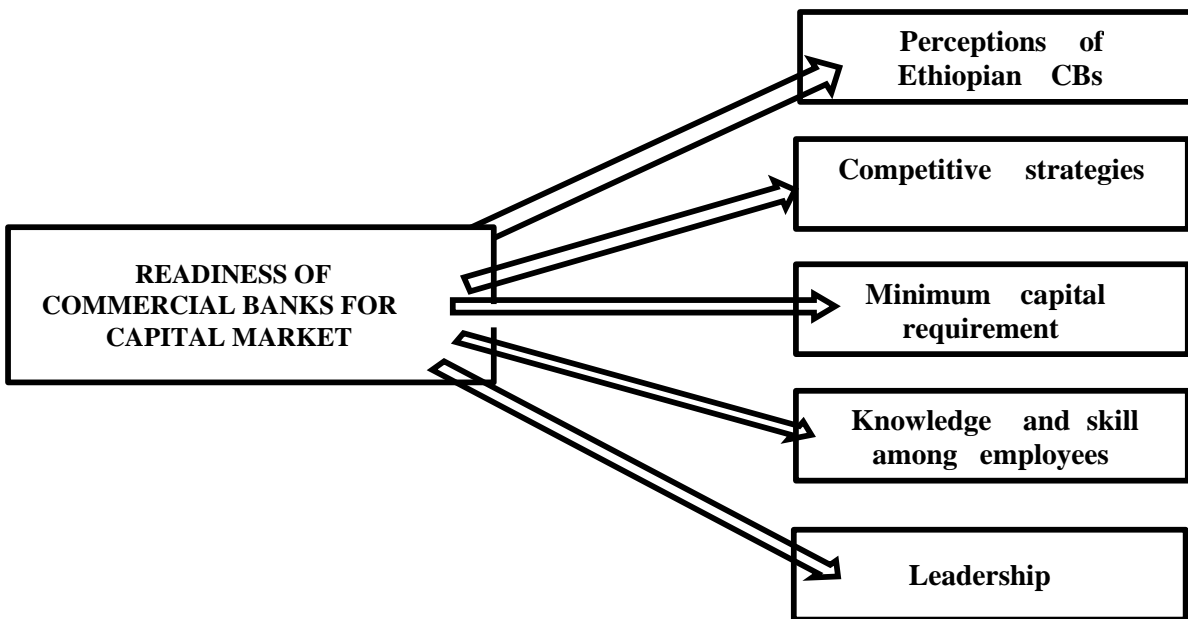
The theoretical and empirical reviews underscore the critical components influencing the readiness of commercial banks in emerging capital markets, particularly within the Ethiopian context. Financial economic theory provides a foundational understanding of how capital markets facilitate economic growth through efficient resource allocation, risk management, and enhanced investment opportunities. Key theoretical insights emphasize the importance of financial intermediation, regulatory frameworks, and market infrastructure in ensuring a well-functioning capital market.

Empirical studies reinforce these theoretical perspectives by highlighting practical determinants such as technological infrastructure, Minimum capital requirement, and leadership. Evidence from similar emerging markets shows that banks must modernize their operations by maintaining robust capital reserves, cultivate effective leadership and workforce to thrive in an emerging capital market. Despite valuable insights from existing research, a significant gap remains in understanding the specific preparedness of Ethiopian commercial banks for the emerging capital market. This study aims to fill this gap by providing a comprehensive assessment of the current capabilities, challenges, and strategic initiatives of Ethiopian commercial banks as they navigate this pivotal transition. Addressing these research gaps will contribute to the broader discourse on financial sector development in emerging economies and offer actionable recommendations to enhance the readiness of Ethiopian commercial banks, ultimately supporting the successful establishment of Ethiopia's capital market and promoting sustainable economic growth and global financial integration.

2.5 Conceptual Framework

Fig 2.1 Conceptual framework

Source: Adopted from the researcher by Teferi Girma (2021); McKinsey & Company. (2021); WB 2021



CHAPTER THREE

3. RESEARCH METHODOLOGY

This chapter outlines the research design, research approach, population, sampling techniques, data collection methods, and data analysis techniques employed to comprehensively investigate Operational and Strategic Readiness of Ethiopian Commercial Banks for the Emerging Capital Market in Ethiopia.

3.1 Description of the Study Area

Ethiopia, with a population of approximately 126.5 million, is the second most populous nation in Africa and boasts one of the fastest-growing economies in the region, with an estimated 7.2% growth in FY2022/23. Despite this growth, Ethiopia remains one of the continent's poorest countries, with a per capita gross income of USD 1,020 (WB, 2023). The study primarily focuses on Addis Ababa, Ethiopia.

There is a significant concentration of banks and insurance companies in the capital city, with 32.6% and 56.4% respectively having their head offices located here (NBE, 2024). This makes Addis Ababa an ideal focal point for studying the readiness of local commercial banks regarding the emerging capital market. The study selected ten commercial banks to provide a comprehensive industry perspective on capital market entry, incorporating data from established capital market offices in Ethiopia to ensure a thorough analysis of both financial institutions' viewpoints and broader market infrastructure.

3.2 Research Design

Descriptive analysis was used to analyze the significant factors influencing commercial banks' readiness and behaviors towards the capital market. It has helped to systematically describe the situation or phenomenon of the readiness of commercial banks. This design is chosen for its ability to accurately capture and analyze trends and patterns within the data, enhancing the validity and generalizability of the findings. The design involves the use of interviews and questionnaire with key stakeholders in the banking sector. The design is well-suited for this study as it aims to systematically describe the current state of readiness of commercial banks to engage in to the emerging capital market in Ethiopia. There are several reasons for using this design:

Descriptive research is effective in providing an accurate representation of the phenomena under study. It helps identify and describe the current status of bank readiness, capturing detailed information on the various dimensions and factors involved (Singh, 2007). Additionally, by systematically collecting and analyzing data, descriptive research can identify patterns and trends within the banking sector. This is crucial for understanding how different factors influence readiness and for identifying common challenges and best practices (Shields & Rangarajan, 2013).

Descriptive research also allows an in-depth exploration of specific aspects of bank readiness, such as technological preparedness, regulatory compliance, and market engagement. This level of detail is essential for providing actionable insights to stakeholders (Zikmund, Babin, Carr, & Griffin, 2010). Finally, the findings from descriptive research can serve as a foundation for further exploratory or explanatory studies. It provides a comprehensive overview of the current state, which can inform future research directions and policy decisions (Creswell, 2014).

3.3 Research Approach

According to Creswell (2017), research approaches include the plans and procedures for research that span from broad assumptions to detailed methods of data collection, analysis, and interpretation. This research has employed a mixed-methods strategy, integrating both qualitative and quantitative methodologies to examine Operational and Strategic Readiness of Ethiopian Commercial Banks for the Emerging Capital Market. Qualitative data was collected through semi-structured interviews with key stakeholders within the commercial banking sector. This method enables a nuanced understanding of challenges, opportunities, and attitudes. Quantitative data was gathered through surveys distributed among commercial banks, aiming to quantify various aspects of their readiness and engagement with the emerging capital market. By using both types of data, the research aims to provide a richer perspective (Creswell, 2014).

3.4 Population and Sampling

3.4.1 Population

The population for this study comprises employees of commercial banks in Ethiopia categorized into three groups based on their asset and deposit positions: large, medium, and small. There are

30 commercial banks registered before June 30, 2024, excluding the Development Bank of Ethiopia (DBE). These include one state-owned bank, three private interest-free banks, five microfinance institutions transformed into commercial banks, and the remaining are conventional private commercial banks; NBE's financial stability report (November, 2024).

Table 3.1: Distribution of Commercial Banks in Ethiopia

| Category | Number of Banks | Percentage of Total |
|---------------------|------------------------|----------------------------|
| Large Banks | 1 | 3.3% |
| Medium Banks | 5 | 16.7% |
| Small Banks | 24 | 80.0% |
| Total | 30 | 100% |

Source (NBE Financial Stability report, 2024)

3.4.2 Sampling Frame and Unit

The sampling frame of the study consists of the four departments (Finance, Research, Strategy and Risk) of the selected 10 commercial banks. The sampling unit consists of senior managers and focal persons from the selected commercial banks.

3.4.3 Sampling Technique

A combination of census and random sampling techniques were employed. Census sampling was used to select large and medium banks due to their significant asset and deposit holdings, which account for over 77.5% and 78.1% of the total, respectively. The remaining 24 banks are classified as small banks by the NBE, based on total assets, customer base, and technological adoption. Since conducting a census on all small banks was impractical, a random sampling approach was used to ensure fair representation.

To maintain proportionality while balancing feasibility, 4 small banks were selected randomly, representing approximately 17% share of all small banks as compare to large and medium banks. This proportion aligns with standard sampling practices for large populations, ensuring the findings are generalizable while capturing diverse perspectives within the small bank category.

Random selection of these banks eliminated selection bias, making the sample more representative of the overall small bank segment. This approach ensures that insights from the study reflect a broad range of experiences and operational scales within small banks rather than

being limited to a few specific institutions. On the other hand, the qualitative interviews capture leadership insights, while surveys quantify employee preparedness.

Table 3.2: Sampling Distribution of Selected Banks

| Category | Number of Banks | Sampling Technique |
|--------------|-----------------|--------------------|
| Large Banks | 1 | Census |
| Medium Banks | 5 | Census |
| Small Banks | 4 | Random |
| Total | 10 | |

3.4.4 Sample Size

Krejcie and Morgan's (1970) table for determining sample size provides a simplified way to determine the required sample size for a given population to ensure that the sample adequately represents the population. The table used because it provides a straightforward, empirically-derived guideline to determine an appropriate sample size based on population parameters.

The table is based on the following formula:

$$S = \frac{X^2 \cdot N \cdot P \cdot (1-P)}{d^2 \cdot (N-1) + X^2 \cdot P \cdot (1-P)}$$

Where:

- **S** = required sample size
- **X²** = table value of chi-square for 1 degree of freedom at the desired confidence level (usually 3.841 for a 95% confidence level)
- **N** = population size
- **P** = population proportion (assumed to be 0.5 for maximum sample size)
- **d** = degree of accuracy expressed as a proportion (0.05 for ±5% margin of error)

Using this formula, Krejcie and Morgan created a table that directly provides the sample size for a range of population sizes. The researcher used this sampling method since it Aligns with Common Research Standards since it used of a 95% confidence level and a 5% margin of error. In addition, this method is specifically tailored for studies involving a known and finite population size, making it highly appropriate when the total population is known.

Therefore, based on the table for determining sample size for research activities, the minimum sample size for a population of 898 is 269.

The sample size distribution across departments and banks is calculated as follows:

Table 3.3: Sample Size Distribution by Department

| Department | Total Employees | Sample Size Calculation | Sample Size |
|--------------|-----------------|----------------------------|-------------|
| Finance | 314 | $269/898 \times 314 = 94$ | 94 |
| Research | 50 | $269/898 \times 50 = 15$ | 15 |
| Strategy | 180 | $269/898 \times 180 = 53$ | 53 |
| Risk | 359 | $269/898 \times 359 = 107$ | 107 |
| Total | 898 | | 269 |

- ❖ The Departments were selected purposively due to their significant impact to the emerging capital market
- ❖ Questionnaire was distributed randomly to senior managers and other focal persons

Table 3.4: Sample Size Distribution by banks

| BANKS | No of Emp | Percentage | Sample share from the banks | | | | |
|--------------|------------|----------------|-----------------------------|-----------|-----------|------------|------------|
| | | | Finance | Research | Strategy | Risk | Total |
| CBE | 366 | 40.76% | 38 | 6 | 22 | 44 | 110 |
| Awash | 73 | 8.13% | 8 | 1 | 4 | 9 | 22 |
| Dashen | 53 | 5.90% | 6 | 1 | 3 | 6 | 16 |
| Abysinia | 83 | 9.24% | 9 | 1 | 5 | 10 | 25 |
| Hibret | 71 | 7.91% | 7 | 1 | 4 | 8 | 21 |
| Coop | 61 | 6.79% | 6 | 1 | 4 | 7 | 18 |
| Wegagen | 59 | 6.57% | 6 | 1 | 3 | 7 | 18 |
| Zemen | 34 | 3.79% | 4 | 1 | 2 | 4 | 10 |
| Enat | 42 | 4.68% | 4 | 1 | 2 | 5 | 13 |
| Birhan | 56 | 6.24% | 6 | 1 | 3 | 7 | 17 |
| Total | 898 | 100.00% | 94 | 15 | 53 | 107 | 269 |

- ❖ Interviews were conducted purposively with 5 banks key stakeholders out of the selected ten banks since the researcher believed that there is a data saturation. The interviewees are chosen purposively based on their knowledge about capital market, their expertise in

the industry, their related current position and overall experience to obtain leadership insight.

3.5 Data Collection Method

Primary Data

Primary data was collected using adopted questionnaire and semi-structured interviews. A questionnaire was distributed to 269 employees from the target population randomly, focusing on senior managers from finance, research, strategy, and risk departments. Semi-structured interviews were conducted purposively with selected senior managers and focal persons, based on their knowledge about the capital market, their expertise in the industry, their related current position and overall experience, allowing for in-depth exploration of their perspectives and experiences.

3.6 Ethical Considerations

Ethical consideration was carefully addressed to ensure the integrity of the study. Informed consent was obtained from all participants, and confidentiality and anonymity were strictly maintained. Data was securely stored, and transparency and honesty were upheld throughout the research process, with findings reported accurately and without fabrication or manipulation of data. The responders filled the questionnaire anonymously

3.7 Data Analysis Techniques

The collected data underwent rigorous analysis to extract meaningful insights and draw valid conclusions. Qualitative data from interviews was analyzed using narrative analysis, allowing for the identification and interpretation of recurring themes and patterns. Quantitative data from surveys was analyzed using descriptive statistical techniques such as percentage, measure of central tendency and measure of dispersion analysis. SPSS 26 statistical tool was used for data analysis.

Triangulations of findings from both quantitative and qualitative analyses were conducted to enhance the validity and reliability of the results. The reliability of quantitative data was checked using Cronbach's alpha coefficient test, ensuring robustness in the conclusions drawn from the data.

Table 3.5 Reliability Statistics

| Variable name | Cronbach's Alpha | No. of Items |
|--|-------------------------|---------------------|
| Perceptions of Ethiopian commercial banks | 0.700 | 5 |
| Competitive strategies | 0.834 | 5 |
| Minimum capital requirement | 0.834 | 5 |
| Knowledge and skill among employees | 0.845 | 5 |
| Leadership | 0.874 | 5 |

Cronbach's alpha was used to measure the study's reliability and internal consistency. According to Robinson (2009), a score of 0.9 or more indicates excellent dependability, a value between 0.7 and 0.9 indicates good reliability, a value between 0.5 and 0.7 indicates moderate reliability, and a value below 0.5 indicates low reliability. As shown in the above table, the Chronbach's alpha value for each variable was acceptable.

On the other hand, to ensure validity, the questionnaire used in this study were adopted from reputable sources, including the World Bank (2020) and McKinsey & Company (2021). The use of these well-established sources ensures that the questionnaire accurately captures relevant concepts and enhances the credibility of the findings.

CHAPTER FOUR

4. DATA ANALYSIS, PRESENTATION AND DISCUSSION

The previous chapters discussed the introduction to the research, a review of related literature, and methodology used. This chapter describes the demographic characteristics of respondents and descriptive analysis of the data with the interpretation.

The questionnaire was completed by 262 bank employees from several departments (risk management and compliance, strategy planning and transformation, finance and research) to determine the percentage of responders from the various departments in the bank; purposive sampling was used, followed by random sampling. The researcher considered that the data gathered was sufficient to reach a result for the study.

4.1 Demographic Characteristics

Table 4.1 Gender Breakdown by Bank

| Bank Name | Total Respondents | Male | Female | % Male | % Female |
|-----------------|-------------------|------|--------|--------|----------|
| CBE | 108 | 87 | 21 | 80% | 20% |
| Awash | 21 | 18 | 4 | 82% | 18% |
| Dashen | 16 | 18 | 5 | 113% | 31% |
| Abysinia | 22 | 28 | 6 | 129% | 29% |
| Hibret | 19 | 11 | 2 | 57% | 13% |
| Coop | 18 | 18 | 0 | 100% | 0% |
| Wegagen | 18 | 9 | 2 | 50% | 14% |
| Zemen | 10 | 12 | 3 | 117% | 33% |
| Enat | 13 | 9 | 4 | 71% | 29% |
| Birhan | 17 | 11 | 0 | 67% | 0% |
| | 262 | 214 | 48 | 82% | 18% |

Source: Each banks data (2024/25)

Based on the survey data, the total numbers of respondents were 262 employees of commercial banks in Ethiopia. As it can have been seen on the table above, CBE had the highest number of respondents (108), accounting for 41% of the total participants.

Table 4.2 Sampled Departments

| Research Area | Number of Respondents | Percentage (%) |
|---------------|-----------------------|----------------|
| Finance | 92 | 35.11% |
| Risk | 86 | 32.82% |
| Research | 27 | 10.31% |
| Strategy | 57 | 21.76% |
| Total | 262 | 100% |

Source: survey from each bank (2024/25)

As shown in table 4.2, 262 respondents were proportionally selected. Out of these, 92 respondents (35.11%) were from finance department; on the contrary 10.31% of the respondents were from research department.

The educational qualification analysis of the 262 respondents reveal that the majority (75.57%) hold a master’s degree, indicating a highly educated workforce in Ethiopia’s banking sector. Bachelor’s degree holders account for 24.05%, showing that a significant portion of professionals has undergraduate qualifications. The high level of education, suggests that banking professionals possess the necessary theoretical and practical knowledge to engage with emerging financial markets.

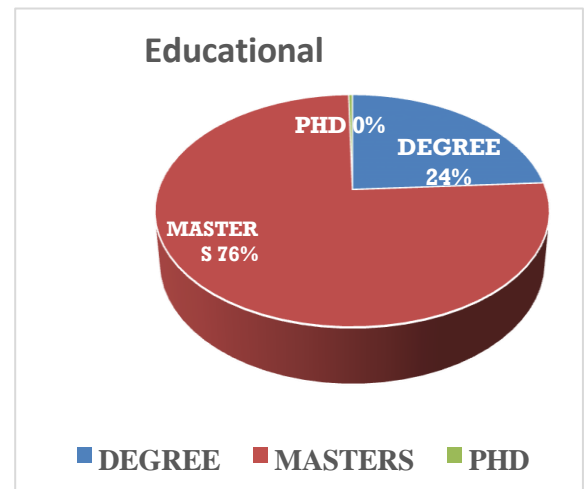


FIG 4.1 Educational Qualification
Source: Data analysis from SPSS 26

4.2. Descriptive Statistics

Descriptive statistics are brief descriptive coefficients that summarize a given data set. In this study, measures of central tendency (mean and frequency) and variability (standard deviation) were used to present and interpret the variables. The survey analyses perceptions and readiness of individuals and institutions (primarily commercial banks in Ethiopia) for the emerging capital market. Key focus areas include belief in economic growth impacts, confidence in regulatory frameworks, institutional preparedness, risk awareness, and leadership support for capital market participation. The sample size consisted of 262 respondents, enabling insights on views and

behaviours related to emerging capital markets. For the first variable concerning the perception of Ethiopian commercial banks five questions were raised.

The ordinal data of a 5-point Likert type scale was converted to a ratio by creating an equal range to determine the minimum and maximum length. From 1 to 1.80 represents (strongly disagree); 1.81 to 2.60 represents (disagree); 2.61 to 3.40 represents (neutral); 3.41 to 4.20 represents (agree); and 4.21 to 5.00 represents (strongly agree) (Zoltan Dornyei, 2007).

4.2.1 Perception of Commercial banks

The table provides an analysis of respondents' perceptions regarding Ethiopian commercial banks and the emerging capital market. It evaluates their beliefs and attitudes through several metrics, including their confidence in the regulatory framework, preparedness of banks, perceived business growth opportunities, and awareness of associated risks.

Table 4.4 analysis related to the perception of Ethiopian commercial banks

| ITEM | | Frequency | Per cent | mean | SD |
|---|-------------------|-----------|----------|------|------|
| 1. I believe that the development of the capital market in Ethiopia will positively impact economic growth. | Strongly Disagree | 6 | 2.3 | 4.22 | 0.85 |
| | Disagree | 8 | 3.1 | | |
| | Neutral | 11 | 4.2 | | |
| | Agree | 133 | 51.2 | | |
| | Strong Agree | 102 | 39.2 | | |
| 2. I am confident in the regulatory framework supporting the emerging capital market in Ethiopia. | Strongly Disagree | 6 | 2.3 | 3.64 | 0.90 |
| | Disagree | 22 | 8.5 | | |
| | Neutral | 65 | 25.0 | | |
| | Agree | 133 | 51.2 | | |
| | Strong Agree | 34 | 13.1 | | |
| 3. Ethiopian commercial banks are adequately prepared to participate actively in the emerging capital market. | Strongly Disagree | 9 | 3.5 | 3.23 | 1.00 |
| | Disagree | 56 | 21.5 | | |
| | Neutral | 84 | 32.3 | | |
| | Agree | 86 | 33.1 | | |
| | Strong Agree | 24 | 9.2 | | |
| 4. I perceive the emerging capital market in Ethiopia as a significant opportunity for business growth. | Strongly Disagree | 8 | 3.1 | 4.12 | 0.86 |
| | Disagree | 5 | 1.9 | | |
| | Neutral | 19 | 7.3 | | |
| | Agree | 145 | 55.8 | | |
| | Strong Agree | 83 | 31.9 | | |
| 5. I am aware of the potential risks associated with participating in the emerging capital market in Ethiopia | Strongly Disagree | 5 | 1.9 | 3.61 | 0.90 |
| | Disagree | 30 | 11.5 | | |
| | Neutral | 56 | 21.5 | | |
| | Agree | 139 | 53.5 | | |
| | Strong Agree | 29 | 11.2 | | |

Source: Researcher's own analysis using SPSS 26

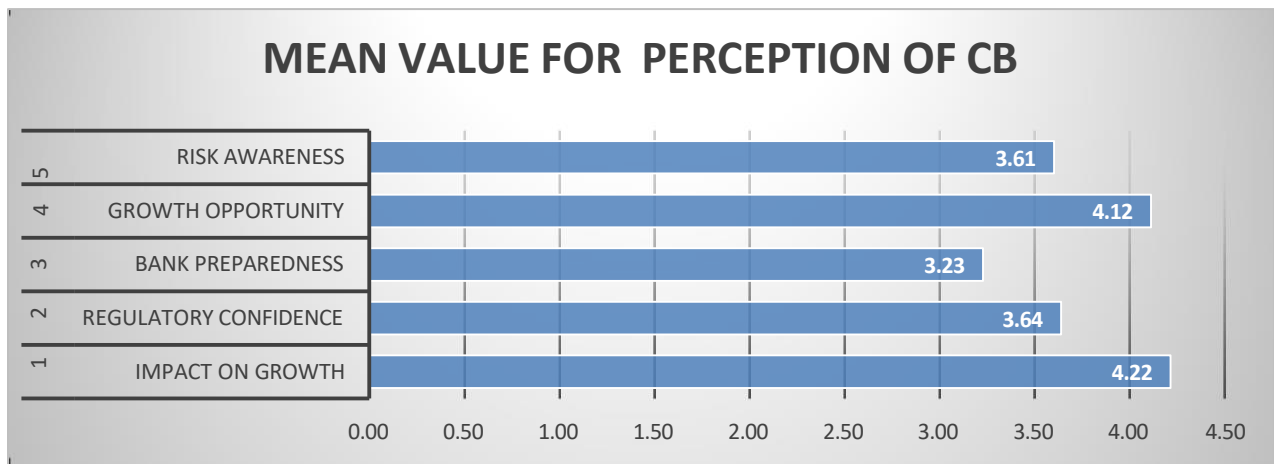
As shown in table 4.4, a striking 90.4% of respondents agreed or strongly agreed that the development of a capital market in Ethiopia will positively impact economic growth, with only 5.4% expressing disagreement and 4.2% remaining neutral. This widespread optimism, reflected in the high mean score of 4.22, highlights a shared belief in the transformative potential of capital markets. Such confidence aligns with economic theories emphasizing their role in efficient resource allocation, increased access to finance, and national development.

In contrast, confidence in Ethiopian's regulatory framework supporting the emerging capital market revealed more varied opinions. Approximately 51.2% of participants agreed with the adequacy of the regulatory framework, while 10.8% disagreed and 25.0% remained neutral. The mean score of 3.6 indicates general positivity; however, the significant neutral responses suggest a lack of awareness or uncertainty regarding regulatory details. This calls for improved communication and transparency to strengthen stakeholders' understanding and trust.

Perceptions of CBE's readiness for active participation in the capital market were mixed, with fewer than half of respondents (42.3%) agreeing or strongly agreeing on their preparedness. A notable 25% disagreed, and 32.3% were neutral, reflecting skepticism regarding banks' capacity to embrace the evolving system. Challenges such as inadequate infrastructure, workforce gaps, and insufficient strategic preparation may contribute to these concerns. The lower mean score of 3.2317 underscores the urgent need for targeted measures to enhance banks' readiness.

Despite these reservations, there is overwhelming optimism regarding the market's potential for business growth. A significant 87.7% of respondents agreed or strongly agreed that the emerging capital market presents a substantial opportunity for enterprise expansion and innovation. This sentiment, reflected in a mean score of 4.12, demonstrates the widespread belief that capital markets can reshape the business landscape and create new economic opportunities.

However, awareness of risks associated with participation in the capital market showed moderate levels. While 64.7% of respondents indicated awareness of risks, 21.5% remained neutral, pointing to partial understanding of potential uncertainties. The mean score of 3.61 highlights this moderate awareness, with the notable neutral proportion emphasizing the importance of enhanced institutional training and comprehensive risk management education. These steps are essential for enabling effective and informed participation in capital markets.



FIGS 4.2 MEAN VALUE FOR PERCEPTION OF COMMERCIAL BANKS

Source: Data analysis result from SPSS 26

As can be seen in the above figure, Impact on Growth (4.22) has the highest mean, indicating that respondents feel strongly about the positive impact commercial banks have on economic growth. Whereas, Bank Preparedness (3.23) has the lowest mean, indicating that respondents feel banks may not be fully prepared to handle challenges, signaling a need for improvement.

4.2.2 Competitive strategies

Table 4.5 analysis related to competitive strategies

| ITEM | | Frequency | Percent | mean | SD |
|---|-------------------|-----------|---------|------|------|
| 6. My bank plays a significant emphasis on developing innovative capital market products and services | Strongly Disagree | 8 | 3.1 | 3.73 | 0.92 |
| | Disagree | 19 | 7.3 | | |
| | Neutral | 48 | 18.5 | | |
| | Agree | 145 | 55.8 | | |
| | Strong Agree | 40 | 15.4 | | |
| 7. My bank focuses extensively on expanding its market share in preparation for the capital market. | Strongly Disagree | 5 | 1.9 | 3.73 | 0.85 |
| | Disagree | 21 | 8.1 | | |
| | Neutral | 46 | 17.7 | | |
| | Agree | 155 | 59.6 | | |
| | Strong Agree | 33 | 12.7 | | |
| 8. My bank is proactive in leveraging technological advancements to enhance the capital market's service delivery. | Strongly Disagree | 4 | 1.5 | 3.65 | 0.89 |
| | Disagree | 23 | 8.8 | | |
| | Neutral | 70 | 26.9 | | |
| | Agree | 125 | 48.1 | | |
| | Strong Agree | 38 | 14.6 | | |
| 9. My bank is highly committed to building strategic partnerships to strengthen its position in the capital market. | Strongly Disagree | 1 | .4 | 3.83 | 0.83 |
| | Disagree | 19 | 7.3 | | |
| | Neutral | 51 | 19.6 | | |
| | Agree | 140 | 53.8 | | |
| | Strong Agree | 49 | 18.8 | | |
| 10. My bank adjusts its pricing strategies effectively to remain competitive in the emerging capital market. | Strongly Disagree | 6 | 2.3 | 3.60 | 0.94 |
| | Disagree | 27 | 10.4 | | |
| | Neutral | 70 | 26.9 | | |
| | Agree | 118 | 45.4 | | |
| | Strong Agree | 39 | 15.0 | | |

Source: Researcher's own analysis using SPSS 26

According to the data in Table 4.5, the emphasis on developing innovative capital market products and services by banks receives agreement from 71.2% of respondents, while 18.5% remain neutral. This demonstrates substantial positivity but also highlights a notable portion of participants who are either undecided or perceive insufficient emphasis on innovation. Such neutrality, affecting nearly one in five respondents, could potentially undermine banks' competitiveness in the early stages of market operations.

When examining the strategies for expanding market share in preparation for the capital market, a remarkable 72.3% of respondents²⁶ express agreement, indicating strong strategic focus among banks on capturing & solidifying their market presence. In contrast, only 10% express disagreement on this point, reflecting limited opposition. Such proactive measures suggest a widespread acknowledgment of the competitive pressures anticipated in the emerging market.

Regarding leveraging technology to enhance service delivery, 62.7% of respondents agree that banks utilize technological advancements effectively. Despite this, 26.9% remain neutral, and 8.8% express disagreement. These findings reveal a moderate confidence level in technology adoption across institutions, underscoring potential gaps in infrastructure, expertise, or implementation that may impede efficient service provision.

Strategic partnerships emerge as a prominent focus, with 72.6% of respondents agreeing that banks are highly committed to forging alliances to strengthen their position in the capital market. Only 7.3% express disagreement, demonstrating strong overall support for such collaboration. Emphasizing partnerships allows banks to share resources, mitigate risks, and position themselves advantageously in a nascent and potentially volatile market environment.

Regarding the adjustment of pricing strategies for competitiveness, 60.4% of participants agree that their banks effectively adapt pricing in line with emerging market dynamics. Nevertheless, 26.9% remain neutral, and 12.7% express disagreement. This degree of neutrality suggests challenges in effectively communicating these strategies to stakeholders or responding quickly enough to shifting market demands.

Collectively, the competitive strategies assessed reflect mean scores ranging between 3.60 and 3.83, indicative of broad agreement that banks are proactively addressing competitive needs.

Strategic partnerships (mean score of 3.83) and innovation in products and services (mean score of 3.73) stand out as key focus areas. Meanwhile, the consistent yet moderate standard deviations, from 0.83 to 0.94, indicate general alignment among respondents while also pointing to variability in specific areas such as pricing strategies (SD 0.94). Finally, the heightened focus on market share expansion (mean score of 3.73) reflects strategic foresight among banks, emphasizing their preparation and positioning ahead of market establishment.

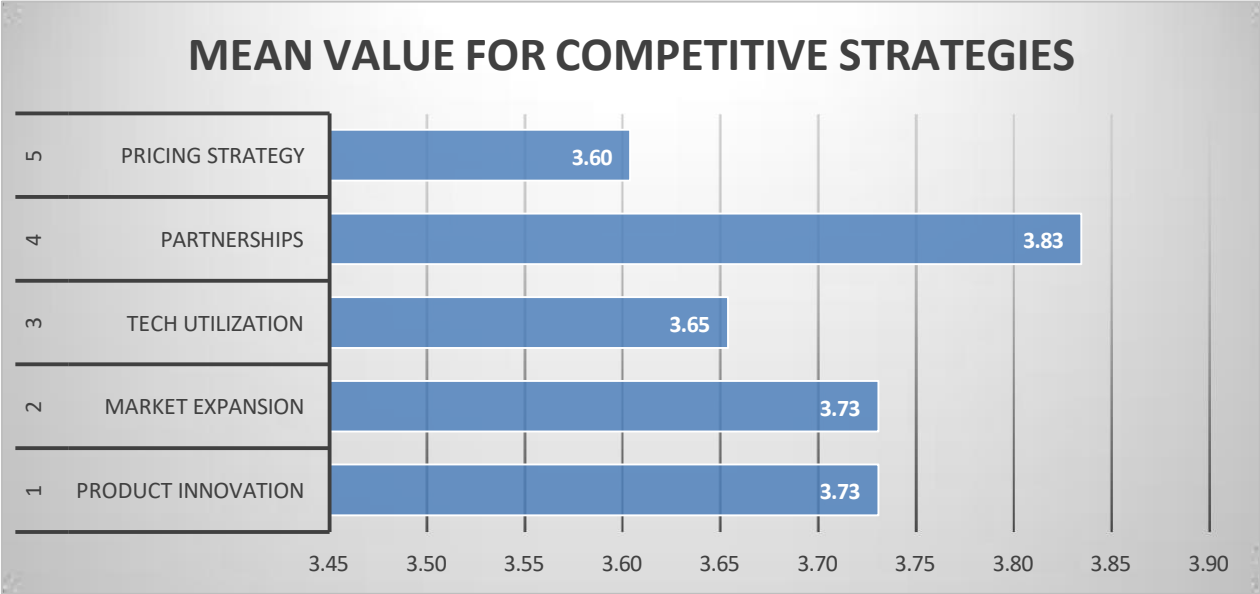


FIG 4.3 MEAN VALUE FOR COMPETITIVE STRATEGIES
Source: Data analysis result from SPSS 26

As can be seen in the above figure, Product Innovation (3.73) and Market Expansion (3.73) both have high means, indicating that respondents view these as key competitive strategies that banks excel in. This suggests banks are perceived to be actively seeking growth through innovative products and expanding into new markets. On the other hand, Pricing Strategy (3.60) is the lowest, which might suggest that while pricing is an important consideration, banks may not be as competitive in their pricing strategies compared to other areas.

4.2.3 Minimum capital requirement

Table 4.6 analysis related to minimum capital requirement

| ITEM | | Frequency | Percent | mean | SD |
|---|-------------------|-----------|---------|------|------|
| 11. I am confident in the current capital reserves of my bank to support increased lending activities in the capital market | Strongly Disagree | 5 | 1.9 | 3.84 | 0.88 |
| | Disagree | 14 | 5.4 | | |
| | Neutral | 53 | 20.4 | | |
| | Agree | 134 | 51.5 | | |
| | Strong Agree | 54 | 20.8 | | |
| 12. I believe that my bank's capital ratios meet regulatory requirements for participation in the capital market to a significant extent. | Strongly Disagree | 4 | 1.5 | 4.07 | 0.80 |
| | Disagree | 8 | 3.1 | | |
| | Neutral | 27 | 10.4 | | |
| | Agree | 148 | 56.9 | | |
| | Strong Agree | 73 | 28.1 | | |
| 13. My bank is well-prepared to absorb potential losses and risks associated with capital market operations. | Strongly Disagree | 2 | 0.8 | 3.67 | 0.88 |
| | Disagree | 26 | 10.0 | | |
| | Neutral | 69 | 26.5 | | |
| | Agree | 123 | 47.3 | | |
| | Strong Agree | 40 | 15.4 | | |
| 14. My bank's strategies for maintaining adequate liquidity in the context of the emerging capital market are effective | Strongly Disagree | 2 | 0.8 | 3.73 | 0.84 |
| | Disagree | 21 | 8.1 | | |
| | Neutral | 61 | 23.5 | | |
| | Agree | 138 | 53.1 | | |
| | Strong Agree | 38 | 14.6 | | |
| 15. I am satisfied with the measures my bank has taken to strengthen its capital base in preparation for the capital market. | Strongly Disagree | 1 | 0.4 | 3.75 | 0.90 |
| | Disagree | 28 | 10.8 | | |
| | Neutral | 54 | 20.8 | | |
| | Agree | 128 | 49.2 | | |
| | Strong Agree | 48 | 18.5 | | |

Source: Researcher's own analysis using SPSS 26

Analyzing the data on minimum capital requirements reveals significant insights into the perceptions of bank employees regarding their institutions' readiness for capital market operations. A notable 72.3% of respondents expressed confidence in their banks' capital reserves to support increased lending activities. This reflects a positive sentiment toward the strength of their reserves, which are critical for a functioning capital market. Only 7.3% disagreed, while 20.4% were neutral, suggesting room for clearer communication on reserve adequacy.

On the matter of meeting regulatory capital ratios, confidence was even higher, with 85% of respondents agreeing or strongly agreeing that their banks meet the necessary requirements. A minimal 10.4% were neutral, and disagreement was exceedingly rare (4.6%). This strong assurance implies that banks are aligning with regulatory standards, which is crucial for market credibility and operational readiness.

Employee perceptions of their banks' readiness to absorb potential losses and risks associated with capital market operations were slightly more varied. While 47.3% agreed and 15.4% strongly agreed with the statement, a significant 26.5% remained neutral, and 10.8% expressed disagreement. These findings point to a generally positive outlook but also highlight areas where some employees may perceive gaps in risk preparedness.

Liquidity management strategies received a similar level of support, with 53.1% agreeing and 14.6% strongly agreeing that their bank effectively maintains adequate liquidity in the context of the capital market. However, with 23.5% neutral and 8.9% disagreeing, it is evident that further optimization and communication on liquidity measures are needed to reassure all employees.

Regarding satisfaction with measures taken to strengthen the capital base in preparation for the capital market, 49.2% agreed, and 18.5% strongly agreed. Nonetheless, 20.8% remained neutral, while 10.8% expressed dissatisfaction. This mix of responses highlights the need for ongoing improvements and better stakeholder engagement to enhance perceptions of preparedness.

The mean scores for this category provide further insight into employee sentiment. The highest mean score, 4.07, corresponds to confidence in meeting regulatory capital ratios, reflecting strong agreement among respondents. Capital reserves to support lending activities (3.84) and strategies for maintaining liquidity (3.73) also indicate a generally positive perception, though slightly lower compared to regulatory compliance. Similarly, measures to strengthen the capital base (3.75) and preparations to absorb risks (3.67) demonstrate cautious optimism and readiness in these critical areas.

Standard deviations range from 0.80 to 0.90, suggesting relative consistency in opinions across respondents. While responses were generally aligned, the slightly higher variation in some items, such as risk preparedness (SD 0.88), points to differences in experience or understanding among employees. Together, these findings underscore banks' progress in capital adequacy preparation

while identifying areas requiring further enhancement to fully support market entry and operations.

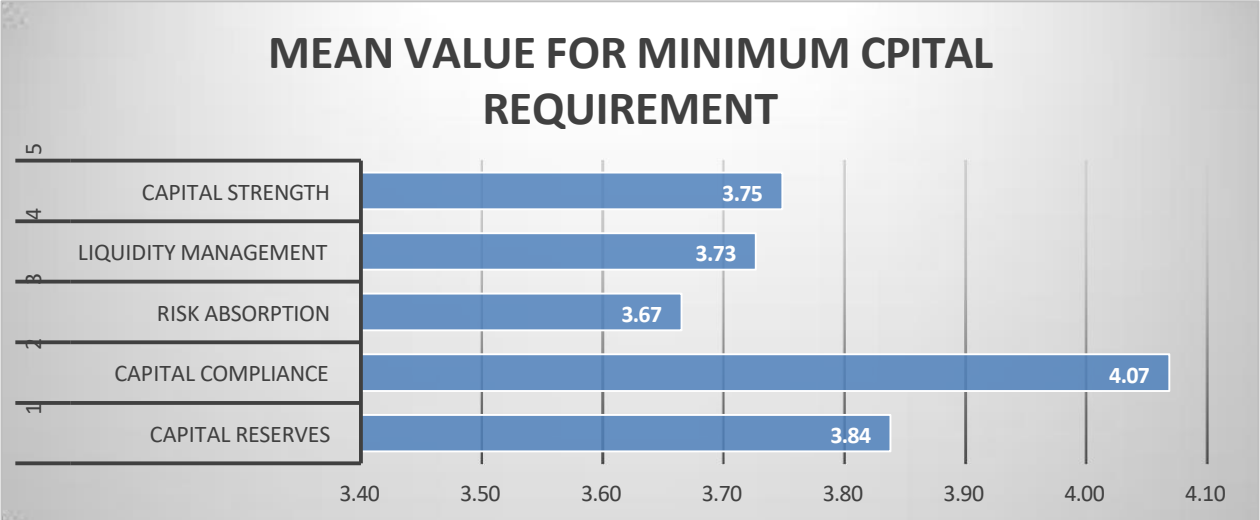


FIG 4.2 MEAN VALUE FOR MINIMUM CPITAL REQUIREMENT
Source: Data analysis result from SPSS 26

As can be seen above, Capital Compliance (4.07) has the highest mean, showing that banks are generally perceived to be in good standing regarding regulatory capital requirements. On the other hand, Risk Absorption (3.67) has slightly lower scores, suggesting that while banks manage liquidity and risks adequately, there may be some perceived room for improvement.

4.2.4 Knowledge and skill among employees

Table 4.7 analysis related to knowledge and skill among employees

| ITEM | | Frequency | Percent | mean | SD |
|---|-------------------|-----------|---------|------|------|
| 16. I am confident in my understanding of capital market instruments such as bonds, equities, and derivatives. | Strongly Disagree | 4 | 1.5 | 3.88 | 0.90 |
| | Disagree | 21 | 8.1 | | |
| | Neutral | 36 | 13.8 | | |
| | Agree | 139 | 53.5 | | |
| | Strong Agree | 58 | 22.3 | | |
| 17. I feel well-equipped to analyse and assess market risks associated with capital market investments. | Strongly Disagree | 4 | 1.5 | 3.61 | 0.95 |
| | Disagree | 38 | 14.6 | | |
| | Neutral | 49 | 18.8 | | |
| | Agree | 132 | 50.8 | | |
| | Strong Agree | 36 | 13.8 | | |
| 18. I am familiar with the regulatory requirements governing capital market operations in Ethiopia. | Strongly Disagree | 6 | 2.3 | 3.48 | 1.00 |
| | Disagree | 48 | 18.5 | | |
| | Neutral | 52 | 20.0 | | |
| | Agree | 122 | 46.9 | | |
| | Strong Agree | 31 | 11.9 | | |
| 19. I am satisfied with the training programs provided by my bank to enhance my knowledge of capital market operations. | Strongly Disagree | 27 | 10.4 | 2.97 | 1.19 |
| | Disagree | 78 | 30.0 | | |
| | Neutral | 56 | 21.5 | | |
| | Agree | 71 | 27.3 | | |
| | Strong Agree | 27 | 10.4 | | |
| 20. I feel well-prepared to provide advisory services to clients regarding capital market investments | Strongly Disagree | 16 | 6.2 | 3.12 | 1.08 |
| | Disagree | 67 | 25.8 | | |
| | Neutral | 68 | 26.2 | | |
| | Agree | 86 | 33.1 | | |
| | Strong Agree | 22 | 8.5 | | |

Source: Researcher's own analysis using SPSS 26

Based on the data presented in the table, employees of commercial banks expressed varying levels of confidence and preparedness regarding knowledge and skills related to capital markets. A substantial 75.8% of employees indicated confidence in their understanding of capital market instruments such as bonds, equities, and derivatives. This high level of confidence is reflected in the mean score of 3.88, the highest in this section, with a relatively moderate standard deviation of 0.90, indicating consistent responses. However, a small but notable 9.6% of employees admitted to a lack of confidence, highlighting potential gaps in foundational knowledge that could benefit from targeted interventions.

When assessing employees' ability to analyse and assess market risks associated with capital market investments, 64.6% agreed or strongly agreed that they felt well-equipped. Despite this majority, 33.4% of respondents either remained neutral or disagreed, showing a considerable

proportion of uncertainty or lack of preparedness in this area. The mean score of 3.6100 and the higher standard deviation of 0.95 suggest that confidence levels are varied, pointing to differences in exposure or training among employees.

Familiarity with the regulatory requirements governing capital market operations was another area where mixed responses were evident. While 58.8% of employees agreed or strongly agreed that they were familiar with these requirements, a significant 41.2% expressed uncertainty or a lack of familiarity. This divide is captured in the mean score of 3.48, which, coupled with a standard deviation of 1.00, indicates greater variability in understanding. This gap in familiarity could undermine the effective compliance and implementation of capital market practices within the organization.

Employee satisfaction with training programs provided by the bank to enhance their knowledge of capital market operations was strikingly low. A majority of 61.9% expressed dissatisfaction or neutrality, with only 37.7% agreeing or strongly agreeing that they were satisfied. The mean score of 2.97, the lowest in this category, reflects this dissatisfaction and signals a critical area for improvement. The standard deviation of 1.19 further emphasizes the inconsistency in training experiences among employees, suggesting that some staff receive adequate training while others are left behind.

Confidence in providing advisory services to clients regarding capital market investments followed a similar trend, with only 41.6% agreeing or strongly agreeing that they felt prepared. A significant 58.4% either lacked confidence or were uncertain, a major concern for institutions aiming to expand their advisory roles in the capital market. The mean score of 3.12 and standard deviation of 1.08 show considerable variability, likely reflecting differences in practical exposure or access to relevant resources.

Low training satisfaction among employees aligns with Barth et al (2004) emphasis on workforce development in emerging markets, where inadequate investment in training often leads to skill gaps and inefficiencies. This suggests that organizations may not be providing sufficient resources or structured programs to enhance employee capabilities. Furthermore, as Becker (1993) highlights in human capital theory, a lack of proper training can reduce productivity and long-term organizational success. Addressing these concerns requires not only

increasing training investments but also aligning programs with employees' specific needs and industry demands.

Despite the general optimism on the emerging capital market, the low readiness levels among employees suggest a possible overconfidence or underestimation of the challenges involved. This contradiction aligns with Rogers' (2003) diffusion of innovation theory, which argues that while enthusiasm for new technology is common, the actual implementation often faces resistance due to skill shortages and infrastructure limitations. Similarly, Davis et al. (1989) in their Technology Acceptance Model (TAM) highlight that perceived ease of use does not always translate into actual adoption, particularly if employees lack proper training and institutional support. This discrepancy suggests that banks need to bridge the gap between enthusiasm and preparedness through targeted capacity-building initiatives.

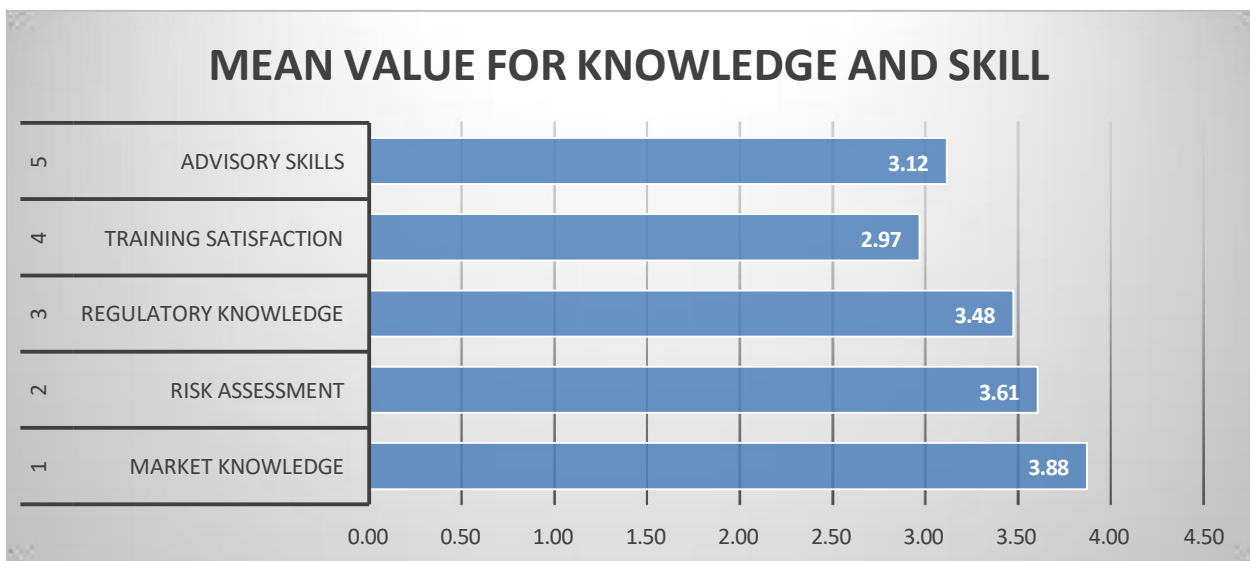


FIG 4.3 MEAN VALUE FOR KNOWLEDGE AND SKILL
Source: Data analysis result from SPSS 26

As can be seen in the above figure, Market Knowledge (3.88) is the highest-rated, showing that banks are perceived to have a strong understanding of the market, which is essential for their strategic decisions. Whereas, Training Satisfaction (2.97) has the lowest score, suggesting that there may be concerns regarding the adequacy or effectiveness of training programs within the banks.

4.2.5 Leadership

Table 4.8 analysis related to Leadership

| ITEM | | Frequency | Percent | mean | SD |
|---|-------------------|-----------|---------|------|------|
| 21. Senior management strongly supports initiatives aimed at preparing the bank for the emerging capital market. | Strongly Disagree | 10 | 3.8 | 3.49 | 1.00 |
| | Disagree | 34 | 13.1 | | |
| | Neutral | 66 | 25.4 | | |
| | Agree | 114 | 43.8 | | |
| | Strong Agree | 33 | 12.7 | | |
| 22. Leadership effectively communicates the strategic goals of the bank in relation to the capital market. | Strongly Disagree | 15 | 5.8 | 3.33 | 1.07 |
| | Disagree | 45 | 17.3 | | |
| | Neutral | 67 | 25.8 | | |
| | Agree | 103 | 39.6 | | |
| | Strong Agree | 28 | 10.8 | | |
| 23. My Leadership actively encourages innovation and adaptation to capital market changes. | Strongly Disagree | 8 | 3.1 | 3.43 | 0.96 |
| | Disagree | 37 | 14.2 | | |
| | Neutral | 73 | 28.1 | | |
| | Agree | 114 | 43.8 | | |
| | Strong Agree | 25 | 9.6 | | |
| 24. I am satisfied with the transparency of decision-making processes within my bank's leadership. | Strongly Disagree | 9 | 3.5 | 3.42 | 0.98 |
| | Disagree | 37 | 14.2 | | |
| | Neutral | 76 | 29.2 | | |
| | Agree | 109 | 41.9 | | |
| | Strong Agree | 27 | 10.4 | | |
| 25. I am confident in the ability of my bank's leadership to navigate regulatory challenges in the emerging capital market. | Strongly Disagree | 3 | 1.2 | 3.72 | 0.82 |
| | Disagree | 19 | 7.3 | | |
| | Neutral | 58 | 22.3 | | |
| | Agree | 148 | 56.9 | | |
| | Strong Agree | 32 | 12.3 | | |

Source: Researcher's own analysis using SPSS 26

The leadership in preparing banks for the emerging capital market received mixed responses. A majority, 57.7% of employees, expressed that senior management supports initiatives aimed at capital market readiness. However, a significant 42.3% either questioned or withheld judgment about management's preparedness. The mean score of 3.49 reflects moderate confidence in this area, while the standard deviation of 1.00 suggests notable variability in perceptions, indicating inconsistent experiences among respondents.

Regarding the communication of strategic goals, opinions were more divided. While 50.4% of respondents agreed or strongly agreed that leadership effectively communicates the bank's objectives related to the capital market, 23.1% disagreed, and 25.8% remained neutral. The mean of 3.33, paired with the highest standard deviation in this section (1.07), highlights a need for improved clarity and consistency in leadership communication. These figures suggest that while

some employees feel well-informed, others experience gaps in understanding the bank's direction.

Innovation and adaptability received similar feedback. A majority of 53.4% felt leadership actively encourages these qualities to address capital market changes. Conversely, 17.3% of employees disagreed, and 28.1% expressed neutrality. The mean of 3.43 indicates moderate support for innovation, while a relatively lower standard deviation of 0.96 suggests more consistent perceptions compared to other areas. Nonetheless, the sizable proportion of neutral and negative responses points to opportunities for greater emphasis on fostering creativity and flexibility.

Employee satisfaction with transparency in decision-making processes revealed a narrower majority, with 52.3% agreeing or strongly agreeing, while 17.7% felt dissatisfied. A significant 29.2% remained neutral, reflecting a notable group that is either unsure or indifferent about the leadership's openness. With a mean score of 3.42 and a standard deviation of 0.98, the data implies moderate agreement but some disparity, suggesting uneven transparency across the organization.

Confidence in leadership's ability to navigate regulatory challenges was relatively stronger. A substantial 69.2% of employees agreed or strongly agreed with this capability, while only 8.5% disagreed and 22.3% remained neutral. The mean of 3.72, the highest in this section and the lowest standard deviation of 0.82 indicate both confidence and greater consensus in this aspect of leadership performance.

Overall, leadership performance appears strongest in navigating regulatory challenges but less consistent in communication, transparency, and fostering innovation. The relatively lower mean scores for communication (3.33) and transparency (3.42) highlight key areas for development, while moderate standard deviations (ranging from 0.81 to 1.06) reflect varied experiences that may stem from differing leadership practices across bank branches. To enhance overall effectiveness, leadership could focus on strengthening communication strategies, promoting transparency, and actively supporting innovation to address the complexities of capital market operations

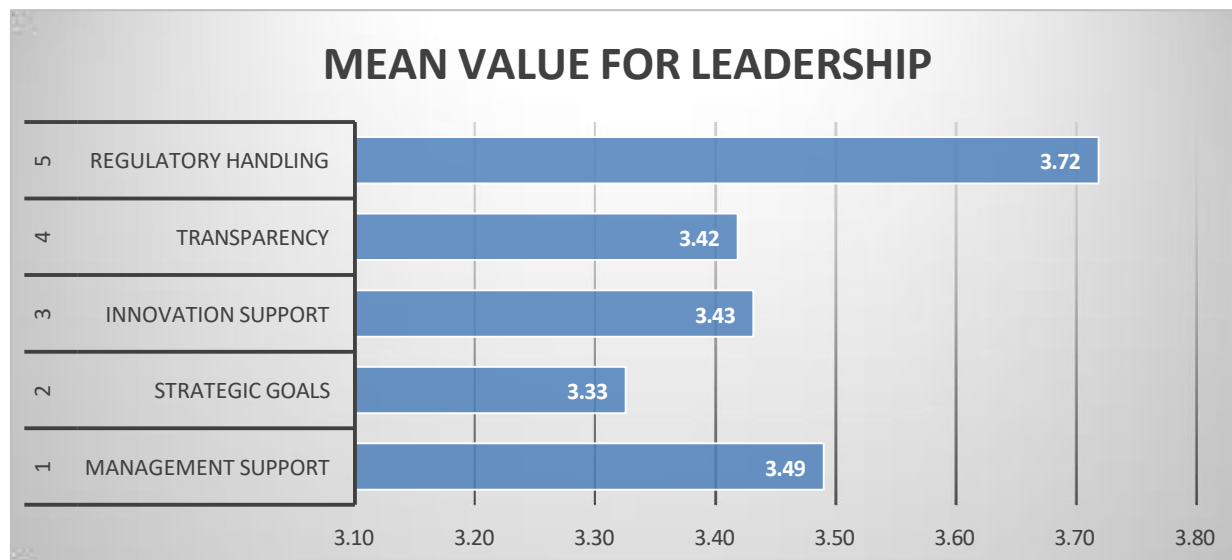


FIG 4.4 MEAN VALUE FOR LEADERSHIP

Source: Data analysis result from SPSS 26

As can be seen above, Regulatory handling (3.72) has the highest scores, showing that banks are perceived to have strong leadership in these areas, fostering a supportive environment for both operational needs and innovation. Whereas, Strategic Goals (3.33) has the lowest mean, indicating that there may be concerns around the clarity and communication of long-term strategic goals and transparency in leadership decision-making.

4.3 Narrative Analysis of Senior Bank Managers for the Interview questions

4.3.1 Perceptions of Ethiopian Commercial Banks’ Senior Managers towards the Emerging Capital Market

Senior managers expressed a mix of optimism and caution regarding Ethiopia’s emerging capital market. While acknowledging that the establishment of a capital market presents a transformative opportunity for economic growth, they also highlighted potential challenges. Manager A emphasized that a well-functioning capital market could enhance financial intermediation and mobilizes savings, leading to a more diversified economy. Manager B, however, pointed out concerns over regulatory preparedness, market transparency, and investor confidence. Manager C mentioned that many banking professionals, including him, have limited exposure to capital markets due to the absence of such a system in Ethiopia. Managers D and E

agreed that the introduction of a capital market would require a paradigm shift in how banks operate, particularly in terms of investment strategies and risk management.

4.3.2 Competitive Strategies Employed by Ethiopian CBs for Capital Market Readiness

When asked about competitive strategies, the managers outlined several approaches. Manager A stated that their bank is strengthening its corporate governance and risk management frameworks to align with international best practices. Manager B mentioned efforts to expand financial literacy among customers to encourage market participation. Manager C highlighted the importance of innovation in financial products, including investment banking services. Manager D emphasized digital transformation and automation as key areas for maintaining a competitive edge, while Manager E underscored the need for partnerships with foreign financial institutions to acquire technical expertise and insights into capital market operations.

4.3.3 Adequacy of the Minimal Capital Requirement in Meeting Capital Market Demands

The responses on this question reflected a consensus that the current minimum capital requirement set for Ethiopian banks might not be sufficient for effective participation in the capital market. Manager A argued that banks need stronger capital buffers to withstand market fluctuations and investment risks. Manager B pointed out that foreign investors may be hesitant to engage with banks that have relatively low capital bases. Manager C believed that while increasing capital requirements could be beneficial, it should be done gradually to avoid financial strain on existing banks. Managers D and E expressed concerns about potential mergers and acquisitions that may arise if banks struggle to meet heightened capital demands, which could reshape the competitive landscape of the banking sector.

4.3.4 Knowledge and Skill Levels among Bank Employees on Capital Market Operations

A recurring theme in the discussions was the limited knowledge and skill level among bank employees regarding capital market operations. Manager A acknowledged the need for intensive training and certification programs. Manager B noted that the lack of exposure to real-world capital market activities has resulted in a knowledge gap among banking professionals. Manager C suggested that universities and financial institutions should collaborate to develop curricula that incorporate capital market principles. Manager D stressed the importance of hiring professionals with international capital market experience, while Manager E proposed that banks establish internal research and development units dedicated to capital market studies.

4.3.5 Banks Leadership and its Impact on Readiness for the Capital Market

Manager A highlighted a transformational leadership, focusing on innovation and adaptability. Manager B emphasized the need for strategic vision and proactive decision-making. Manager C noted that a bureaucratic leadership style could hinder quick decision-making and responsiveness to market changes. Manager D advocated for participatory leadership, where employees at all levels contribute to shaping capital market strategies. Manager E stressed that leadership should prioritize regulatory compliance and risk management while fostering a culture of learning and adaptability.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter is divided into four sections. The first section provides an overview of the study's key findings; the second section discusses the conclusions; and the third portion offers recommendations based on the study's findings. The last part underlines the directions that need to be explored further.

5.2. Summary of the findings

The emergence of a capital market in Ethiopia represents a significant milestone in the country's economic development. As pivotal players in this evolving landscape, domestic commercial banks are both influenced by and integral to the capital market's success. This research explored the readiness of Ethiopian banks, analyzing their perception, competitive advantages, capital adequacy, workforce capability, and leadership. The following summarizes key findings:

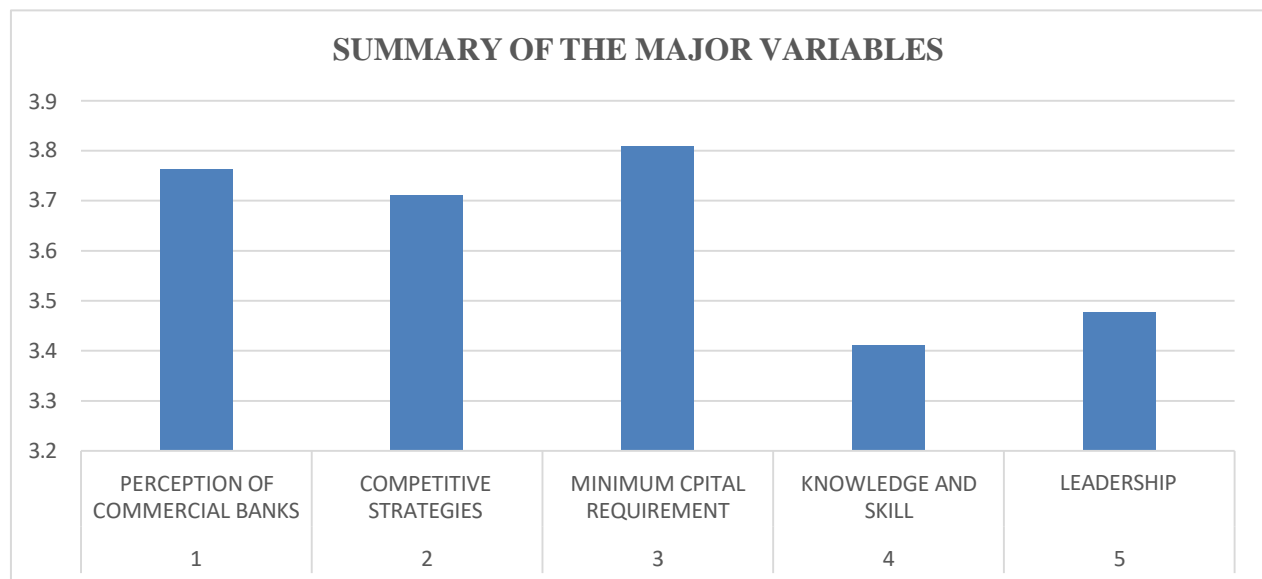


Fig 5.1 summary of major variables

Source: Data analysis result from SPSS 26

Perceptions and Readiness: Banks expressed strong optimism about the potential of the capital market to drive economic growth and business expansion. However, their actual readiness remains moderate, as gaps in strategic preparedness and risk awareness were evident. This aligns with Institutional Theory, which suggests that organizations tend to conform to external expectations and norms, even when internal structures are not fully aligned with those expectations. In this case, banks' positive perception contrasts with their actual preparedness, indicating a need for institutional alignment through targeted reforms and capacity-building initiatives.

Competitive Advantage: Strategic initiatives such as partnerships and innovation-focused approaches were identified as key strengths of Ethiopian banks. However, competitive pricing strategies for attracting capital market clients remain underdeveloped. The Resource-Based View (RBV) suggests that sustained competitive advantage arises from unique firm resources and capabilities. The absence of robust pricing mechanisms and financial innovation weakens banks' ability to leverage their strengths, highlighting the need for differentiated pricing strategies and integrated service models to enhance their market position.

Capital Adequacy: The study found that banks meet minimum capital requirements, ensuring financial stability in the capital market. Liquidity confidence and risk absorption mechanisms were strong, though long-term resilience requires diversified funding sources and proactive risk management. From a Financial Intermediation Theory perspective, banks play a crucial role in capital allocation, and their ability to maintain adequate capital buffers influences their efficiency in supporting economic activities. Strengthening risk management frameworks will further enhance their ability to act as effective intermediaries in the evolving financial landscape.

Knowledge and Skill Among Employees: While moderate familiarity with capital market instruments was observed, training gaps in regulatory frameworks and financial instruments remain significant. Employee capabilities vary widely across institutions, pointing to the need for standardized training programs. This finding aligns with the Human Capital Theory, which emphasizes that skilled personnel are critical for organizational success. The lack of adequate training undermines banks' ability to operate effectively in the capital market, reinforcing the need for sustained investment in workforce development to build expertise in capital market operations.

Leadership and Strategic Direction: Leadership within Ethiopian banks displayed competence in addressing regulatory challenges but required improvements in strategic communication and fostering innovation. According to Transformational Leadership Theory, effective leadership drives organizational change and innovation. The observed inconsistencies in leadership effectiveness suggest a need for professional development initiatives to cultivate visionary leaders who can navigate the evolving capital market landscape.

5.3 Conclusion

This study aimed to assess the readiness of domestic commercial banks in Ethiopia to engage with the emerging capital market. The findings demonstrate a generally optimistic outlook among bank employees regarding the potential impact of the capital market on economic growth. However, the readiness of banks to participate remains mixed, particularly in terms of regulatory confidence, preparedness for active engagement, and risk awareness. Although banks acknowledge the potential for business growth through the capital market, their operational readiness is impeded by gaps in infrastructure, workforce expertise, and strategic planning.

The study revealed positive perceptions regarding the banks' strategic approaches, including a focus on market share expansion, innovative capital market products, and strategic partnerships. However, challenges in leveraging technology, adjusting pricing strategies, and enhancing liquidity management remain evident. Leadership also present varying perceptions, particularly concerning communication and fostering innovation to prepare for the evolving capital market.

Although many employees expressed confidence in their banks' capital reserves and regulatory capital compliance, concerns about risk preparedness, liquidity management, and employee training in capital market operations were evident. Employees also indicated gaps in their understanding of market risks, regulatory requirements, and their ability to provide effective advisory services in this new environment. These discrepancies suggest that the readiness of commercial banks is hindered by inadequate training programs, inconsistent leadership support, and a lack of clear communication.

5.4 Recommendations

To bridge the gaps identified in the study, the following detailed and context-specific recommendations are proposed for Commercial banks, ECMA and Regulatory authorities.

Commercial banks are recommended to:

- Collaborate with local universities and international experts to create a certified training curriculum
- Do advanced market risk assessment, and innovative pricing strategies tailored to capital market operations
- Prioritize investment in integrated digital platforms that support real-time risk monitoring, customer analytics, and seamless transaction processing.
- Launch collaborative projects with fintech startups to test innovative solutions and streamline operational processes.
- Establish dedicated risk management teams in each bank, equipped with advanced risk assessment models and simulation-based testing tools.
- Emphasize specialized training on capital market-specific risks and proactive mitigation strategies.

ECMA and other regulatory bodies are recommended to:

- Conduct quarterly workshops specifically designed for bank leaders and mid-level managers on current capital market regulations.
- Organize annual leadership summits and mentorship programs by ECMA to promote strategic communication, innovation, and adaptive management practices. Such initiatives will enable leadership teams to set clear, actionable goals and drive a culture of continuous improvement.
- Develop detailed, scenario-based guidelines tailored to the operational realities of each bank to foster transparency and clarity

5.5 Directions for Further Studies

The research titled „operational and strategic readiness of Ethiopian commercial banks for the emerging capital market” explored the readiness of commercial banks for the emerging capital market. For this research both quantitative and qualitative data gathering was applied. The researcher recommends the inclusion of other financial institutions in addition to commercial banks. Additionally, to enhance the generalizability of the findings, future studies should also use secondary data; as this research couldn't apply that since the capital market is in the infant stage.

This study applied cross-sectional data collection method, the data was collected from a population at a specific point in time; however, it would be good for future researches if they apply longitudinal or any appropriate data collection method to address the gaps and compare results.

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QUESTIONNAIRE

Dear Respondents

My name is **Moges Abera**, I am currently carrying out study for the purpose of doing my paperwork/thesis for requirement for award of Master of Science in corporate finance with specialty in investment management at Addis Ababa University, School of commerce.

This questionnaire is designed to collect data from Employees of commercial banks in Ethiopia: for the study titled “**OPERATIONAL AND STRATEGIC READINESS OF ETHIOPIAN COMMERCIAL BANKS FOR THE EMERGING CAPITAL MARKET: A MULTI-DIMENSIONAL ASSESSMENT**”. You have been selected to participate in the study due to the importance of your role/position in this paperwork (Purposely selected). The information you provide will only be used for this study and will be treated utmost confidentiality; individual responses will not be identified in this paperwork.

Thank you for taking the time to complete this survey

Part I: Demographic Questions

Respondent profile

- *Writing your name is not necessary.*
- *Put tick mark “√” for each question as required.*

1. Sex

Male

Female

2. Age

Below 25

25 – 35

36 - 50

above 50

3. How long do you work in the banking Industry?

1-5

5 – 10

10- 15

above 15 years

4. The bank that you are currently working in

Abyssinia

Enat

Dashen

Hibret

Awash

Birhan

Wegagen

CBE

Zemen

COOP

5. Highest educational level?

Degree Masters PHD Others

6. Department

Research Risk Finance Strategy

Part II: Research Questions

*To which extent do you agree or disagree with the following five-point scale statement?
(1= strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and 5 = strongly agree)*

| | | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|---|
| Perceptions of Ethiopian commercial banks | | | | | | |
| 1 | I believe that the development of the capital market in Ethiopia will positively impact economic growth. | | | | | |
| 2 | I am confident in the regulatory framework supporting the emerging capital market in Ethiopia. | | | | | |
| 3 | Ethiopian commercial banks are adequately prepared to participate actively in the emerging capital market. | | | | | |
| 4 | I perceive the emerging capital market in Ethiopia as a significant opportunity for business growth. | | | | | |
| 5 | I am aware of the potential risks associated with participating in the emerging capital market in Ethiopia. | | | | | |
| Competitive strategies | | | | | | |
| 6 | My bank places a significant emphasis on developing innovative financial products and services. | | | | | |
| 7 | My bank focuses extensively on expanding its market share in preparation for the capital market. | | | | | |
| 8 | My bank is proactive in leveraging technological advancements to enhance service delivery. | | | | | |
| 9 | My bank is highly committed to building strategic partnerships to strengthen its position in the capital market. | | | | | |
| 10 | My bank adjusts its pricing strategies effectively to remain competitive in the emerging capital market. | | | | | |
| Minimum capital requirement | | | | | | |
| 11 | I am confident in the current capital reserves of my bank to support increased lending activities in the capital market. | | | | | |
| 12 | I believe that my bank's capital ratios meet regulatory requirements for participation in the capital market to a significant extent. | | | | | |

| | | | | | | |
|--|--|--|--|--|--|--|
| 13 | My bank is well-prepared to absorb potential losses and risks associated with capital market operations. | | | | | |
| 14 | My bank's strategies for maintaining adequate liquidity in the context of the emerging capital market are effective. | | | | | |
| 15 | I am satisfied with the measures my bank has taken to strengthen its capital base in preparation for the capital market. | | | | | |
| Knowledge and skill among employees | | | | | | |
| 16 | I am confident in my understanding of capital market instruments such as bonds, equities, and derivatives. | | | | | |
| 17 | I feel well-equipped to analyse and assess market risks associated with capital market investments. | | | | | |
| 18 | I am familiar with the regulatory requirements governing capital market operations in Ethiopia. | | | | | |
| 19 | I am satisfied with the training programs provided by my bank to enhance my knowledge of capital market operations. | | | | | |
| 20 | I feel well-prepared to provide advisory services to clients regarding capital market investments. | | | | | |
| Leadership | | | | | | |
| 21 | Senior management strongly supports initiatives aimed at preparing the bank for the emerging capital market. | | | | | |
| 22 | Leadership effectively communicates the strategic goals of the bank in relation to the capital market. | | | | | |
| 23 | Leadership actively encourages innovation and adaptation to market changes within the bank. | | | | | |
| 24 | I am satisfied with the transparency of decision-making processes within my bank's leadership. | | | | | |
| 25 | I am confident in the ability of my bank's leadership to navigate regulatory challenges in the emerging capital market. | | | | | |

Questionnaires adopted from:

- ✓ World Bank. (2020). Ethiopia Economic Update.
- ✓ National Bank of Ethiopia. (2021). Regulatory Framework for Capital Markets.
- ✓ Ethiopian Investment Commission. (2021). Investment Opportunities in Ethiopia.
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