



**Addis Ababa University**  
**College of Business and Economics**  
**School of Commerce**

**Assessment of Corporate Governance Practices and Challenges: In  
The Case of Enat Bank**

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**A project submitted to Addis Ababa University School of Commerce in Partial Fulfilment  
of the Requirements for the Award of Masters of Art Degree in Business Leadership.**

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**June, 2023**

**ADDIS ABABA ETHIOPIA**

## **STATEMENT OF DECLARATION**

I hereby declare that this thesis entitled “Assessment of corporate governance practices and challenges in the case of Enat Bank.” was carried out in accordance with regulations of the University and was prepared by me, under the guidance of my advisor. The research has never before been submitted for a degree at a higher education institution.

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## ACKNOWLEDGMENTS

First of all I want to thank God for giving me the opportunity to work towards for this MA and for providing me with the knowledge and understanding to finish it. This project would not have been possible without His support.

Next I would like to extend my heartfelt thanks to Dr. Worku.M., my advisor, for all of his assistance, willingness to share his knowledge and experiences, unreserved support, and all information during every stage of this project paper.

Finally, I want to thank everyone who assisted me in this process. But mostly my mother Etenesh Erko.

Hana Jebessa

June 2023

## **STATEMENT OF CERTIFICATION**

This is to certify that Hana Jebessa has completed this project work on the subject of “Assessments of Corporate Governance practices and challenges: in the case of Enat Bank” under my supervision. This work is original in nature and is sufficient for submission for the Master of Art in Business Leadership requirement.

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## **ABSTRACT**

*The study aim was to assess Corporate Governance Practices and Challenges in the case of Enat Bank. The type of research used in this study paper is a descriptive study by using data from both primary and secondary sources, with questionnaires used to acquire the primary data that was distributed to 35 middle and 5 high level executive management of Enat Bank. Of the total 40 questionnaires distributed 40 were managed to be collected. The study employed purposive sampling techniques to select study participants. Findings from the respondents were summarized based on the current practice of the Corporate Governance Principles and the challenges to corporate governance. According to respondents' opinions challenges identified through the study revealed that lack of competency, knowledge gaps, less board and management cooperation, and unwilling to challenge. The study concluded that as because Board is the highest and strategic body in the bank need to be developed and trained as well has to focus on strategic ideas.*

Key words: Corporate Governance, Enat Bank, Corporate Governance Challenges.

## Contents

<b>statement Of Declaration</b> .....	I
Acknowledgement .....	II
Statement Of Certification .....	III
Abstract .....	IV
Table Of Content .....	V
List Of Tables .....	VI
Abbreviation And Acronyms .....	VIII
Chapter One1 Introduction .....	1
1.1 Background Of The Study.....	1
1.2. Statement Of Problem.....	3
1.3. Research Question.....	4
1.4. General Objective Of The study .....	4
1.4.1. Specific Objective Of The Study .....	4
1.5 Significance Of The Study .....	4
1.6 Scope Of The Study .....	4
1.7organization Of Project Paper.....	5
CHAPTER TWO.....	6
LITERATURE REVIEW .....	6
2. Theoretical Litriture .....	6
2.1 Concept And Determination Of Corporate Govrnance.....	6
2.2 Determinants Of Internal Corporate Governance Mechanisms .....	7
2.3 .Corporate Governance Practices.....	11
2.3.1. Regulatory, Institutional And Leal Aspects Of Corporate Gocernance.....	11
2.3.2 Excutive Management And Board Of Directors Practices.....	12
2.3.2.1 Composition Of Board Of Directors.....	14
2.3.2.2 Compensation And Remuneration.....	15
2.3. OCED Principles Of Corporate Governance.....	16
2.4 Emperical Study.....	17
2.5 Challenges Of Corporate Governance In Banking Sector .....	18
CHAPTER THREE Research Methodology .....	20
3.1 Introduction .....	20
3.2. Research Design .....	20

3.3 research approach .....	20
3.4 Type And Source Of Data .....	21
3.5 Target Population And Sampling Design .....	21
3.6 Data Analysis Technique .....	21
3.7 validity and Reliability of study.....	21
3.8 Ethical Consideration.....	22
Chapter Four.....	23
4. PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA .....	23
<b>4.1. Demographics Of The Respondents.....</b>	<b>23</b>
4.2 Corporate Governance Practices.....	24
4.2.1 Corporate Governance Practice: Shareholder Rights .....	25
4.2.2 Corporate Governance Practice: Transparency And Disclosure .....	26
4.3. Effective Corporate Governance Practice Indicators.....	27
4.4 Challenges To Corporate Governance .....	29
<b>CHAPTER FIVE .....</b>	<b>31</b>
<b>SUMMARY, CONCLUSION AND RECOMMANDATIONS.....</b>	<b>32</b>
5.1. Summary of Major Findings .....	32
5.2. Conclusions .....	32
5.3. Recommendations.....	33
<b>Reference .....</b>	<b>34</b>
<b>Appendix.....</b>	<b>.....</b>

## LIST OF TABLES

Table 1 Reliability Test .....	21
Table 4.1 Characteristics of Respondents .....	23
Table 4.2 Corporate Governance Practice: Boards Competences and Responsibilities .....	24
Table 4.3 Corporate Governance Practice: Share Holders Rights .....	25
Table 4.4 Corporate Governance Practice: Transparency and Disclosures .....	26
Table 4.5 Effective Corporate Practice Indicators .....	27
Table 4.6 Challenges to Corporate Governance .....	29

## **ABBREVIATION AND ACRONYMS**

BOD	Board of Directors
CEO	Chief Executive Officer
NBE	National Bank of Ethiopia
BCBS	Basel Committee on Banking Supervision
OECD	Organization for Economic Cooperation and Development
SD	Standard Deviation

# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

Governance refers to the exercise of power to maintain law and order and the observance of specified norms of conduct. Corporate governance is the controlling force used to preserve order and uphold set standards in a company's business. Simply stated, corporate governance is a moral framework for conducting all business operations (Knell, 2006).

The term "Corporate Governance" clearly derives from the Greek word "Kyberman," which means to guide, direct, or rule. The Latin term "Gubernare," which was derived from the Greek and the French term "governor". It may also refer to the method of making decisions as well as a systemic mechanism for putting decisions into action. Corporate governance, yet, means quite different things to various firms. (Ayandele & Isichei, 2013).

According to Agbonifoh (2010), corporate governance is all about moral business practices, openness, and integrity in conducting business, as well as about recognizing the difference between personal and corporate funds when managing a corporation. Corporate governance, to put it another way, is described by Kwakwa and Nzekwu (2003) as "a vital ingredient in the maintenance of dynamic balance between the need for order and equality in society; promoting the efficient production and delivery of goods and services., ensuring accountability in the house of power., and protecting human rights and freedoms."

Corporate governance, according to James Chen (2023) is the set of laws, customs, and procedures that regulate and control an organization. Corporate governance generally entails striking a balance between the needs of all of a company's various stakeholders, including shareholders, senior management, clients, suppliers, financiers, the government, and the local community.

As per Hussein Ahmed Tura (2012), corporate governance is a set of laws and institutions that establishes the direction and control of an organization as well as the relationships between its key players, such as the board of directors, management, shareholders, and other stakeholders. This views corporate governance as a set of laws and institutions that decide how a corporation is run and controlled. It recognizes not only shareholders but also stakeholders that should be involved in the governance of share companies.

Effective corporate governance is essential for the banking industry and the economy as a whole, according to BCBS (2015). By transferring money from savers and depositors to activities that support business and promote economic growth, banks play a significant role in the economy. Financial stability depends on banks' safety and soundness, and the way they operate is crucial to the health of the economy. Governance issues at banks that are important to the financial system can cause problems to spread throughout the banking industry and the economy as a whole..

However, the main activity of banks is the distribution of resources. If they fail, not only will the sector's earnings be lower than they would have been otherwise, but the performance of the entire economic system may also suffer (Fidonski F, 2014). They can be viewed of as the mind of the entire economic system and the central hub of decision-making. Concerns about corporate governance have grown due to controversies and allegations of abusive behavior by owners and management. The Organization for Economic Co-operation and Development, International Monetary Fund, and World Bank has released principles and guidelines to protect stakeholders and promote strong corporate governance practices.

Similarly, the Basel Committee on Banking Supervision (BCBS) published a guidance in 1999, which drew from OECD's principles of corporate governance to assist member countries in their attempt to evaluate the wellness of the corporation under their supervision, extract and develop the relevant and sound corporate governance framework.

The Ethiopian Commercial Code from the 1960s was in force prior to the National Bank of Ethiopia issuing its Corporate Governance mandate for the financial industries. Although the National Bank Directives cover the majority of the commercial code's issues, the mischief, bad behavior, conflicts of interest, and generally unethical business practices found in the sector requested that the regulatory body reinforce corporate governance by releasing new directives.

According to National Bank of Ethiopia Directive No SBB/71/2019, a Corporate Governance must be in place to protect the stability and security of the financial sector in general and the banking industry in particular. The goal of corporate governance includes achieving long-term shareholder value, consumers' interests, and stakeholders' interests while balancing risk-taking appetites and enhancing business insight.

The aim of this project paper was assessing the corporate governance practices and challenges of Enat Bank for the reason this issue of corporate governance deserves special attention.

## 1.2 STATEMENTS OF THE BROBLEM

Corporate governance is crucial for promoting transparency and accountability in the business sector, fostering moral behavior and adhering to legal principles (Priyanka, 2013). Ethiopian stakeholders struggle to understand corporate governance practices, and private banks in Ethiopia need efficient procedures to ensure adherence. Corporate governance involves interactions between management, board, shareholders, and other stakeholders. It also provides a framework for setting company goals, determining their fulfillment, and evaluating performance, as outlined by the OECD 2015.

The factors that cause crisis is a failure of several aspect of corporate governance such as a risk management system, transparency and disclosure (Kumar and Singh, 2013; Kumar, 2014). Hence, in most developing countries like Ethiopia, the problems of poor corporate governance are the main concerns. According to leykun melesse, 2021; Mamo Gadisa 2020 and Habtamu Yosef 2020), the relevance of stakeholders is acknowledged in corporate governance practices, yet there is little disclosure of illicit activity. The size of the board diversity, its members' level of expertise and outside variables like international regulatory reforms are all elements that affect governance. The board's lack of professional expertise, the company culture, bad communication, an imbalance in remuneration, and erroneous disclosure are challenges in the Ethiopian banking sector. Besides, Sheikh, Wang & Khan (2013) argue that there is an existence of material effect between internal governance mechanism (board size, managerial ownership, and so on) and firm performance.

As a result, the practice of corporate governance has not been undertaken in a balanced manner along with the expansion of banks and the economic growth of the country. Hence, studying corporate governance practices in Ethiopian banks is an appropriate and priority issue. In this respect, several limitations found among past research in terms of use of study variables. So far, most research studies have been done in the areas and some of these studies overlooked important performance variables of corporate governances in the Ethiopian banks like the exercise of shareholder right, CEO's role, employee, and other stakeholder influence are not addressed. Most of the research recommend for further studies should be conducted in the future.

This study is focused on assessing variables and examining corporate governance practices and challenges in one of privately held Bank Enat Bank in order to fill the gap on the interest of best practice of corporate governance and challenges to do so.

### **1.3 RESEARCH QUESTIONS**

This research focuses on the following research question

1. What is the current Corporate Governance practice in Enat Bank?
2. What are the challenges of practicing corporate governance in Enat Bank?

### **1.4. OBJECTIVES OF THE STUDY**

The general objective of the project is to assess corporate governance practices and challenges in the case of Enat bank.

#### **1.4.1 SPECIFIC OBJECTIVES OF THE STUDY**

The specific objectives of this project are;

1. To examine the current Corporate Governance practices of Enat Bank
2. To assess the challenges of practicing corporate governance in Enat Bank

### **1.5 SIGNIFICANCE OF THE STUDY**

This study will make a fair contribution to what is already known about corporate governance concerns and difficulties in implementing it in Ethiopia's banking industry. It would identify the present practical Corporate Governance practices that are practical and challenges encountered in implementing these practices in order to enhance effective corporate performance applicability in Ethiopian banking sector.

### **1.6 SCOPE OF THE STUDY**

This project research will focus on assessing the corporate governance practices and challenges of Enat Bank, one of the private commercial banks doing business in Ethiopia. The study also depends only on the data collected from the head office in Addis Ababa region. Indicators of Corporate Governance are also assessed in comparison with the local and international principles.

In addition, detailed assessment is also undertaken to verify the bank's status in practicing the principles. Moreover, evaluation was done to see how well the bank is keeping to the principles and this study also includes identifying challenges with applying the practices. The NBE directive and OECD principles will be evaluated in light of regional and global standards.

## **1.7 ORGANIZATION OF THE STUDY PAPER**

This project paper has five chapters. The first chapter of the project deals with introduction, background of the study, statement of the problem, general and specific objective, scope of the study,. The second chapter discusses concepts and theories related to the area of the project. The third chapter deals with the methodology of the project. The fourth chapter discusses the findings and analyses of the data. The last chapter is conclusion and recommendations.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2. THEORETICAL LITERATURE

##### 2.1 CONCEPT AND DEFINITION OF CORPORATE GOVERNANCE

In today's global business terminology, corporate governance has become one of the most frequently used concepts. Corporate governance is essential due to the business dynamism brought on by the expansion of multinational corporations and cross-border trade in general. Owners feel confused because some persons have benefited from these malpractices. Though legal frameworks, social and political contexts, religious customs, and economic developments all have an impact on corporate governance, business ownership structure has traditionally been considered to have the biggest influence (Solomon, 2017).

Corporate governance is a complex system that integrates components from the organizational, legal, economic, political, psychological, and social elements. This system fosters a distinctive workplace by reducing costs and bridging the interest gap between managers and owners. Corporate governance takes into account the various corporate and ownership structures, political, economic, and regulatory frameworks and the ability to enforce the law. Corporate governance controls and balances the interests of shareholders, stakeholders, and managers in order to achieve the long-term objectives of the organization. The connection between shareholders, the board of directors, top management, employees, regulators, and other stakeholders in defining the direction and performance of the firm can then be a definition of corporate governance (Ruin 2001).

There is no single definition of corporate governance that is accepted worldwide, despite the fact that several definitions of the topic in use share the same fundamental principle (Tricker, 2009). A market economy's relationship between corporate managers and entrepreneurs (corporate insiders) on the one hand, and those who invest resources in corporations, on the other, is governed by both private and public institutions, including laws, regulations, and accepted business practices, according to the broad definition of corporate governance provided by Oman (2001).

Corporate governance, according to Mehran (2003), fundamentally refers to the interactions between management, the board of directors, shareholders, and other stakeholders of a

corporation. These connections offer a framework within which business goals are established and performance is evaluated. As per the definition of Fernando, corporate governance differs from corporate management. According to Fernando (2009), corporate governance is far larger than corporate management and includes a fair, efficient, and transparent administration in order to achieve certain, well defined goals. In addition to fulfilling the demands of the environment and the local community, it involves organizing, running, and controlling a business with an eye upon reaching long-term strategic goals that will satisfy shareholders, creditors, employees, consumers, and suppliers as well as respect to legal and regulatory requirements.

Rezaee (2009) offers an even more thorough definition of corporate governance as all stakeholders, including directors, officers, auditors, legal counsel, and financial consultants, work together to establish enduring and sustainable shareholders through the system of checks and balances known as corporate governance.

According to Wajeeh & Muneeza (2012), there is no universally recognized definition of corporate governance, although it is recognized as a method for directing and monitoring firms.

According to NBE Directive No. SBB/71/2019, Corporate Governance is a process and structure used to control and manage a bank's operations and affairs with a clear focus on maximizing shareholder value and improving business success. In a similar manner, corporate governance was described by the OECD principles of 2005 as the conduct of business between an organization's top management, its board of directors, its owners, and other stakeholders.

## **2.2 DETERMINANTS OF INTERNAL CORPORATE GOVERNANCE MECHANISMS**

### **A. THE BOARD OF DIRECTORS**

The board of directors is the primary level of an organization that regulates management and operations. The interests of the owners and the controllers are taken into account by the board of directors of a corporation (MINOW, 2011). The board is in charge of setting policy, approving the organization's strategy, hiring, overseeing, and compensating senior executives. It is also responsible for the activities and completion of the bank's goals. The board's core competencies, which serve as the foundation for bank decisions, include the following: approving and monitoring the bank's strategic objectives and corporate values; controlling management work; determining the scope of management responsibilities and liabilities; establishing guiding principles for the acceptable level of risk; and assessing the system's sufficiency and

effectiveness (BCBS, 2006). The two most important tasks of the board of directors are advising and supervising. The board has two main roles, according to Zahra and Pearce (1989): first, it should oversee the company's operations and the CEO's decisions; and second, it should improve the company's reputation and maintain positive stakeholder relationships in order to promote the organizational culture.

## **B. SIZE OF THE BOARD OF DIRECTORS**

The size of the board is determined by how two conflicting requirements balance. Although a smaller board can still support successful corporate decision-making and foster involvement that is cohesion, flexibility, and effectiveness, a larger board can accommodate the necessary skill sets and competences (Raheja 2005).

## **C. BOARD MEETING**

One of the duties of boards is to have board meetings, which give board members and the company CEO a chance to discuss and coordinate the execution of and management of the core duties of management and leadership. Any board must be able to function effectively, and productive board meetings quickly deliver valuable information (Arguden, 2009). The agendas of meetings scheduled for specific times will be given to the boards of directors beforehand for effectiveness. Tonello (2010). According to Vafeas (1999), there is a need to increase the level of board involvement through board meetings in order to improve the performance of the firms. The frequency of board meetings, however, was determined by the size of the board and the company's turnover. Small enterprises with stable settings should hold fewer meetings than large, risky organizations (Colley, 2005).

## **D. COMPOSITION OF THE BOARD OF DIRECTORS**

In corporate governance procedures, the board of directors plays a critical role in the planning and supervision of the company's objectives (Bhagat & Bolton, 2008; Haniffa & Cooke, 2002). It is essential to have the correct mix of directors in order to support the board in achieving its objectives and guarantee the success of the company (Al-Matari, 2012). That has an immediate impact on how the business operates (Klein, 1998). The term "board composition" typically refers to the mix of internal and external directors that serve on the board of the company. Non-executives should increase the board's independence and the company's prosperity, according to the 1992 Cadbury Report. The Code of Best Practice requires that the board of directors must

include a sufficient number of non-executive members to significantly affect the board's decisions.

#### **E. AUDIT COMMITTEE**

To provide the board of directors, senior management, and audit committee with a reasonable level of assurance that the bank is achieving its objectives with regard to accurate financial reporting, operational effectiveness, and adherence to rules, laws, and regulations, the bank should put in place a strong internal control system. A subcommittee of the main board, the audit committee, is in responsibility of overseeing the organization's financial reporting process On January 27, 2015, Al-Baidhani. Meetings between the audit committee and internal audit help to maintain the independence of the function and promote communicates regarding irregularities, fraud, mistakes, and management violations. A minimum of two-thirds (2/3) of the audit committee's members must be external directors, and a minimum of one of them must be a financial specialist. The audit committee must also have more than three members. Two of the audit committee's main duties are to supervise financial reporting and keep an eye on internal audit's effectiveness. This committee certifies the completeness, accuracy, and transparency of the financial statements and accounting rules (Green, 2005). These experts' presence will promote a trustworthy atmosphere among the management, external auditors, and board members.

#### **F. BOARD AND SENIOR MANAGEMENT SUPERVISION**

The performance of a bank is under the control of the board of directors and senior management. In their capacity as supervisors, they ensure that a bank is properly maintained and managed and alert management to any problems they encounter. They should consider developing and distributing guidelines for excellent corporate governance and the necessary proactive procedures to banks. They should take corporate governance challenges into account while making recommendations on other topics (Basel, 1999).

#### **G. THE ROLE OF SUPERVISORY AUTHORITY**

Regulators are more important than ever in today's business environment for achieving successful corporate governance. La Porta's idea, which Keasey cited in 2005, states that the legal system is an essential part of corporate governance processes. They assert that the degree to which a country's legal framework upholds and protects investor rights. Regulations serve as a

basis for a nation's development of corporate finance and governance. A large concentration of equity ownership inside enterprises and a lack of public equity markets, according to empirical data, are characteristics of nations with weak investor protection. All regulations aim to enforce regulatory standards on crucial institution issues to lower risks, particularly for financial institutions. Rules and laws governing ownership, business transactions involving linked parties, and assessments of the propriety and fitness of directors are directly based on modern corporate governance principles. The company has a big responsibility to make sure that efficient corporate governance practices are applied. Consequently, regulatory oversight is an addition to corporate governance rather than a replacement of it (Adams and Mehran, 2008).

## **H. THE ROLE OF STAKEHOLDERS**

The corporate governance framework should respect the legal rights of stakeholders and encourage active stakeholder engagement in the development of wealth, jobs, and the sustainability of financially sound firms, according to the Basel Committee for Bank Supervision (2006).

The success of a firm in achieving its goals is based on how successfully it manages all of its connections with its stakeholders, according to the stakeholder hypothesis (Elijido-Ten, 2009). According to Christopher 2010, who provides evidence to support this claim, a foundation enables management to be aware of the diverse demands of all stakeholder interests and to connect those interests with the business's aims.

Because it encourages companies to consider stakeholder interests in order to increase firm wealth and the overall benefits provided by all stakeholders, stakeholder theory is an essential part of corporate governance (Donaldson & Preston, 1995). This information shows how the operations and effects of stakeholders might affect a company's capacity.

John and Senbet (1998), who offer a comprehensive analysis of corporate governance in general and the stakeholder theory in particular, claim that a firm that defends the interests of all stakeholders may see a growth in value over time. According to Mallin (2010) the "stakeholders' theory" is growing in importance as businesses become more aware that they cannot function in isolation and must consider a wider stakeholder constituency in addition to their shareholders. Businesses should consider all parties with stakes in the company, whether they are individuals or organizations. (Shao, 2010)

## **I. DISCLOSURE AND TRANSPARENCY**

Transparency and information sharing are crucial components of effective company governance. It is difficult for all market players and stakeholders to effectively monitor and hold the board of directors and senior management accountable due to a lack of openness. For banking organizations to provide stakeholders with the information they need to determine if their interests are being protected, information disclosure and transparency are critical elements of strong corporate governance (Anameje, 2007). Information disclosure regulations help to some extent to reduce the knowledge gap between managers and a substantial and less involved group of shareholders. The legal responsibilities of the board of directors include running the business in a way that benefits the shareholders and abiding by the requirements for financial reporting and other forms of transparency set forth by corporate law and national regulations (Kenney, 2005).

### **2.3 CORPORATE GOVERNANCE PRACTICES**

Corporate governance is essential to an organization's smooth operation. Along with enhancing overall performance, it fosters confidence among shareholders and other stakeholders. The suggested corporate governance guidelines from the OECD and National Bank of Ethiopia will be discussed;

#### **2.3.1 REGULATORY, INSTITUTIONAL, AND LEGAL ASPECTS OF CORPORATE GOVERNANCE**

The strength of the legal system of a given nation has a significant impact on how well the economy is doing. Legal, regulatory, supervisory, and enforcement organizations are crucial to a company's ability to implement a corporate governance framework, according to OECD (2004). It goes without saying that the bodies responsible for establishing the corporate governance principles in each nation must ensure that the applicable country's existing laws and the codes or principles do not clash with each other. A separation of responsibilities for the supervisory regulator and enforcement agency in each nation where the company operates should be part of the corporate governance framework to increase transparency and ensure compliance with the law.

According to the OECD (2004) concept, for supervisory, regulatory, and enforcement bodies to perform their jobs with professionalism and objectivity, integrity, power, and resources are necessary.

In the case of Ethiopia, the National Bank of Ethiopia has been issuing regulations for the financial industry. The current Corporate Governance directive has undergone numerous changes that address significant topics. The directive also requires the sector to have its own internal policy and procedure documentation so that both internal and external controls can be used. The tough issue for every firm is how well these policy and procedure documents are written and implemented.

Due to a history of corruption and wrongdoing in the banking industry, the regulatory body's enforcement capacity has been at an extremely high risk level for decades. Recently, the first Corporate Governance Directive was published.

### **2.3.2 EXECUTIVE MANAGEMENT AND BOARD OF DIRECTORS PRACTICES**

The duty of a board of directors to guide a company toward its strategic objectives is significant. For the top management of the Bank and the board itself, ethical standards and corporate principles must be created in order to counter illegal behavior within the Bank. The shareholder is in an awkward situation. Since they lack access to information and it is expensive to get around these obstacles, influencing or monitoring managements cannot be done with such comfort.

Strong governance is of the utmost significance due to the geographically distributed makeup of shareholders, their need for effective control, and their rights to privileges that require preservation. If investors cannot exert sufficient control, mechanisms must be developed to assure some sort of accountability. As a result, it is essential that they have a structure for monitoring and discipline management. Control and accountability are brought about by governance, both internal and external. Creating an impartial board of directors, setting suitable roles and expectations among top management, developing a code of conduct, and developing independent control groups, such as legal, risk management, and internal audit, are some examples of internal governance. Typically, external governance refers to the governances from the outside bodies that creates and carry out rules and regulations. The resource-based view (RBV) is one of the most controversial and popular views in management studies (Nason &

Wiklund, 2018). The degree of contributions that board members can offer to the organization will also depend on their level of education and experience.

Both Minichilli & Hansen (2007) and Pugliese (2009) highlight how crucial board expertise is when creating strategic difficulties. According to Hillman & Dalziel (2003), board participation in the strategic decision-making process depends on board members having a thorough understanding of the positions of rivals, the state of the industry, customer demand, expectations, and technology.

The level of expertise of boards is crucial for a competitive advantage. Nahapiet & Ghoshal (1998) argue that boards need to have industry-specific knowledge in order to communicate successfully. Additionally, they must be capable of leading every aspect of a business, from formulating strategies to monitoring their execution. Schmidt and Bauer (2006) observed that In order to add value, boards must actively participate in the development of their strategies. The National Bank of Ethiopia underlined the significance of corporate governance practices, especially the educational backgrounds of the applicants, during board election and selection.

The fulfillment of the organization's goal is influenced by the board and management's alignment in carrying out each of their duties as well as their shared ones.

An organization may significantly benefit from a board of directors' ability to bring a range of expertise levels to the table. Effectiveness and performance reviews for board members are required. It's critical to monitor the boards' commitment to risk management policies, strategic direction, board guidance, and active engagement. Adriana Andrade (2006) asserts that in the book "Corporate Governance - Foundations, Developments and Trends," she underlined the importance of board evaluation and determined the appropriate level of review by taking into account the board's knowledge-based contributions, integrity, procedure, and outcomes. Boards must focus on the execution of the policies and plans they developed and evaluate their own accomplishments and performance in this area. (Brauer and Schmidt, 2008).

Planning for the top management's succession is a key duty of the board and one of the finest practices. The NBE requires boards to demand that the CEO have a current, written succession plan. According to Osho & Afolabi's (2018) study of Nigerian banks, it is advisable to train and nurture successors rather than awaiting the CEO job to become vacant. To confront management, directors must appear competent enough to research every achievement, success, and failure.

### 2.3.2.1 COMPOSITION OF THE BOARD OF DIRECTORS

Board composition is crucial for controlling agency cost issues and successfully monitoring managers' performance (Choe and Lee, 2003). Board composition must be carefully considered during board selection. To make sure that the board member composition is at the appropriate levels, the shareholder should pay great attention to every detail from the time of nomination to selection. The size, gender, amount of experience, and educational background of a board are all important factors to take into account when evaluating a corporation's sustainability. The membership should support the development of circumstances that enable the key decision-making body to effectively carry out its responsibilities and advance the interests of the company and all shareholders. The success of the board is influenced by a variety of factors, including diversity and experience, expertise and skills, the number of directors, the ability of the directors to independently criticize the management and offer strategic counsel for the company's future.

In Art 14(4) of Ethiopian Banking Business Proclamation, The NBE has authority to determine the maximum and minimum number of executive directors, but its most recent directive only requires non-executive directors.

According to NBE Directive No. SBB/71/2019, board member composition must prioritize size, competence, and gender. According to the size, the minimum number of board members must be nine, and the required educational background and core competency level must be more business-related. Contrary to international conventions that permit outside directors to serve on boards, members are only permitted from the shareholders under this order. There is a strong argument that an external director is required to bring new experience to the internal board member so they can make choices with confidence.

The importance and necessity of independence as a fundamental element of the board system must be acknowledged. The independence of the board members would help to avoid any conflicts and allow them to operate in the best interests of the owners. There seems not to be a consensus or empirical support for either the single board system or the separation of duties as to which board structure is more successful or productive is the most crucial concept, according to Banks (2004). Some believe the single board system permits easy information flow, good tie, and high interrelations between top management and directors, while others do believe the separation of duties permits greater independence.

It is still up for argument whether or not the board will develop into a good observer in all directions to raise firm's value (Abdullah, 2004). It has been disputed whether or not the separation of the CEO and chairman will result in a stronger system of corporate governance. Similar to this, Donaldson and Davies (1994) assert that reducing agency issues and achieving greater corporate performance goals require the separation of the chairman and chief executive roles to allow for independent decision-making. Mulili and Wong (2011) examined agency theory through the lens of how businesses operate in the face of imperfect knowledge and uncertainty. From the perspective of agency theory, boards have been essential in resolving agency issues brought on by the separation of ownership and control of businesses (O'Connell and Cramer, 2010).

Agency issues can occur when owners are unable to control the finances provided to managers and are unable to prevent managers from wasting their money on questionable business strategies (Pande & Ansari, 2014). According to Htay (2012), increasing board independence can minimize managers' personal benefits and help solve the agency problem. According to the agency theory, internal checkers can deal with employees' or executives' self-centered aims in an organization (Abdullah & Valentine, 2009). Examiners can track and follow up on every management activity that goes on behind the backs of the shareholders and owners with a vigilant board of directors. The diversity of ability and experience in a company's subcommittees is assisted by the membership of the board of directors.

As per the NBE's directive no. SBB/71/2019, At least three subcommittees, including the Risk and Compliance Subcommittee, the Audit Subcommittee, and the Human Resource Affairs Subcommittee, must report to the whole board in financial institutions. These subcommittees are in charge of limiting credit, market, liquidity, operational, legal, and other risk; maintaining checks and balances; and recommending senior management hires and terminations.

#### **2.3.2.2 COMPENSATION AND REMUNERATION**

The supervisory body often decides on board compensation, including allowances. Payments to the board member in cash or in kind must be made in accordance with NBE instruction No SBB/67/2018.

### 2.3.3 OECD PRINCIPLES OF CORPORATE GOVERNANCE

Since effective corporate governance is crucial for economic growth, investment, and the stability of the financial markets, member countries of the Organization for Economic Cooperation and Development (OECD) have identified governance as one of the main topics. The OECD created its first set of guiding principles in 1999. Since that time, it has become recognized as the gold standard for businesses, investors, and other stakeholders around the world (Greuning and Brafanoric, 2009).

**A. Ensuring the Basis for an Effective Corporate Governance Framework** – The supervisory, regulatory, and enforcement duties should be clearly defined by the corporate governance structure in order to enable effective and open markets, advance the rule of law, and support the rule of law.

**B. Rights of Shareholders and Key Ownership Functions** – The corporate governance system should protect shareholder rights and make it simpler to exercise them. One of the main goals of the concept of corporate governance, as expressed in this OECD guideline, is to protect shareholders' interests (Clarke, 2003). Murphy and Topyan (2005) assert that protecting small, inactive shareholders over large, active ones is the most significant aspect of corporate governance.

**C. Equitable Treatment of Shareholders** – The corporate governance system should guarantee that all shareholders, including minority and foreign shareholders, are treated fairly. According to Chhaochharia & Laeven (2009), by putting an emphasis on equity treatment, the organization may be better able to protect the rights of minority shareholders if Corporate Governance is applied thoroughly.

**D. Role of Stakeholders in Corporate Governance** – The Corporate Governance framework should acknowledge stakeholder rights that have been created by legislation or by mutual agreements in the purposes of generating wealth, creating jobs, and ensuring the fiscal sustainability of firms. Additionally, it should promote constructive interactions between corporations and their stakeholders.

**E. Disclosure and Transparency** – The corporate governance structure should ensure that all pertinent information about the company is immediately and accurately reported, including its financial position, performance, ownership, and governance. In support of this idea, Seal (2006)

claimed that information identified as material, including that of the board of directors and important personnel, ought to be disseminated.

**F. Responsibilities of the Board** – A corporation's strategic direction, effective board oversight of management, and board accountability to the company and its shareholders should all be guaranteed by the corporate governance framework. The board of directors should give priority to activities like setting goals, choosing and monitoring key executives, assessing and closely monitoring the performance of the company (Hutchinson & Gul, 2004).

## 2.4 EMPIRICAL STUDY

Many studies in the field of corporate governance have compared organization performance as a primary objective. Assessments of Corporate Governance issues and practices, however, did not reach the necessary level. Due to the widespread concern about conflicts of interest and unethical behavior in the corporate world, researchers, oversight organizations, and investors have been spending a lot of money to address the issue

The board should be adequately made up of non-executive, totally independent, and professionally qualified members, according to Hussen (2012) in his article "Overview of Corporate Governance in Ethiopia." Hussen specifically examines Ethiopian company law with reference to the powers, composition, and remuneration of the board of directors in light of corporate governance principles and best practices. According to the National Bank of Ethiopia's directives, it is not permitted for professionals from outside the banking sector to be hired.

According to Ngwube (2013), the performance of corporate governance in an organization depends on a number of elements, including transparency, director assessment, power concentration, an open, well-executed conflict of interest policy, and proper disclosures. Despite the fact that there has been almost no research on board of directors and top management alignment, the job of the executives and the board of directors are significantly aligned, according to Hisham's (2017) of studying seven companies.

The rights of shareholders and the equal treatment of owners were appropriately handled in the governance practices of the insurance companies, according to Solomon's (2017) evaluation of Corporate Governance Practices in the Ethiopian Insurance Sector. Overall, with certain restrictions on the significance of insurance associations and executive boards of directors, the insurance industry's governance architecture is consistent with the idea.

Yohannes (2016) examined how recently formed corporate governance policy and mechanisms affected the performance of private commercial banks in Ethiopia using agency and stakeholder theories, as well as corporate governance policy. According to his analysis, the policy had no bearing on the applicability of the board's membership, the minority report, the composition of the board committees, or corporate disclosure.

## **2.5 CHALLENGES OF CORPORATE GOVERNANCE IN BANKING SECTOR**

In contrast to other sectors, the financial sector serves as a crucial mediator and is highly dependent on public confidence. Due to their great visibility, financial institutions are especially subject to negative public perception, which could have a negative impact on their reputation and public confidence. Given their responsibilities and interconnections within a nation's economy, the bankruptcy of a systematically important financial institution could have serious consequences and costs for the economy. For this reason, financial institutions are held to a higher standard of ethics and professionalism, particularly in how they conduct their commercial activities. In acknowledgment of this, the board and top management are given the legal obligation to lead the institution and continuously protect its safety, integrity, and reputation. Financial institutions are public interest enterprises, and their decisions affect a wide spectrum of stakeholders (Ibrahim, 2014).

The governance of institutions remains a complex subject despite the much advancement that has been made over the years. This complexity stems from the highly dynamic and constantly evolving nature of the financial system. Financial institutions occupy a unique position in any economy. This uniqueness requires financial institutions to balance between growth, profitability and innovation, and the long-run stability of institutions. Due to the possibility of, third party bearing the cost of failure, such as through government bailouts or the idea of "bail-in", financial firms may be encouraged to take unwarranted risks. This situation is what is known as a "moral hazard." If this situation is not handled properly, it will raise public displeasure with the industry and burden taxpayers. (Ibrahim, 2014).

The Following are some of the challenges of corporate governance in financial sector forwarded by Ibrahim (2014):

- Board's reluctance in approving and overseeing management's implementation of the bank's strategic objectives, governance framework and risk management.

- Lack of corporate culture that reinforce appropriate norms for responsible and ethical behavior.
- Lack of professional competency from board members to understand their corporate governance role.
- Reluctance of senior management to carry out and manage the bank's activities approved by the board.
- Poor communication of information between the board and senior management in a timely and accurate and manner.
- Mismatch of remuneration structure with the bank's overall corporate governance and risk management.
- Lack of timely and accurate disclosure of all material matters regarding the corporation and governance of the bank.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1. INTRODUCTION**

This chapter focuses on the study's research methodology and how it connects to the study's aims. The research approach is presented. This chapter is divided into subsections that discuss the target population, data sources and types, research strategy, and data analysis methods.

#### **3.2. RESEARCH DESIGN**

A research plan is a general plan that defines the methods and procedures to collect and analyses the necessary data (Zikmund, 2009 p.66). The study is assessing Corporate Governance practices and challenges in the case of Enat Bank and was use descriptive research design. A descriptive research design used for this study where data that would be collected to answer the research questions that was formulated for the project. Descriptive statistics were used because the research is only an assessment kind and cannot be examined based on dependent and independent variables.

#### **3.3. RESEARCH APPROACH**

Sample selection method is the base for the quality of research. Sample can enable to consider the nature and scope of the subject matter to study about the employees. The researcher will use Purposive sampling technique. Purposive sampling was used to select the management team of the bank and information was gathered through a questionnaire. Structured questioner was employed to generate the quantitative information relevant to answering the research question. The structured survey questionnaire was prepared in English and distributed in person. The questionnaires were closed-ended and Likert scale measurement with mean scores interpreted as 1.00-2.00 Low, 2.01- 3.00 Moderately Low, 3.01- 4.00 Moderately High, and 4.01- 5.00 High was used to determine the level of agreement.

#### **3.4. TYPE AND SOURCE OF DATA**

When conducting this project both primary and secondary data sources were used. Primary data collected from middle and a high level executive management of Enat Bank through distributed questionnaires. The secondary data collected from previous studies, books, and articles, annual reports of the bank and journals from the internet and the Bank annual reports.

### 3.5. TARGET POPULATION AND SAMPLING DESIGN

Enat Bank has a structure Board with 11 board members and 12 management teams. . The bank has developed the implementation of the organizational corporate governance tenets is entrusted to the Board. As this project was focusing on the corporate governance practices and challenges of the bank, From Enat Bank 143 Braches only head office executive and managerial staff of the Bank was considered for this study as Corporate Governance issues are mainly related and understood by high level management. Most of the information was obtained from the banks 35 middle and 5 high level executive management members located at the bank head offices.

### 3.6. DATA ANALYSIS TECHNIQUES

Both primary and secondary of data was analyzed by using both qualitative and quantitative methods. Descriptive statistics like frequencies percentage was adopted to facilitate meaningful analysis from questioners of research findings. Qualitative data was obtained through descriptive method of analysis.

### 3. 7.VALIDITY AND RELIABILITY OF RESEARCH INSTRUMENTS

Validity is the ability of a research tool to measure its intended purpose. This study ensured validity by using simple terminology and conducting pre-testing surveys with experts. Authors on corporate governance, such as leykun melesse, 2021; Mamo Gadisa 2020; Habtamu Yosef 2020, were approached to develop the instrument. The NBE directive No. SBB/71/2019 and OECD principles were also considered after analyzing various sources.

Reliability is the overall consistency of a measure, assessing how much random error from the measuring method might be included in the results. The Cronbach's Alpha value for internal reliability for tests with multiple outcomes was 0.824, indicating a fair level of internal consistency.

Table 1: **Reliability Test**

Reliability Statics	
Cronbach's Alpha	No. of items
0.824	42

Source: own Survey, Jun, 2023

### **3.8. ETHICAL CONSIDERATIONS**

They are actions taken to assure the safety and rights of participants are not violating whatsoever. These considerations are therefore usually made to ensure that research involving human is carried out following high ethical standards. These standards include voluntary participation, informed permission, and confidentiality of information, ambiguity to research participants and approval from relevant authorities such as independent review boards to conduct the research study.

In this study, participants were voluntarily allowed to participate and prospective research participants was fully informed on procedures, benefits, and risks involved in the research after which they were voluntarily asked to fill informed consent forms to participate.

## CHAPTER FOUR

### 4. PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

The characteristics of the population under research, as well as an analysis and interpretation of the data gathered, are presented in this chapter. After each table, the analysis and explanation is given.

#### 4.1 DEMOGRAPHIC CHARACTERISTIC OF THE POPULATION

The demographic characteristics of the respondents were discussed in the following sections.

**Table 4.1: characteristic of the respondents**

Item	Measurement	Employees	
		No	%
Gender	Male	14	35%
	Female	26	65%
Age	20-30	0	0%
	31-40	8	20%
	41-50	29	72.5%
	Above 50	3	7.5%
Educational level	Diploma	0	0%
	1 <sup>st</sup> Degree	5	12.5%
	2 <sup>nd</sup> Degree	34	85%
	PHD	1	2.5%
Work Experience	Below 3 years	0	0%
	3-5 years	2	5%
	5-10 years	32	80%
	Above 10 years	6	15%
Level of functions	Executive team	5	12.5%
	Team manager	28	70%
	Director	7	17.5%

Source: - own survey Jun 2023

A total of 40 samples were analyzed, with a significant female gender distribution. Of the respondents, 35.5% were male and 65% were female. The majority of respondents were between the ages of 41 and 50, with 72.5% having work experience between five and ten years. The majority of respondents were in the "Team management" level, followed by "Director" and "Executive team" classifications.

The demographics of the respondents typically reveal a high level of expertise that was used in the study to provide insightful data. The majority of employees' experience working for the Bank, the top management's degree of involvement has great value in supporting this study. Additionally, the majority of employees in the firms hold a second degree, making them qualified to respond favorably to the questionnaire. As a result, the businesses have a competitive advantage thanks to their certified and skilled workforce.

#### 4.2 CORPORATE GOVERNANCE PRACTICES

In this section, for the question about corporate governance practices, respondents were asked to indicate their level of agreement, with answers ranging from strongly agree to strongly disagree.

Table 4.2: **Corporate Governance Practices: Boards Competences and Responsibilities**

No	The Board Members Competences and Responsibilities		SD	D	UN	A	SA	Total	Mean	SD
1.	Board members are knowledgeable and competent to carry out their supervisory responsibilities.	No.	1	4	6	18	11	40	3.85	1.02
		%	2.5	10	15	45	27.5	100		
2.	Board members help one another and keep an eye on the company's operations.	No.	0	0	1	19	20	40	4.47	.554
		%	0	0	2.5	47.5	50	100		
3.	Board members have the capacity of evaluating financial and accounting documents.	No.	2	2	8	20	8	100	3.75	1.006
		%	5	5	20	50	20	100		
4.	Board members can give their approval for policy documents.	No.	0	4	6	14	16	40	4.05	.985
		%	0	10	15	35	40	100		
5.	BOD is accountable and considers stakeholder interests when making decisions and taking actions.	No.	0	4	10	14	12	40	3.85	.975
		%	0	10	25	35	30	100		
6.	The board specifies and informs	No.	0	4	8	18	10	40	3.85	.921

	to management of their authority, duties, and obligations.	%	0	10	20	45	25	100		
7.	The board is familiar with the organization's principles, values, mission, and goals.	No.	0	0	4	20	16	40	4.3	.648
		%	0	0	10	50	40	100		
8.	The board chooses, evaluates, and sets compensation for the CEO and other executive members.	No.	0	0	1	27	12	40	4.27	.505
		%	0	0	2.5	67.5	30	100		
9.	The board created a code of conduct for Bank employees.	No.	0	2	5	25	8	40	3.95	.749

Source: - own survey Jun 2023

The majority of respondents agreed that board members are knowledgeable and competent to carry out their supervisory responsibilities. They also agreed that they help each other and keep an eye on the company's operations. However, 2.5% of respondents were not sure about the issue. The majority of respondents agreed that board members can evaluate financial and accounting documents, but 15% were unsure and 10% disagreed. The majority of respondents agreed that the Board of Directors (BOD) is accountable and considers stakeholder interests when making decisions and actions.

Most respondents agreed that the board is familiar with the organization's principles, values, mission, and goals. The majority of respondents agreed that the board chooses, evaluates, and sets compensation for CEO and other executive members. The majority of respondents agreed that the board created a code of conduct for bank employees.

#### 4.2.1 CORPORATE GOVERNANCE PRACTICES: SHAREHOLDERS RIGHTS

**Table 4.3: Corporate Governance Practices: Shareholders Rights**

No	Shareholders Right		SD	D	UN	A	SA	Total	Mean	SD
1.	The general meetings are announced to all shareholders through the mass media.	No.	1	2	3	26	8	40	3.95	.845
		%	2.5	5	7.5	65	20	100		
2.	Shareholders priority subscription right protected	No.	1	3	12	20	4	40	3.57	.873
		%	2.5	7.5	30	50	10	100		
3.	Before the shareholders meeting, the	No.	0	0	7	29	4	40	3.92	.525

	nomination committee will disclose candidates.	%	0	0	17.5	72.5	10	100		
4.	Voting by proxy allowed	No.	0	4	12	18	6	40	3.7	6.32
		%	0	10	30	45	15	100		
5.	Was the appointment of the outside auditor approved at the general assembly?	No.	0	1	9	22	8	40	3.92	.729
		%	0	2.5	22.5	55	20	100		
6.	The board remuneration approved by the general meeting?	No.	1	1	8	18	12	40	3.97	.919
		%	2.5	2.5	20	45	30	100		
7.	How many meeting attendances are taken into account when calculating compensation?	No.	1	3	9	24	3	40	3.62	.837
		%	2.5	7.5	22.5	60	7.5	100		
8.	All shareholders issued a shareholding certificates	No.	0	3	26	4	7	40	3.37	.867
		%	0	7.5	65	10	17.5	100		

Source: - own survey Jun 2023

The majority of respondents agreed that general meetings are announced to shareholders through mass media, with 2.5% strongly disagreeing and 7.5% unaware. They also agreed that shareholders have priority subscription rights, 72.5% agreed to disclose candidates before meetings, and 45% agreed to allow voting by proxy. The majority of respondents agreed that the appointment of the outside auditor at the general assembly was approved, and the board's compensation approval was questioned. However, many respondents were unsure about the number of meeting attendances considered when calculating compensation.

#### 4.2.2 CORPORATE GOVERNANCE PRACTICES: TRANSPARENCY AND DISCLOSURES

**Table 4.4: Corporate Governance Practices: Transparency and Disclosures**

No	Transparency and Disclosures		SD	D	UN	A	SA	Total	Mean	SD
1.	Stakeholders have access to the board of directors and the management team.	No.	1	4	5	28	2	40	3.65	.833
		%	2.5	10	12.5	70	2.5	100		
2.	All material information, such as associated parties, fixed assets, and technological developments, is reported.	No.	0	5	5	28	2	40	3.67	.764
		%	0	12.5	12.5	70	5	100		

3.	Post the organizational structure and board member profiles on the bank's website	No.	1	3	6	28	2	40	3.67	.797
		%	2.5	7.5	15	70	5	100		
4.	The accounting records of the business are being verified by governmental agencies.	No.	1	1	8	28	2	40	3.72	.715
		%	2.5	2.5	20	70	5	100		
5.	Within one month after the annual meeting, the newspaper posts the audited financial reports.	No.	0	0	11	28	1	40	3.75	.493
		%	0	0	27.5	70	2.5	100		

Source: - own survey Jun 2023

With regards to Transparency and Disclosures, A majority of respondents agreed on stakeholder access to the board of directors and management team, while 2.5% disagreed and 12.5% were unaware. Material information, such as associated parties, fixed assets, and technological developments, was also agreed upon. Posting organizational structure and board member profiles on the bank's website was strongly disagreed upon, while accounting records verification by governmental agencies was unsure. Newspaper posting audited financial reports within one month after the annual meeting was unsure, with a mean of 3.75.

In general, it is evident from the table above that the Bank was implementing the indicated Corporate Governance procedures, and it also demonstrates that the Bank is carrying out the necessary concepts and actions. Many respondents to the survey indicated that the Bank follows these corporate governance principles.

#### 4.3 - EFFECTIVE CORPORATE GOVERNANCE PRACTICES' INDICATORS

In this section, for the question about corporate governance practices indicators, respondents were asked to indicate how much they credit, with answers ranging from not at all to very grate amount.

Table 4.5: Effective Corporate Governance Practices' Indicators

No	How much can you credit the following factors for the corporate governance processes in your organization?		NA	L	MA	GA	VGA	Total	Mea n	SD
1.	Board members selection practices	No.	0	2	6	25	7	40	3.95	.729
		%	0	5	15	62.5	17.5	100		
2.	Board allowance and remuneration pay	No.	2	3	5	20	10	40	3.82	1.059

		%	5	7.5	12.5	50	25	100		
3.	Board regular meeting schedule	No.	0	3	4	20	13	40	4.07	.858
		%	0	7.5	10	50	32.5	100		
4.	The board integrity	No.	1	3	6	20	10	40	3.87	.965
		%	2.5	7.5	15	50	25	100		
5.	The board commitment	No.	0	1	3	24	12	40	4.17	.675
		%	0	2.5	7.5	60	30	100		
6.	The Banks strategic planning and long term direction	No.	0	0	4	28	8	40	5.1	6.49
		%	0	0	10	70	20	100		
7.	The organization culture	No.	1	1	2	29	7	40	5	6.52
		%	2.5	2.5	5	72.5	17.5	100		
8.	Accountability and transparency	No.	0	2	5	26	7	40	3.95	.714
		%	0	0	12.5	65	17.5	100		
9.	Participatory decision making	No.	0	1	15	17	7	40	3.75	.776
		%	0	2.5	37.5	42.5	17.5	100		
10.	Board subcommittee presence and efficacy	No.	1	3	9	20	7	40	4.5	4.81
		%	2.5	7.5	22.5	50	17.5	100		
11.	A succession strategy for the executive staff is in place.	No.	1	3	10	20	6	100	3.67	.916
		%	2.5	7.5	25	50	15	100		
12.	The board participates in the appointment of the executive management.	No.	2	3	10	18	7	40	3.62	1.03
		%	5	7.5	25	45	17.5	100		
13.	A free and fair atmosphere for a board to undertake activities	No.	3	4	5	21	7	40	3.62	1.25
		%	7.5	10	12.5	52.5	17.5	100		
14.	When appointing board member, there is gender balance	No.	1	2	4	22	11	40	3.67	.905
		%	2.5	5	10	55	27.5	100		
15.	All stakeholders' representation is taken into account when forming the board.	No.	2	4	6	21	7	40	3.67	1.047
		%	2.5	10	15	52.5	17.5	100		

Source: - own survey Jun 2023

From the sampled respondents, The survey results show that the majority of respondents have very grate credit for bank board member selection practices, with a range of grate to very grate. They also have varying degrees of credit for allowance and remuneration pay, regular meeting schedules, integrity, commitment, strategic planning, and long-term direction. Organizational culture, accountability and transparency, participatory decision making, availability of board sub-committees, and efficiency are highly rated. Participatory decision making is also highly rated, with respondents indicating a moderate level of credit for organizational culture. The survey also shows that a succession strategy for executive staff is highly regarded, and a free and fair atmosphere for board activities is highly regarded. Gender balance is also highly regarded in the process of appointing board members. Finally, all stakeholders' representation is considered when forming the board, with respondents indicating a moderate to highly grate amount of credit.

From this, it may be concluded that respondents acknowledged the practice's presence in varying degrees of application, but that there are some warning signs of implementation constraints for the Corporate Governance Principles as required by the regulatory authority. The following evaluation would clearly show where the difficulties and limits are.

#### 4.4 CHALLENGES TO CORPORATE GOVERNANCE

In this section, for the question about challenges to corporate governance, respondents were asked to indicate their level of agreement, with answers ranging from strongly agree to strongly disagree.

Table 4.6: **Challenges to corporate governance**

No	What do you think would be the biggest obstacle to putting corporate governance principles into practice?		SD	D	N	A	SA		Mean	SD
1.	Lack of independence/conflicts of interest	No.	1	7	20	12	0	40	3.07	
		%	2.5	17.5	50	30	0	100		
2.	Lack of capability	No.	1	22	6	10	1	40	2.7	
		%	2.5	55	15	25	2.5	100		
3.	Unwillingness to challenge	No.	7	20	8	5	0	40	3.02	5.09
		%	17.5	50	20	12.	0	100		

						5				
4.	Knowledge gaps—diversity	No.	7	8	10	15	0	40	2.82	1.12
		%	17.5	20	25	37.5	0	100		
5.	Insufficient focus on substantive issues	No.	7	11	10	11	1	40	2.7	1.13
		%	17.5	27.5	25	27.5	2.5	100		
6.	Lack of coordination between the board and management	No.	12	18	7	2	1	40	2.05	.959
		%	30	45	17.5	5	2.5	100		
7.	Unclear strategy	No.	13	9	16	2	0	40	2.17	.957
		%	32.5	22.5	40	5	0	100		
8.	excessive attention on the present	No.	7	10	23	0	0	40	2.4	.777
		%	17.5	25	57.5	0	0	100		
9.	Unethical behaviour	No.	20	12	7	1	0	40	1.72	.846
		%	50	30	17.5	2.5	0	100		
10.	unwillingness to change	No	29	4	4	2	1	40	1.55	1.036
		%	72.5	10	10	5	2.5	100		

Source: - own survey Jun 2023

Respondents were listed in the table above, along with instances where the Bank's use of corporate governance practices presented obstacles. The study found that a mean of 3.07 respondents agreed with the lack of capability, 25% agreed with knowledge gaps, and 2.5% strongly agreed with insufficient focus on substantive issues. Insufficient coordination between board and management was also a concern, with 32.5% strongly disagreeing and 22.5% disagreeing. Excessive attention on the present majority respondent was neutral, and unethical behavior was strongly disagreed with. Unwillingness to accept responsibility was strongly disagreed with by 72.5% of respondents.

From here, one might think about the majority of respondents cited a lack of independence, a knowledge gap-diversity, insufficient attention to the core issue, and an unwillingness to challenge.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1. INTRODUCTION**

This chapter provides a summary of major finding of the research, its conclusions, and recommendations for evaluating Enat Bank's corporate governance concerns. The study's objective was to assess the practices and challenges of corporate governance in the case of Enat Bank, and the data analysis and findings were developed in accordance with that goal.

#### **5.2. SUMMARY OF MAJOR FINDINGS**

The literature research looked at the definition of terminology and how governance concepts are applied to enterprises. Acceptable business governance procedures as outlined by the OECD and the National Bank of Ethiopia instructions were also utilized to assess the Bank's level of Corporate Governance practices and the challenges the Bank had in putting these principles into reality. The main objective of the questionnaire was to ascertain whether the Bank could implement corporate governance principles and whether there were any obstacles. 40 Enat Bank executives and top managers who worked from the bank's headquarters received a structured questionnaire, and we were able to collect 40 completed questionnaires from them.

1. Based on characteristic of the respondents, the large percentage of respondents in the study was female, with 28.5% between the ages of 41 and 50 and 7.5% over the age of 50. 80% had between five and ten years of work experience, while 15% had more than ten years. 70% of respondents fell under the "Team management" level, followed by "Director" (17.5%) and "Executive team" (12.5%). The majority of employees held a second degree, making them qualified to respond favorably to the questionnaire, providing businesses with a competitive advantage.
2. When evaluating corporate governance practice, the majority of respondents agreed that the board members are knowledgeable and competent to carry out their supervisory responsibilities, help one another, and keep an eye on the company's operations. They also agreed that the board is accountable and considers stakeholder interests when making decisions and taking actions.
3. Most respondents agreed that the board members are qualified and capable of handling their management duties. Additionally, they concurred that the board is responsible and

takes shareholder interests into account when making decisions. According to the study, the Bank is carrying out the required plans and actions and is putting corporate governance procedures into practice.

The majority of respondents supported the hiring of the external auditor, board compensation, consideration of meeting attendance, issuance of shareholding certificates to all shareholders, transparency and disclosures, material information, posting of organizational structure and board member profiles on the bank's website, government agencies verifying accounting records, and newspapers publishing the audited financial reports within a month of the annual meeting.

The majority of respondents gave bank board members' selection procedures, allowance and remuneration pay, regular meeting schedule, integrity, commitment, strategic planning and long-term direction, organizational culture, accountability and transparency, participatory decision-making, availability of board sub-committee, and efficiency a great deal of credit.

4. When evaluating challenges to corporate governance, the respondents cited a lack of competency, knowledge gaps, a lack of emphasis on important issues, less board and management cooperation, an excessive focus on the present, and unwilling to challenge.

### **5.3. CONCLUSIONS**

The overall objective of the study was assessing corporate governance practice and challenge in the case of Enat bank. The level of corporate governance practices at the Bank was assessed using guidelines from the OECD and the National Bank of Ethiopia. According to the findings, the board members are professional, responsible, and aware of the interests of all stakeholders. Corporate governance difficulties included a lack of competence, knowledge gaps, emphasis on significant issues, weakened board and management cooperation, an excessive focus on the present, and a lack of willingness to question which lead to the following recommendation.

#### **5.4. RECOMMENDATIONS**

Corporate governance is essential for providing strategic guidance, effective oversight, and accountability. By offering on-going training and development opportunities, the board of directors (BOD) plays a critical part in guiding the company in the direction of its planned course of action.

The BOD should prioritise strategic problems, concentrate on pressing issues, and remain alert to the circumstances at hand. They ought to assign operational managers prioritize pressing issues. In order to ensure that the bank's future best practises are followed, the BOD should be prepared to challenge and learn from challenges.

Effective board and management cooperation is crucial for a company's prosperity, and it is essential for management teams to coordinate and work together. Regular communication and discussion of the plan and its implementation fosters a sense of teamwork and ensures the success of the organization.

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**Appendix**  
**RESEARCH QUESTIONERS**

**QUESTIONNAIRE**

Dear respondents,

The Master's Program in Business Leadership at the School of Commerce at Addis Abeba University is going to be partially fulfilled by this study. The aim of the project research is to evaluate corporate governance practices and challenges In the case of Enat Bank S.C.

Members of the Bank's Top Executives, the Directors, and Team Managers are required to complete this questionnaire for the purposes of the research. I sincerely ask that you participate in the study by answering the survey questions because you were one of the chosen representatives of the organization. The only objective of this questionnaire is to gather data for assessing of Enat Bank's corporate governance practices and challenges. The information you supply would be used for academic purpose only and will be kept confidential.

Thank you for your time

Best Regards,

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7	The board is familiar with the organization's principles, values, mission, and goals.					
8	The board chooses, evaluates, and sets compensation for the CEO and other executive members.					
9	The board created a code of conduct for Bank employees					
<b>Shareholders Right</b>						
10	The general meetings are announced to all shareholders through the mass media.					
11	Shareholders priority subscription right protected					
12	Before the shareholders meeting, the nomination committee will disclose candidates.					
13	Voting by proxy allowed					
14	Was the appointment of the outside auditor approved at the general assembly?					
15	The board remuneration approved by the general meeting?					
16	How many meeting attendances are taken into account when calculating compensation?					
17	All shareholders issued a shareholding certificates					
<b>Transparency and Disclosures</b>						
18	The board and management members are transparent to stakeholders					
19	Every important detail, such as correlated parties, permanent assets, and technological developments, is reported.					
20	Post the organizational structure and board member profiles on the bank's webpage.					
21	The accounting records of the business have been verified by governmental agencies.					
22	Within one month after the annual meeting, the newspaper posts the verified financial statements.					

Part III: - **Effective corporate governance practices' indicators:** Use the following scale to indicate your level of agreement with this statement: 1 = Not at all, 2 = A Little, 3 = A Moderate Amount, 4 = A Great Amount, and 5 = A Very Great Amount. Please use √ to indicate your choice;

No	How much can you credit the following factors for the corporate governance processes in your organization?	1	2	3	4	5
1	procedures for selecting board members					
2	Board compensation and allowances					
3	Schedule for regular board meetings					
4	the board's credibility					
5	The board's dedication					
6	The Bank's long-term vision and strategic planning					
7	The corporate culture					
8	transparency and responsibility					
9	democratic decision-making					
10	Effectiveness and existence of board subcommittees					
11	The executive staff has a succession plan in place.					
12	The executive management is appointed with input from the board.					
13	a free and impartial setting for a board to conduct business					
14	The gender balance in board member appointments is maintained.					
15	The composition of the board takes into account the representation of all stakeholders.					

**SECTION IV: Challenges to corporate governance:** On a scale of 1 to 5, please choose your response: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree. Please use √ to indicate your choice;

No	What do you think would be the biggest obstacle to putting corporate governance principles into practice?	1	2	3	4	5
1	Conflicts of interest/lack of independence					
2	Absence of ability					
3	Inability to challenge					
4	Knowledge gaps—diversity					
5	Insufficient focus on substantive issues					
6	Lack of coordination between the board and management					
7	Unclear strategy					
8	excessive attention on the present					
9	Unethical behavior					
10	unwillingness to challenge					

If you have any feedback, just let it be aware. \_\_\_\_\_

END OF QUESTIONNAIRE

Thank you very much for your participation