The Effect Credit Monitoring Activities on Financial Reporting Quality of Private Banks in Ethiopia

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Abstract

This study examines the effect of credit monitoring activities on the financial reporting quality of private banks in Ethiopia. Using a quantitative research method with a positivist philosophical assumption, data were collected through a structured questionnaire from 90 respondents. The study finds that the independent variables, which include collateral information, business ratings information, customer credit status information, and consumer default information, have a positive effect on the financial reporting quality of private banks in Ethiopia. These findings emphasize the importance of effective credit monitoring activities to ensure accurate and reliable financial reporting in the banking sector.

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1. Introduction

In today's globalized world, the importance of credit monitoring activities cannot be overstated. Credit monitoring activities encompass a range of practices that enable financial institutions to assess and manage credit risk effectively. These activities involve gathering and analyzing information about borrowers' creditworthiness, financial stability, and repayment capacity. The outcome of credit monitoring activities has a direct bearing on the financial reporting quality of banks [1][2][3][4][5]. However, despite the significance of credit monitoring activities, there exist research gaps that need to be addressed to enhance our understanding of their impact, especially in the context of private banks in Ethiopia.

Research on credit monitoring activities and their relationship with financial reporting quality has primarily focused on developed economies. Several studies have explored the relationship between these activities and financial reporting quality in countries such as the United States, Europe, and Australia [6][7]. However, relatively little attention has been given to the Ethiopian banking sector.

The scarcity of studies investigating the impact of credit monitoring activities on financial reporting quality in Ethiopia represents a significant research gap. Ethiopia is one of the fastest-growing economies in Africa, and the banking sector plays a crucial role in supporting economic growth and development [8]. Therefore, it is essential to examine how credit monitoring activities affect the financial reporting quality of private banks in Ethiopia.

Furthermore, the specific components of credit monitoring activities, including collateral information, business rating information, customer credit status information, and consumer default information, have not been extensively studied in the context of Ethiopia [9][10][11]. Understanding the individual contributions of these components is crucial for developing effective credit monitoring practices and mitigating credit risks. Existing studies have primarily focused on the general relationship between credit monitoring activities and financial reporting quality, without delving into their specific components.

Credit monitoring activities play a crucial role in ensuring the financial stability of banks. As private banks in Ethiopia continue to operate in a dynamic and evolving banking sector, it is essential to examine the effect of credit monitoring activities on the financial reporting quality of these banks. The [12][13][7][6][14] studies' findings reveal a positive effect of the independent variables on the financial reporting quality of private banks in Ethiopia. The availability and utilization of collateral information, business ratings information, customer credit status information, and consumer default information significantly contribute to enhancing the accuracy and reliability of financial reporting in private banks [15].

To fill these research gaps, this study aims to investigate the positive relationship between collateral information, business rating information, customer credit status information, and consumer default information as components of credit monitoring activities on the financial reporting quality of private banks in Ethiopia. By examining the unique characteristics of the Ethiopian banking sector and considering the specific components of credit monitoring activities, this research will contribute to the literature on credit risk management in emerging economies and provide valuable insights for policymakers and practitioners. Generally, this research provides valuable insights into the importance of credit monitoring activities in improving financial reporting quality in private banks in Ethiopia. The findings highlight the significance of effective credit monitoring systems and the utilization of various sources of credit information to ensure transparency and accountability in the banking sector.

1.1. Research Objectives

The general research objective for the study was to identify the effect of credit monitoring activities on the financial reporting quality of private banks in Ethiopia. The specific objectives were.

a. To determine the extent to which collateral information affects financial reporting quality in private banks.
b. To evaluate the impact of business ratings information on financial reporting quality in private banks.
c. To investigate the relationship between customer credit status information and financial reporting quality in private banks.
d. To analyze the effect of consumer default information on financial reporting quality in private banks.
e. To provide recommendations for improving credit monitoring activities and financial reporting quality in private banks in Ethiopia.

2. Review of Related Literature

2.1. Concept of financial reporting

Financial reporting quality is of paramount importance in private banks as it directly impacts their credibility and transparency in the eyes of stakeholders. Private banks are expected to provide accurate and reliable financial information to their shareholders, regulators, and the general public. Several recent studies have shed light on the financial reporting quality in private banks. For instance, a study by [16] examined the impact of corporate governance and internal control mechanisms on the financial reporting quality of Chinese private banks. Furthermore, a research paper by [11] analyzed the determinants of financial reporting quality in Latin American private banks, emphasizing the role of regulatory enforcement. Finally, a study conducted by [4] investigated the effects of financial reporting quality on the liquidity risk of European private banks in the context of the global financial crisis. These studies collectively contribute to the understanding of financial reporting quality in private banks and provide insights for potential improvements in this area.

2.2. Theories of Financial Reporting Quality

There are four studies practical applicable on the relationship between financial reporting quality and credit monitoring activities of banks. These are information signaling theory, agency theory, reputation theory, and signaling theory.

2.2.1. Information signaling theory

Information signaling theory suggests that financial reporting quality serves as a signal about the firm's financial health and performance to external stakeholders such as investors and creditors. According to this theory, firms with higher quality financial reporting are perceived to have more reliable and transparent financial information, which in turn may lead to lower information asymmetry and reduced agency costs. This theory emphasizes the role of financial reporting in reducing information asymmetry and increasing trust between the firm and its stakeholders [17]

2.2.2. Agency theory

Agency theory focuses on the relationship between the principal (shareholders) and the agent (management) within a firm. It argues that managers have inherent conflicts of interest with shareholders and may engage in opportunistic behavior to maximize their own interests. Financial reporting quality is seen as a mechanism to mitigate agency costs by aligning the interests of managers with those of shareholders. By providing accurate and reliable financial information, financial reporting quality helps to monitor managerial actions and reduce the agency costs associated with information asymmetry and moral hazard [18].

2.2.3. Reputation theory

Reputation theory posits that firms with a strong reputation for high-quality financial reporting are more likely to attract and retain capital from investors and creditors. According to this theory, financial reporting quality enhances a firm's reputation and credibility by demonstrating its willingness to provide accurate and reliable financial information. A positive reputation for financial reporting quality can lead to increased investor confidence, lower cost of capital, and improved access to external financing [19].

2.2.4. Signaling theory

Signaling theory suggests that financial reporting quality functions as a signal of a firm's underlying financial conditions, future prospects, and management quality. According to this theory, firms with high-quality financial reporting are able to differentiate themselves from their competitors and signal their superior financial performance. Higher financial reporting quality serves as a credible signal to investors and creditors about the firm's profitability and financial strength, leading to better access to capital markets and lower financing costs [20].

2.3. The relationship between Monitoring activities and financial reporting quality

One of the credit monitoring activities that positively influences the financial reporting quality of private banks in Ethiopia is collateral information. Collateral serves as a security or guarantee for the repayment of a loan, thus reducing the risk of default [21][20][22][8][19][23][18]. A study conducted by [5] found that the presence of collateral significantly improved the financial reporting quality of private banks. They observed that banks with a higher percentage of collateral in their loan portfolio exhibited better loan quality and lower levels of non-performing loans. In addition, a study by [24] also provided empirical evidence supporting the relationship between collateral information and financial reporting quality, demonstrating that collateralized loans were associated with higher credit quality.

- H1: Collateral has a significant effect on the financial reporting quality of private banks

Business rating information is another credit monitoring activity that positively affects the financial reporting quality of private banks in Ethiopia. Business ratings provide an evaluation of the creditworthiness and risk profile of a borrower, enabling banks to assess their creditworthiness accurately. A research study conducted by [22][2] supported this relationship by finding that banks with access to reliable business rating information had better financial reporting quality. The study observed that banks that utilized business ratings as part of their credit assessment process had lower levels of non-performing loans and higher loan quality indicators. Similarly, a study by [25][23] also provided empirical evidence showing that access to accurate business rating information played a significant role in improving the financial reporting quality of private banks in Ethiopia.

- H2: Business rating information has a significant effect on the financial reporting quality of private banks

Customer credit status information is another credit monitoring activity that has a positive impact on the financial reporting quality of private banks in Ethiopia. Customer credit status information includes data on the borrower's credit history, such as repayment behavior and creditworthiness. A study by [26][3] revealed that banks that effectively used customer credit status information in their credit assessment process had better financial reporting quality. The study found that banks that relied on comprehensive customer credit status information had lower levels of non-performing loans and higher loan quality indicators. Similarly, a study by [27][4] also provided evidence supporting the positive relationship between customer credit status information and financial reporting quality, demonstrating that banks with access to accurate and up-to-date customer credit status information exhibited better loan quality.

- H3: Customer credit status information has a significant effect on the financial reporting quality of private banks

Consumer default information is another credit monitoring activity that positively affects the financial reporting quality of private banks in Ethiopia. Consumer default information provides insights into the borrower's past default behavior, allowing banks to assess their credit risk accurately[23][18][17][26][1]. A study conducted by [28] found that the availability of consumer default information positively influenced the financial reporting quality of private banks. The study observed that banks that had access to consumer default data exhibited lower levels of non-performing loans and higher loan quality indicators. In addition, a study by [29][30] also provided empirical evidence supporting this relationship, demonstrating that private banks that effectively used consumer default information had better financial reporting quality compared to those with limited access to such data.

- H4: Consumer default information has a significant effect on the financial reporting quality of private banks

2.4. Conceptual Framework

The conceptual framework of this study is based on the assumption that credit monitoring activities, including collateral information, business rating information, customer credit status information, and consumer default information, have a positive impact on the financial reporting quality of private banks in Ethiopia. The rationale behind this assumption is that these credit monitoring activities provide critical information to banks, enabling them to assess the creditworthiness and financial performance of their customers accurately. As collateral information indicates the capability of the borrower to fulfill its obligations, business rating information evaluates the overall financial health and stability of the customer [24][12][13][7]. Customer credit status information reflects the borrower's historical payment behavior and creditworthiness, while consumer default information indicates the likelihood of default by the borrower [31][9][10]. By utilizing these credit monitoring activities, private banks can make informed decisions regarding loan approval, repayment terms, and risk management [14][21]. Therefore, it is expected that private banks in Ethiopia that actively engage in these credit monitoring activities will exhibit higher financial reporting quality.

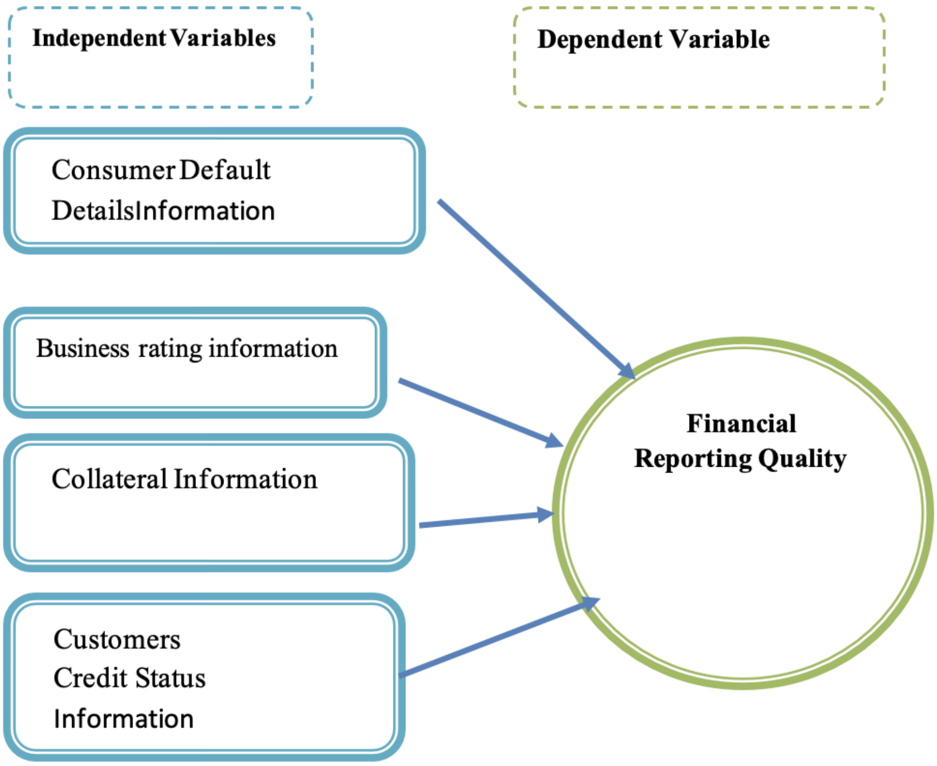

Figure 1. Conceptual Framework of the Study

2.5. Literature Gap

Despite the significant importance of credit monitoring activities for private banks, limited research has been conducted specifically examining the relationship between these activities and the financial reporting quality of private banks in Ethiopia. Existing studies primarily focus on the overall credit risk management practices of banks, neglecting the specific impact of credit monitoring activities on financial reporting quality. Moreover, the majority of studies have been conducted in developed economies, where banking systems and regulations differ significantly from those in Ethiopia. Thus, there is a clear gap in the literature regarding the specific relationship between credit monitoring activities and financial reporting quality in the context of Ethiopian private banks. Addressing this gap is crucial as it will provide valuable insights for policymakers, bank management, and stakeholders in understanding the importance of credit monitoring activities in improving financial reporting quality and overall risk management practices in the Ethiopian banking sector.

3. Research Methodology

3.1. Research Design

This research aims to explore the relationship between credit monitoring activities and financial reporting quality in private banks in Ethiopia. The quantitative research method was employed in this study, which aligns with the positivist philosophical assumption. Positivism emphasizes the objective observation of social phenomena and the use of empirical data to understand the world. By utilizing this method, the study aims to provide empirical evidence regarding the effect of credit monitoring activities on the financial reporting quality of private banks in Ethiopia. Primary data were collected through structured questionnaires from 90 respondents who have direct involvement in credit monitoring activities within private banks. The questionnaires were designed to assess the perceptions and experiences of the respondents regarding the variables of interest, including collateral information, business ratings information, customer credit status information, and consumer default information.

3.2. Sampling Design

According to [32], there are 26 private commercial banks in Ethiopia. Ethiopia is home to a diverse range of private banks, each offering unique services to meet the financial needs of its customers. One of the oldest private banks in the country is Awash International Bank, established in 1994, with an impressive network of 430 branches. Dashen Bank, founded in 1995, boasts a slightly larger branch network of 438. Bank of Abyssinia, established in 1996, operates through 233 branches, while Wegagen Bank, founded in 1997, has 211 branches serving its customers. Other notable private banks in Ethiopia include Hibret Bank, Nib International Bank, Cooperative Bank of Oromia, and Lion International Bank, each demonstrating growth and success in the industry. With the recent addition of ZamZam Bank, Hijra Bank, Siinqee Bank, and Shabelle Bank in 2021, the private banking sector in Ethiopia continues to expand, catering to the financial needs of the population. Looking ahead, the coming years will witness the establishment of Ahadu Bank, Tsedey Bank, Tsehay Bank, and Gadaa Bank SC, further diversifying the private banking landscape in Ethiopia. The study touches five individuals such as finance head, credit officers, risk management officers, compliance officers, and executive management members, those who directly worked in credit monitoring activities and financial reporting for more than ten years.

Table 1. Summary of sampling design

Target population	Total number	Sample size calculations	Sample size
5 experts in 26 banks	26*5= 130 experts	Using [33]	98 = 1300/(1+(0.05)2*1300)

Source: Survey results, 2023

3.3. Data sources, collection, and analysis methods

In this study, the researchers used primary data collected through a structured questionnaire from 90 respondents. An ordered logistic regression model was employed to examine each variable. The variables were assessed using a Likert scale questionnaire, which represents categorical data. This model was essential in determining the impact of credit monitoring activity on the financial reporting quality of private banks in Ethiopia. The following equation was utilized:

$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + ẹ$

where:

- Y = financial reporting quality
- α = constant term
- β1 = regression coefficient
- X1 = collateral information
- X2 = business rating information
- X3 = customer credit status information
- X4 = consumer default information
- ẹ = error term

3.4. Operational definition of Variables

Table 2. Operationalization and measurement of Variables

Variable	Type	Operationalization	Measurement
Financial reporting quality	Dependent	Financial reporting quality refers to the accuracy, transparency, and reliability of financial statements and other financial information provided by a company. It indicates the extent to which financial reports reflect the true financial position, performance, and cash flows of a company.	Ordinal scale
Security/Collateral	Independent	Collateral information: Collateral information refers to details or data related to the assets pledged as security for a loan or credit agreement.	Likert scale
Business Rating	Independent	Business ratings information: Business ratings information refers to assessments or ratings provided by rating agencies that evaluate the creditworthiness and financial stability of companies.	Likert scale
Customers credit Status	Independent	Customer's credit status information: Customer's credit status information consists of data and records related to an individual's or a company's credit history and creditworthiness. Positive or negative status	Likert scale
Consumer default details	Independent	Consumer default information: Consumer default information refers to data or records that indicate the failure of a consumer or borrower to meet their financial obligations, such as loan payments or credit card bills.	Likert scale

4. Results

4.1. Response Rate

The authors distributed a questionnaire to 98, out of which 90 participants responded correctly. The response rate for the questionnaire is 92%.

4.2. Descriptive Statistics

Descriptive statistics is a branch of statistics that involves summarizing and describing data. It provides tools and techniques to analyze and interpret raw data to gain insights and make conclusions about a population or sample. Descriptive statistics can be applied to various fields such as economics, psychology, sociology, and finance. It helps researchers and analysts summarize and understand data, identify patterns and trends, and make informed decisions.

Table 3. Summary of Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Report Quality	90	1.00	5.00	3.0333	1.10616
Collateral Information	90	1.00	5.00	2.9333	1.15923
Business Ratings Information	90	1.00	5.00	3.0000	1.46878
Customer's Credit Status Information	90	1.00	5.00	2.6167	1.43599
Consumer Default Information	90	1.00	5.00	2.6389	1.19462

Source: Survey data, 2023

The above descriptive statistics in table 3 indicate the quality of different aspects of financial information provided. Financial Report Quality: The average rating for financial report quality is 3.0333, which suggests a moderate level of quality. The standard deviation of 1.10616 indicates some variability in the ratings. Collateral Information: The average rating for collateral information is 2.9333, which suggests a slightly below-average level of quality. The standard deviation of 1.15923 indicates some variability in the ratings. Business Ratings Information: The average rating for business ratings information is 3.0000, which suggests a moderate level of quality. The standard deviation of 1.46878 indicates some variability in the ratings. Customer's Credit Status Information: The average rating for customer's credit status information is 2.6167, which suggests a slightly below-average level of quality. The standard deviation of 1.43599 indicates a higher level of variability in the ratings. Consumer Default Information: The average rating for consumer default information is 2.6389, which suggests a slightly below-average level of quality. The standard deviation of 1.19462 indicates some variability in the ratings. Overall, the ratings for these different aspects of financial information vary, with financial report quality and business ratings information having relatively moderate ratings, while collateral information, customer's credit status information, and consumer default information have slightly below-average ratings.

Table 4. Correlations

Variables of the study		Financial Report Quality	Collateral Information	Business Ratings Information	Customer's Credit Status Information	Consumer Default Information
Financial Report Quality	**Pearson Correlation**	1				
Collateral Information	**Pearson Correlation**	.580**	1			
Business Ratings Information	**Pearson Correlation**	.373**	.139	1		
Customer's Credit Status Information	**Pearson Correlation**	.312**	.217*	.224*	1	
Consumer Default Information	**Pearson Correlation**	.388**	.262*	-.128	-.114	1

***. Correlation is significant at the 0.01 level (2-tailed).*

**. Correlation is significant at the 0.05 level (2-tailed).*

Source: Survey result 2023

The variables in the study in Table 4 include financial report quality, collateral information, business ratings information, customer's credit status information, and consumer default information. According to the provided information, there is a positive relationship between financial report quality and collateral information, with a Pearson correlation coefficient of 0.580**. This suggests that as the financial report quality improves, there is a tendency for collateral information to also be of higher quality. Similarly, there is a positive correlation between financial report quality and business ratings information, with a Pearson correlation coefficient of 0.373**. This indicates that as the financial report quality increases, there is a tendency for business ratings information to also improve. There is also a positive correlation between financial report quality and customer's credit status information, with a Pearson correlation coefficient of 0.312**. This suggests that as the financial report quality improves, there is a tendency for the credit status information of customers to also be of higher quality. Finally, there is a positive correlation between financial report quality and consumer default information, with a Pearson correlation coefficient of 0.388**. This indicates that as the financial report quality increases, there is a tendency for consumer default information to also become more accurate. Overall, the results indicate that there are positive relationships between financial report quality and various information types in this study, implying that higher quality financial reports tend to be associated with higher quality collateral information, business ratings information, customer's credit status information, and consumer default information.

4.3. Ordered Logistic Regression Results

The ordered logistic regression analysis results show the relationship between one or more independent variables and an ordinal dependent variable. It estimates the probability of an event occurring in a specific category of the dependent variable, given the values of the independent variables. The regression results typically include the following information: Coefficient estimates: These values represent the effect of each independent variable on the log odds of the dependent variable being in a higher category. Positive coefficients indicate that an increase in the independent variable leads to an increase in the odds of the dependent variable being in a higher category, while negative coefficients indicate the opposite effect. Standard errors: These values measure the precision of the coefficient estimates. Lower standard errors indicate more precise estimates. P-values: These values indicate the statistical significance of the coefficient estimates. A p-value less than a certain threshold (e.g., 0.05) suggests that the coefficient estimate is statistically significant. Model fit statistics: These statistics evaluate how well the model fits the data. They include metrics such as the log-likelihood, AIC (Akaike information criterion), and BIC (Bayesian information criterion). Lower AIC and BIC values indicate better model fit. The ordered logistic regression results can be used to understand the relationships between the independent variables and the dependent variable and make predictions about the likelihood of the dependent variable being in a specific category.

Table 5. Model Fitting Information

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	242.927			
Final	167.851	75.076	4	.000

Source: Survey result, 2023

The p-value is less than 5 percent. Hence, using the estimated value of Z and the assumed logistic distribution of the disturbance term, the ordered logit model can be used to estimate the probability that the unobserved variable Y* falls within the various threshold limits (see Table 5).

Table 6. Regression Result: Ordered Logistic Regression Output

		Observation=90 Pseudo R-Square Cox and Snell=0.566 Nagelkerke =0.602 McFadden=0.296						
		Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Location	Constant	-2.234	0.341	32.01	1	0.00	0.452	0.891
	Colnfo	1.239	.240	26.607	1	.000	.768	1.710
	BRI	.662	.164	16.200	1	.000	.339	.984
	CCI	.380	.161	5.604	1	.018	.065	.695
	CDI	.685	.203	11.373	1	.001	.287	1.083

Source: survey result, 2023

Pseudo R-Square in Table 6 indicates the proportion of variance explained by independent variables incorporated in the model on the dependent variable. The Nagelkerke statistic is similar to the OLS Adjusted-R-squared statistics. In the current study, Pseudo R-Square, 60, indicates that 60% of the proportion of variance in the quality of financial reporting was explained by Collateral Information, Business Ratings Information, Customer's Credit Status Information, and Consumer Default Information. The remaining 40% variation variance in financial reporting quality was explained by extraneous variables not incorporated in the model. The coefficients of Collateral Information (1.24), Business Ratings Information (0.662), Customer's Credit Status Information (0.380), and Consumer Default Information (0.685) lead to a positive direction in financial reporting quality in banks, respectively. Out of the total variables incorporated in the model, collateral information has a highly significant and positive effect on asset quality, while customer credit information has a low and significant effect on the positive effect on financial reporting quality.

5. Discussion of Results

One empirical result of the study is that collateral information has a positive effect on the financial reporting quality of private banks in Ethiopia. This finding is consistent with the signaling theory, which suggests that collateral acts as a signal of the borrower's creditworthiness and reduces information asymmetry between the borrower and lender [15]. When banks have access to collateral information, they can better assess the borrower's ability to repay the loan and make informed decisions. This, in turn, improves the quality of financial reporting by reducing the likelihood of default and ensuring an accurate representation of the bank's financial position [13]. The signaling theory suggests that collateral acts as a signal of creditworthiness, reducing information asymmetry and improving financial reporting quality.

Another empirical finding is that business rating information positively affects the financial reporting quality of private banks in Ethiopia. This result aligns with the reputation theory, which posits that banks with higher business ratings are more likely to engage in high-quality financial reporting practices to protect their reputation [14]. A good business rating serves as a signal to stakeholders that the bank has strong financial health and management practices, thereby reducing information asymmetry and enhancing the credibility of financial reports [30]. By incorporating business rating information, private banks in Ethiopia can increase the accuracy and reliability of their financial reporting. The reputation theory posits that banks with higher ratings engage in high-quality reporting practices to protect their reputation.

Customer credit status information was found to have a positive effect on the financial reporting quality of private banks in Ethiopia. This finding supports the agency theory, which suggests that the disclosure of customer credit information helps align the interests of the bank and its customers [3]. When banks have access to accurate and comprehensive credit information, they can better assess the creditworthiness of customers and make informed decisions regarding the provision of loans. This, in turn, leads to higher financial reporting quality as the banks have a lower probability of making risky loans that may result in defaults [2]. The agency theory suggests that disclosing customer credit information aligns the interests of banks and customers, leading to improved financial reporting quality.

The study also found that consumer default information has a positive effect on the financial reporting quality of private banks in Ethiopia. This finding is in line with the information signaling theory, which suggests that consumer default information helps banks assess the creditworthiness of borrowers and make informed lending decisions [21]. By considering consumer default information, private banks in Ethiopia can identify potential risky borrowers and adjust their loan terms accordingly. This reduces the likelihood of defaults, enhances the quality of financial reporting, and ensures a more accurate representation of the bank's financial position [9]. Lastly, the information signaling theory states that consumer default information helps banks assess creditworthiness and make informed lending decisions, thereby improving financial reporting quality. Taken together, these theories provide a framework for understanding the relationship between collateral information, business rating information, customer credit status information, consumer default information, and financial reporting quality in private banks in Ethiopia.

6. Conclusion

The study's findings reveal a positive effect of the independent variables on the financial reporting quality of private banks in Ethiopia. The availability and utilization of collateral information, business ratings information, customer credit status information, and consumer default information significantly contribute to enhancing the accuracy and reliability of financial reporting in private banks. Overall, this research provides valuable insights into the importance of credit monitoring activities in improving financial reporting quality in private banks in Ethiopia. The findings highlight the significance of effective credit monitoring systems and the utilization of various sources of credit information to ensure transparency and accountability in the banking sector.

7. Recommendations

Based on the findings of this study, the following recommendations can be made to enhance the financial reporting quality of private banks in Ethiopia:

Strengthen Credit Monitoring Systems: Private banks should prioritize the establishment and implementation of effective credit monitoring systems. These systems should enable regular monitoring of credit activities, including collateral information, business rating information, customer credit status information, and consumer default information. This will help to identify potential risks and ensure timely and accurate reporting of financial information.

Enhance Collaboration with Credit Information Providers: Private banks should establish strong collaborations with credit information providers to access comprehensive and up-to-date credit information. This collaboration will enable banks to make informed decisions based on reliable data and enhance the accuracy and reliability of their financial reporting.

Improve Data Management and Reporting Processes: Private banks should invest in robust data management systems to efficiently collect, store, and analyze credit information. This will facilitate the generation of accurate and reliable financial reports. Furthermore, banks should implement standardized reporting processes to ensure consistency and comparability of financial information across different periods.

Regular Training and Capacity Building: Private banks should invest in continuous training and capacity-building programs for their staff members, particularly those involved in credit monitoring activities. This will enhance their knowledge and skills in credit assessment, data analysis, and financial reporting, ultimately improving the quality and accuracy of financial reports.

Regulatory Oversight and Compliance: Regulatory bodies should play an active role in monitoring and enforcing compliance with credit monitoring and reporting standards. Regular inspections and assessments should be conducted to ensure that private banks adhere to the recommended practices and guidelines. Non-compliant banks should be subject to penalties and corrective actions.

Public Awareness and Transparency: Private banks should ensure transparency and accountability by providing clear and understandable financial reports to their stakeholders. Public awareness campaigns can be conducted to educate the general public about the importance of credit monitoring activities in enhancing financial reporting quality. This will build trust and confidence in the banking sector.

8. Direction for future research

Based on the above findings, future research could focus on the following areas:

1. Further exploring the specific mechanisms through which the independent variables (availability and utilization of collateral information, business rating information, customer credit status information, and consumer default information) impact the financial reporting quality of private banks in Ethiopia. This could involve examining the processes and practices involved in credit monitoring activities and how they influence financial reporting.
2. Investigating the potential barriers to effective credit monitoring and utilization of credit information in private banks in Ethiopia. This could include identifying any contextual or institutional factors that may hinder the successful implementation of credit monitoring systems and the use of credit information.
3. Assessing the long-term effects of improved financial reporting quality in private banks on overall banking sector stability and performance. This research could examine whether enhanced transparency and accountability resulting from effective credit monitoring activities in private banks contribute to a more stable and resilient banking sector.
4. Exploring the role of technology in credit monitoring and financial reporting quality in private banks. This could involve investigating the use of digital platforms and fintech solutions for credit monitoring, data collection, and analysis, and how they can enhance the accuracy and reliability of financial reporting.
5. Conducting comparative studies between Ethiopia's private banking sector and other countries or regions to identify best practices and potential areas for improvement. This research could highlight successful credit monitoring systems and credit information utilization strategies in other contexts that could be applied or adapted to the Ethiopian banking sector.
6. Assessing the impact of financial reporting quality on other stakeholders, such as bank customers and investors. Future research could investigate whether enhanced financial reporting quality in private banks leads to increased trust, better decision-making, and improved financial outcomes for various stakeholders.

Statements and Declarations

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Availability of data

The data utilized for this study has been included in the manuscript.

Competing Interests

The authors affirm that there are no competing interests that could influence the findings or conclusions presented in this research.

Author's Contributions

The authors have contributed to the conception and design of the study. Furthermore, each author has carefully reviewed and agreed to the final version of the manuscript as published.

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