



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**THE ASSESSMENT OF MANAGEMENT CONTROL SYSTEM
IN SELECTED PRIVATE COMMERCIAL BANKS OF
ETHIOPIA**

BY

EDGET YIMAM (SGS7/0359/2006B)

ADDIS ABABA, ETHIOPIA

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**A THESIS SUBMITTED ON PARTIAL FULFILLMENT OF THE
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List of Abbreviations and Acronyms

AA	Addis Ababa
AT	At time
EPCB	Ethiopian Private Commercial Bank
EVA	Economic Value Added
F	Frequency
KII	Key Informant Interview
KPI	Key Performance Indicator
MCS	Management Control System
NBE	National Bank of Ethiopia
NU	Not used
PM	Performance Measurement
QO	Quite Often
ROE	Return on Equity
ROI	Return on Investment
S	Systematically
SPM	Strategic planning management
VS	Very Seldom
SPSS 20	Statistical Software Packages for Social Science Version 20

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Abstract

Banking sector is one of the most successful financial institutions in Ethiopia; however, there is virtually no formidable study on management control system about this sector. The increasing knowledge and understanding on the application of management control system, for the area in which this research was undertaken by benchmarking of the same research undertaken in other country, were taken as the major initiators of this study and were the rationale to the research. This study focused only the assessment of management control system in Ethiopian Private Commercial Banks even if there were different managerial issues in the banking industry at the head and branch offices as well. An institution based descriptive study with analytic components was conducted in Ethiopian private commercial banks which are functioned at Addis Ababa. The study employed both quantitative and qualitative study approaches. Study population for the survey were employees, officers and managers of the banks. Besides, for the qualitative part, key informant interviews conducted with managers and officers of the banks. A questionnaire with five Likert scale for the survey which is mainly used for quantitative part, and Semi-structured interview guide for the qualitative were used as data collection tools. SPSS version 20 for windows was employed to perform statistical analysis. EPCBs are frequently planning and controlling their activities such as monthly or quarterly income statements; working capital and its parts; cash flow statements and branch reports and operations. However, some problems are also there; human capital, benefit entitlement, liquidity and responsibility center. Therefore, the private commercial banks need to give due attention for these problems, giving and preparing continuous training for employees and evaluating training results.

Key words: Management control system, commercial bank, budgeting system, performance measurement, cost accounting and service pricing, decision making, compensation and benefit.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A management control system (MCS) is a system which gathers and uses information to evaluate the performance of different organizational resources like human, physical, financial and also the organization as a whole considering the organization strategies (Oliver.C,1991). It is the process by which managers assure that resources are used effectively and efficiently in the accomplishment of the organization's objectives'. It is specifically concerned with the process by which managers influence other members of the organization to implement organizational strategies (Anderson and Young, 2002).

MCS is intended to motivate managers to ensure that organizational goals are accomplished by rewarding and promoting employees according to certain criteria. It has been recognized as important in the formulation and implementation of strategies (Burns. J, 2000). It is an integrated technique for collecting and using information to motivate employees behavior and to evaluate performance.

The primary objective of the MCS is to make all the relevant information associated with the planning and control functions available, so as to facilitate the development of these activities. In other words, the system is aimed at meeting the information requirements of management which depend to a large extent on the critical management processes and on determining factors for the value– the so-called value drivers – which in turn are the consequence of the key success factors and the risk factors of the individual business entity (Oliver.C,1991). It involves many techniques (Jaworsk etal, 2005) such as: activity based costing, balanced score card, benchmarking, budgeting, capital budgeting, kaizen(continuous improvement), program management techniques, and total quality management (TQM).

The orientation of corporate and business strategy should, therefore, be reflected in the design and use of MCSs at the respective organizational levels (Lang field- Smith 1997 cited in Gottfredson, 2005). A control system is a set of formal and informal systems that designed to asses management in steering the organization towards the achievement of its purpose by bringing unity out of the diverse efforts of subunits and individuals (Mettanen. P, 2005), The

formal system and informal systems are independent but they are highly interrelated, indistinguishable and subdivision of control system.

A common theme in MCS research is that changes in an organization's external environment and resulting changes on corporate business strategies will lead to change in the organization's MCS (Anderson, 1995). On the other hand one explanation for the high proportion of the business to fail is the difficulty of establishing a MCS that will suit both for head and branch companies (Hansen et al, 2004). While there are many components that make up MCS, the researcher will focuses merely on the following key elements: the strategy and management , budgeting system , transaction –cash and cost economics, decentralization and decision making , business performance management , and talent management and compensation. It is also possible that the company's control system is used for the purpose of exploiting synergies and implementing the chosen corporate strategy. Implementation of corporate strategy is facilitated in cases where the corporate strategic planning system is consistent with the system implemented at the business-unit level. If this is the case, it is likely that corporate strategy will be an important driving force influencing the way in which MCSs are designed (Hammer and Champy, 1993).

First, studies have revealed many facets or pros and cons emerging about the new managerial and management accounting techniques. Studies have also considered more broadly the application MCSs .Second, researchers have particularly examined the role of contemporary accounting practices in different managerial and changing settings reliance on accounting performance measures (Hansen, 2004), or the influences of more current practices on decision making (Norreklit, 2003).

Third, instead of the role of contemporary accounting practices, the researcher will focus on designs or characteristics of the employed MCS or their components and variations in different settings. These studies will contribute to the identification and understanding of the many relationships between the MCS and essential organizational and contextual factors, often also revealing relations to organizational performance. The rich variety of variables and settings used and combinations examined the typical of this research. Characteristically, the key variables have been some of the contemporary aspects of the factors presented in contingency theory of organizations, i.e. technique, strategy, size, organizational structure, environment and culture

(McNurlin and Sprague, 2002). The research, thus, tried to relate MCS to organizational culture, focusing on strategic priorities and management techniques.

To put it in a nut shell, the researcher is interested in examining the application of MCS in selected private banks to view under the perspective of strategy and plans, organization structure, reward system, performance measure, vision and mission and target. The previous study on this area conducted in other country helps to increase and build the level of understanding on the application of MCS for the area in which this research has been conducted. The study used descriptive methodological approach to gather data that can possibly be obtained by adopting a single method.

1.2 Statement of the Problem

The role of the management is to organize, plan, integrate and interrelate organizational activities to achieve organizational objectives. The achievement of these activities is facilitated by MCS. A management control system is designed to assist managers in planning and controlling the activities of the organization. Management control is “the process by which managers ensure that resources are used effectively and efficiently in the accomplishment of the organization's objectives (Anderson and Young, 2002).

Well planned management control system have been playing its own significant role in the company to scale up the height of profitability and going concern. Also when considering the 1992-2004 period, the trend seems to be towards increasing use of more recently developed and more MCS practices (Resti, 1997). The business development of a firm is adversely affected due to inappropriately use and establishing a MCS that will suit for companies (Hansen, 2004).

MCSs aim for implementation of strategy. There is no standard way to deliver a well-functioning management control system in organizations (Merchant. K. 1985). The success depends on company's individual organizational elements and how well they work together in a control package. Individual organizational elements should be studied carefully and examined in its environment to design a control system. Many researches illustrate examples what companies have to do to get to a certain performance level and how companies have designed a management control system. Nevertheless, there is no direct and straightforward

way with right management control system elements which ensure the success in strategy implementation. Managers emphasize issues which are more important for one company than they might be for another. The configuration is the starting point for building the MCS. Therefore, there is no single way of designing MCSs. Rather control is influenced by various parts of company specific details. Control mechanisms are to get information for decision making and to control organization to a certain direction (Oliver. C, 1991).

MCSs also generate information for decision making. In addition to this it consists of devices and systems that managers use to insure that their employees' decisions and behaviors are consistent with organization strategies and objectives with excluding decision support system(Merchant. K, 1997). Still to help the decision making, profitability analysis is also taken into account. Otherwise, the aim is at control usage. And the issues of management control practice still presents unique in terms of effectively addressing the organizational goal and objective. Therefore, there is a potential challenge in the top and any level managers in controlling practice of financial organizations, especially Banks (Anderson and Young, 2002).

This study is conducted by the researcher firstly, with the assumption to strengthen the existing theory in that it does not only just establish a relationship between contextual and MCSs variables, but also considers how it creates competitive advantage. Secondly, most of the empirical researches conducted have focused on issues related to the diversity of measurement (i.e. the use of broad set of financial and non-financial measures) and has overlooked the use of MCSs as a whole. Therefore, this study fills this gap as it considers the importance of holistic use of MCSs. Here, the researcher is interested in examining the components of MCSs; strategic management, budgeting system, cost accounting, decentralization, performance measurement and employees' compensation. The other driving force for the researcher is, to examine the application of MCSs to achieve corporate and business strategy, goals and objectives of the private banks in Ethiopia .Finally, this research has been conducted with the aim to increase knowledge and understanding of MCSs for the area in which this research has been undertaken by benchmarking the related researches conducted and by examining greater numbers of components, tools and techniques of Management control systems.

1.3. Research Questions

The above problems invited the researcher to carry out a study on The Assessment of Management Control System In Selected Private Commercial Banks of Ethiopia. To achieve this purpose, the researcher specifically formulated the following basic research questions.

- ❖ Do private banks of Ethiopia use appropriate tools and techniques of MCS?
- ❖ How does decision is made by private commercial banks of Ethiopia?
- ❖ Does MCS bring competitive advantage for the Private Banks of Ethiopia?
- ❖ How do Private Banks of Ethiopia give new skills and knowledge to their employees in line with MCS?
- ❖ What are the challenges of the Private Banks of Ethiopia in implementing management control system?
- ❖ What compensation methods do private commercial banks use for their employees?

1.4 Objectives of the Study

1.4.1. General Objectives

The general objective of this study is to assess MCS in EPCBs and to better understand a research problem by triangulating both quantitative (broad numeric trends) and qualitative (detailed views).

1.4.2 Specific Objectives

The study addressed more specifically the following objectives:

- ❖ To assess strategic planning and management practice of the Private Banks
- ❖ To assess the budgeting system and its application of Private Banks
- ❖ To evaluate cost accounting and service pricing of Private Banks to gain competitive advantage
- ❖ To examine decision making capabilities of the Private Banks
- ❖ To evaluate the performance measurement systems applied by the Private Banks
- ❖ To explore rewards (compensation) applied by Private Banks.

1.5 Significance of the Study

The researcher believes that this study does have a significant role to play in shading light on how to apply MCSs in major businesses of the country in general and in the banking sector in particular. Furthermore, this study also does have a paramount importance in providing a better ground for future investors and other stakeholders in the banking industry, which are keenly concerned with this issue, to take it as a basement rock in their further stride to implement appropriate basic components of MCS. Moreover, the researcher also believes that this study can potentially serve as a stepping stone for further research in the area.

1.6. Delimitation of the Study

The study focused only on the application of MCS here in Ethiopia assessing on 9 randomly selected private commercial banks in Addis Ababa even if there are different managerial issue and branch office of the banks as well. The point of having selected commercial banks is because of the constraint of time and money and also the assumption that `decreases the duplication of information .

1.7. Organization of the Study

The research focused on the assessment of MCS in selected private commercial banks of Ethiopia including the rationale to study the subject. The research structured as follows: Chapter 1 is introduction. Chapter 2 contains a review of related literature with regard to MCS. The research design and methodology is presented in chapter 3. Particularly, this session shows the research questions addressed and followed by a discussion of the underlying principles of descriptive research method.

Furthermore, chapter 3 presents the rationale for the adoption of the descriptive method approach in the report. Chapter 4 presents data presentation, discussion and interpretation of the result of the method used. Specifically, the results of surveys with questionnaires, interviews, and documentary analysis, are presented in this chapter. Finally, chapter 5 presents summary, conclusion and recommendations .

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Theoretical Framework

Management control system is the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organizations objectives (Anderson and Young, 1999). MCS is a system used in an organization which collects and uses information to evaluate the performance of the organizational resources that will eventually influence the behavior of the organization to implement organizational strategies. MCSs have the purpose of providing information useful in decision-making, planning and evaluation (Burns et al, 2007). The focus of MCS is not only on one form of control like performance measures but on multiple control systems working together (Widener, 1999). Simons (1999) argues that “MCS are the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities.

Whereas strategic control assesses the question whether the strategy chosen by the organization is valid, management control according to Miller and Le Breton (2005) addresses the question whether employees behave appropriately or not. MCS are therefore intended to help the organization to motivate employees to make decisions and to take actions which are in the organization’s best interest. MCS thus have two main purposes: providing information useful to management and helping to ensure viable patterns of employee behavior in order to achieve organizational objectives.

This part of the study attempts to present a brief theoretical framework, different research findings and views of different scholars which are one way or the other pertinent to the study. The review of related literature is organized in three interrelated sections. The first section setting the theoretical underpinnings of the study. Section two puts the empirical study Finally, the review of related literature ends with presentation of conclusions and knowledge gaps are presented in section conclusion.

This section deals about the theoretical framework supported by different authors regarding the MCS. It is composed of definition of MCS, strategic issue, budgeting system, cost accounting and service pricing, decision making, performance measurement, and rewards and compensation.

2.1.1. Operational Definition

Management Control System:- is the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organizations objectives (Anderson and Young, 1999).

Private Commercial Bank:- a bank owned by either an individual or a general partner(s) with limited partner(s)(Das. T, 1987)

Budgeting System is a quantitative expression of a plan for a defined period of time (Abernethy and Chua, 1996)

Performance Management:- is the management of activities which includes activities which ensure that goals are consistently being met in an effective and efficient manner (Juran, 1967)

Cost accounting is the process of costing summarizing and evaluating various alternative courses of action (Hy, 2001)

Service Pricing is the process whereby a firm sets the price at which it will give its services (Specle. R, 2001)

Compensation:- All of rewards earned by employees in return for their labour(Davila and Faster, 2005)

Benefits:-Non-wage compensations provided to employees in addition to their normal wages or salaries (Davila and Faster, 2005)

2.1.2. Management Control System

In aggregate, McNurlin and Sprague (2002) define MCS as it includes all the devices and systems managers use to ensure that the behaviors and decisions of their employees are consistent with the organization's objectives and strategies. Any system, such as planning, budgeting, responsibility centers, cost management, decision making, management control, performance measurement, and compensation categorized as MCS (Anderson and Young, 2002).

MCS also have many characteristics which influence their use. For example, management may be formal or informal (Marginson. D, 1999). In any case, the presence, use or absence of MCSs significantly influences the actions and decisions carried out within an organization (Anderson and Young, 2002). In addition; Gottfredson and Whalley (2006) expand the definition of MCS as the process by which managers of all levels ensure that the people they supervise implement their intended strategies. This definition, according to Baiman et al. (2005), reflects Anthony's

current views on MCSs, which have some continuity with his original approach, but abandon some elements like; management control is primarily a process for motivating and inspiring people to perform organization activities that will further the organization's goal. It is also a process for detecting and correcting unintentional performance errors and intentional irregularities, such as theft or misuse of resources (Kaplan, 1998).

In addition, the issue of MCS is explore in the form of relationships with regard to hierarchal level such as Strategy formulation, management control and task control have a distinct and ranked relationship. Management control fits between strategy formulation and task control in several respects. Strategy formulation focuses on the long run, task control focuses on short run operating activities, and management control is in between (Kaplan, 1998). Management control, hence, "rests very firmly in the domain of accounting" (Baiman etal, 2005).The dynamic interplay between planning and control processes is ignored (Marginson. D,1999). Until 1985, the research on MCSs had been widely developed in financial accounting, particularly conventional cost accounting and in behavioral and organizational accounting (Oliver, 1991).MCS have also been defined more generically as the systematic use of management accounting to achieve some goal, but also encompassing the use of other forms of control such as personal or cultural controls (Chenhall, 2004). Chenhall (2004, pp. 137-138) concluded that;

...it can be seen that a consistent stream of research over the past 20 years has confirmed that uncertainty has been associated with a need for more open, externally focused, non-financial styles of MCS. However, hostile and turbulent conditions appear, in the main, to be best served by a reliance on formal controls and an emphasis on budgets. The question may be posed, what is the appropriate MCS for organizations operating in conditions of uncertainty, turbulence and hostility?

Kaplan and Norton (1996, pp.1-15) pointed out a paradox: management control practices no longer provided information relevant for managers' planning and control decisions, while ironically "many senior managers began to believe they could run their firms 'by the numbers'".

MCS a logical integration of techniques to gather and use information to make planning and control decision, to motivate employees behavior, and to evaluate performance (Jaworsk and

Young, 1992). It is the process by which managers assure that resources are used effectively and efficiently in the accomplishment of the organization's objectives' - in other words control using both financial and non-financial objectives. It is specifically concerned with the process by which managers influence other members of the organization to implement the organizational strategies (Anderson and Young, 2002). It involves number of activities:

- ❖ Planning what the organization should do
- ❖ Coordinating the activities of several parts of the organization
- ❖ Communicating information
- ❖ Evaluating information

In the journal article of Saroj (2006) explore the ideas of different scholars regarding the MCS described in the following manner. A control system is a set of formal and informal systems that designed to asset management in steering the organization towards the achievement of its purpose by bringing unity out of the diverse efforts of subunits and individuals (Miller and Le Breton,2005). The formal system and informal system are independent but they are highly interrelated, indistinguishable, subdivision of control system.

I. Formal Control System:-Formal system makes possible the delegation of authority. Formal documentation of structure, policies, and procedures assist members of the organization in performing their duties (Widener.S, 1999). An effective set of formal control includes three major mechanism-operational plans, performance measurement systems, and feedback mechanism.

A. Operational Plans: Operational plans include the firm's annual master budget and related supporting work plans. They provide the linkage between senior management's strategic plans and the day-to-day organizational activities of each employee.

B. Performance Measurement: Performance measurement systems compile and report the result of the collective work activities on periodic basis. An effective performance measurement system presents both financial results and operating data on a responsibility basis.

C. Feedback Mechanism: Feedback mechanism reports the variances between actual and planned performance. The variance is communicated to managers and others within the organization periodically through various interim reports. Informal system requires management a mindset that differs from that required for formal controls. "Informally" refers to the flexibility to deal with any action beyond the documentary discipline and regulation. In this respect formally leads to a pattern of defined behaviors whereas informally leads to a pattern of interacting roles between two systems (Miller and Le Breton, 2005).

II. Informal Control System:-The informal control system consists of five components:

A. Informal Control Process: Under certain conditions and uncertainty, management will try to gather more and accurate information from the dynamic environment and adapt organizational goal. All these goal-directed actions are based on the experience and

B. Infrastructure: Infrastructure includes personal contacts and network. A personal contact is a model of communication within the organization that acts an efficient method to exchange ideas and information between different levels of the organization

C. Management Style and Culture: Management and culture represent the dominant way that the top management and whole organization have chosen to conduct their work.

D. Informal Rewards: Informal rewards are status oriented. Individual employees are rewarded not only in financial terms. The informal rewards are important because it encourages employees to carry out their job efficiently

E. Coordination and Integration: Coordination and integration is considered as interpersonal relationship, which can be changed and adapted to meet the needs of the organization members. Informal communication helps deeper discussion of sensitive issues in a softer and flexible environment.

The reward system is not so much the money; it is also the friendship and working relationship (Widener. S, 1999). The quality of work life is having work environment where an employee's activities become more important (Dechow and Mouristen J, 2005). It means implementing procedure that makes the work less routine and more rewarding for the employees. These procedures include autonomy, recognition, belongingness, progress and development, and

external rewards. The importance of MCS has been increased significantly in recent years (Laitinen. E, 2002). One indication of this growing importance is the impact of balance scorecard. The balance scorecard is a management system (not only measurement system) that enables organization to clarify their vision and strategy and translate them into action. The balance scorecard suggests that management views the organization from four perspectives, and to develop metrics, collect data and analyze it relative to each of these perspectives:

- i. The learning and growth perspective
- ii. The business process perspective
- iii. The customer perspective and
- iv. Financial perspective

The four perspective of the scorecard permit a balance between

- ❖ Short term and long term objectives
- ❖ External measures for shareholders and customers and internal measures of critical business process, innovation, and learning and growth
- ❖ Outcomes designed and the performance drives of those outcomes
- ❖ Hard objectives measures and softer, more subjective measures

In recent years a new financial theory-Economic Value Added (EVA) has been developed for the measurement of financial performance of a company (Spekle R, 2001). EVA is both a measure of value and also measure of performance. The value of a business depends on investor's expectation about the future profits of the enterprise. Stock prices track EVA far more closely than they track earning per share or return on equity. A sustained increase in EVA will bring an increase in the market value of the company. EVA is changing the way managers run their business. When business decisions are aligned with the interest of the shareholders, it is only a matter of time before these efforts are reflected in a higher stock price (Das. T, 1987). Environmental uncertainty may influence the effectiveness of goal setting, planning and control systems simultaneously. Since goals and planning have a close relationship with the control function, (Huy. Q, 2001), the different characteristics of goals and planning may influence the choice of control systems (Henri. J, 2006).

Finally, the researcher of this paper incorporates the proposed framework of Oliver (1991) so as to briefly study the procedure of MCSs. Oliver drew on the extant body of knowledge in the contingency theory of management accounting and on his personal experience in doing empirical research to inductively generate the framework. In essence, it highlights five central issues, which, he argues, need to be considered as part of the process of developing a coherent structure for performance management systems. It is important to recognize that this framework was intended to act as an aid to description rather than being prescriptive in nature.

The first area of Oliver's framework relates to the identification of the key organizational objectives and the processes and methods involved in assessing the level of achievement in each of these objectives. The second area relates to the process of formulating and implementing strategies and plans, as well as the performance measurement and evaluation processes associated with their implementation. The third aspect of the framework relates to the process of setting performance targets and the levels at which such targets are set. The fourth area of Oliver's framework draws attention to rewards systems used by organizations and to how these are influenced by achievement or failure to meet performance targets. The final key area of the framework is about the types of information streams required to provide adequate monitoring of performance and learning from experience.

Chenhall (2004) also supports this view by saying; Distinguishing official and operative goals would seem an essential aspect of MCS research that includes consideration of goals, mainly as it flags that the issue of organizational goals is far from unproblematic.

2.1.3. The Strategy and Management

In coping with the competitive forces, there are three potentially successful generic strategic approaches to outperforming other firms in an industry; overall cost leadership, differentiation and focus (Porter 1980).

According to Chenhall (2004, p. 13), strategy is *“defined as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals”*.

Marginson (1999, p. 207) states that, “*the MCS should be tailored explicitly to support the strategy of the business*”. For example, Young and Simon(2000) observe that strategy influences the method of accounting practices and techniques used. Kakabadse et al. (2002) explored that, a basic assumption in the strategic control literature is the need to form specific control practices with the company`s selected strategy.

Therefore, strategy is an important factor in the design and use of MCS. Accounting scholars have argued that MCS have to be modified in accordance with the strategy of a company (Simons 2000). Oliver(1991) notes that the strategy and objectives that a company decides to pursue represent a central contingency variable. Strategy is somewhat different from other contingency variables. In a sense it is not an element of context, rather it is the means whereby managers can influence technologies, the structural arrangements and the MCS (Chenhall 2004).

Mintzberg and Westley(1992) pointed that the strategy selected by the company will affect its MCS, meaning that different types of organizational plans and strategies will tend to cause different control system configurations. As per the scholar (Widener, 1999) suggest that there is an important link between strategy and MCS and that a congruent match of the two variables is essential to performance. According to performance measurement literature, the appropriate performance measurement system encourages actions that are congruent with organizational strategy (Simons, 2000).

2.1.4. Budgeting System

The concept of budget by the scholar Henri. J (2006) viewed and found that positive relations between emphases on pressure of managers and manager budgetary performance. While Huy. Q(2001) argued that too much budget emphasis would not only cause conflict and disagreement, but would also be ineffective.

2.1.5. Transaction-Cash and Cost Economics

The cost incurred at each department is helpful to determine the selling price of service and important to determine the profit of the company by determining the cost incurred at each cost center (Anderson and Young, 1999).Chenhall (2004) summarizes that strategies characterized by

conservatism, defender orientations and cost leadership are more associated with formal, traditional MCS focused on cost control, specific operating goals and budgets and rigid budget controls, than entrepreneurial and product differentiation strategies. Furthermore, low cost and differentiation strategies imply different managerial mindsets and involve different perspectives for the MCS. Companies that have adopted a low cost strategy use a set of measures to control costs and to compare the standard with actual costs. On the other hand, companies following a differentiation strategy develop other types of measures concerning quality and efficiency of promotional operations, etc.

2.1.6. Decentralization and Decision Making

As Simons (2000) noted, decision making refers to the improvement of decision processes through planning (setting performance and strategic goals and ensuring an adequate level and mix of resources) and coordination (integrating disparate parts of a business to achieve objectives).

2.1.7. Business Performance Management

According to Anderson and Young (2002) states that MCS comprises those performance measures or KPIs (key performance indicators) which enable top management to monitor organizational performance against important dimensions of a given strategy. Previously restricted to largely accounting-based measures, such as ROI(return on investment) and ROE (return on equity) , firms' performance measurement systems now often encompass a broad range of metrics, many of which are aimed at establishing minimum performance standards in key areas of the business. These include finance, customer service, internal operations, and innovation (Resti. A, 1997).

Simons (1995) argues that formal performance measurement systems may be used in either a diagnostic or interactive manner. The difference lies in the amount of personal attention they receive from top managers. Interactive control systems are systems which top managers use to involve themselves regularly and personally in the decision activities of subordinates (Simons, 1995). By contrast, diagnostic control systems operate simply as feedback or error- based controls, and are monitored by subordinates or staff personnel, such as the accounting function.

The purpose of interactive controls is to direct managers' attention towards current strategic uncertainties (Simons, 2000). The purpose of diagnostic control systems is to ensure the implementation of existing or intended strategies (Simons, 1995). From this viewpoint and also taking into account the recent developments of MCS, (Resti, A, 1997), the proposition is that the use of more comprehensive MCS practices and information results in improved company performance.

Chenhall (2004) states that measurement systems have to contribute to the implementation of the strategic orientations in guiding the action by ensuring short- and long-term performance evaluation. Therefore, strategy, actions and measures have to continuously work in harmony.

Looking for consistency between strategy-actions-measures implies the use of financial and non-financial performance measures. If quality and time become essential strategic criteria, financial performance measures are less effective to manage a company in the long run. This does not mean that accounting data are not useful, but they have to be complemented by nonfinancial performance measures.

Taylor, F (1941) measures its performance with respect to the key elements of its strategy. Therefore, it uses a strategic performance management system (Kakabadse, 2002). Taylor began implementing strategic performance management in the prospector period when it realized the importance of aligning all levers of control in the company, so that what is critical to the company's success is regularly evaluated and rewarded by using key performance indicators (KPIs). KPIs are used by top management to monitor organizational performance in key strategic areas, as defined by key processes in the company. In Taylor, managers consider KPIs once a week at the Management board meeting. In diagnostic control, managers use a management by-exception approach when discussing the reports at the weekly Management board meetings. As its Quality Assurance Director (Taylor, F, 1941) says: *"Reports contain explanations for KPIs variances and whether they present problems or not"*. Only problems (*i.e.* deviations) are discussed and appropriate actions taken. That the changes trigger revised action plans is reflected in the following Quality Assurance Director statement (Taylor, F, 1941): *"In the weekly meetings in which they discuss KPI for each organizational unit (sector), specific decisions are made about what actions we have to take in case of deviations"*. Based on observations, they argue that they have been using a strategic performance management

system systematically since 2002. Taylor's main performance indicator is value added per employee. This clearly shows that Taylor is focused on its future development and growth. Taylor uses balanced measurement systems as a means of communicating to their employees what is important and where the business is heading. Performance measurement systems assist managers in tracking the implementation of business strategy by comparing actual results against strategic goals and objectives (Simons, 2000).

A performance measurement framework proposed by Thatcher and Oliver (2001) reinforces the need for a greater internal accounting focus on stakeholder interests. They argue that stakeholder expectations should be taken into account when designing performance measurement approaches. In this context, managers should consider both a macro and micro perspective in relation to performance measurement information made available to stakeholders (Shank and Govindarajan, 1993). From a micro perspective appropriate management controls would need to be in place to help managers ensure that a business was operating in accordance with stakeholder expectations. In general performance measurement emphasizes goals and stakeholder expectations in the development of lower level control systems (Schein, 1992).

2.1.8. Talent Management, Compensation and Benefits

The compensation dimension has already been introduced by Simons (2000) (i.e. formula-based for diagnostic process and contribution-based for interactive process), though this dimension has rarely been explored in practice. One of the major conclusions with regard to Taylor (1941) strategy is that the leadership style is a very important determinant of Taylor's successful implementation of the strategy. She is very charismatic and capable of mobilizing employees towards achieving common goals. In literature, there are discussions about different types of leaders. When looking into the classification that distinguishes transactional and transformational leadership styles (Tichy and Sherman, 1994), they conclude that she is a true transformational leader with the following characteristics:

- ❖ She is a leader of innovation (Lambert, 1994).
- ❖ She creates new pathways in an organization (Modell. S, 2001).

- ❖ She motivates people to work for a new and greater good and to create change (Davila and Fester, 2005). She appeals to higher motivation and adds to the quality of life of the people and the organization. She uses authority and power to inspire and motivate people to trust and follow her example (Tichy and Sherman, 1994).
- ❖ She has energy-producing characteristics that generate new changes for the organization (Tichy and Sherman, 1994).
- ❖ She formulates an inspiring vision, facilitates the vision, and encourages short-term sacrifices and makes pursuing the vision a fulfilling venture (Anderson, 1995).

Miller and Le Berton (2005) state that Informal rewards are status oriented. Individual employees are rewarded not only in financial terms. The informal rewards are important because it encourages employees to carry out their job efficiently.

2.2. Empirical Evidences

This section deals with the empirical framework supported by different researchers regarding the management control system. It is composed of the practical application, methods adopted and findings of MCS, strategic issue, budgeting system, cost accounting and service pricing, decision making, performance measurement, and rewards and compensation.

2.2.1. Management Control System

According to Bisbe and Otley D (2004) using quantitative method helps to study the impact of service process type, business strategy and life cycle stage on MCSs. The scholars scope their efforts by investigating service organizations. Dimensions of MCS under investigation are action versus result control, formal versus informal control, tight versus loose control, restricted versus flexible control, impersonal versus interpersonal control, mass versus professional depicts the dimension of service process type. Dimensions of strategy are depicted by low or high emphasis on cost leadership strategy and a low or high emphasis on differentiation strategy. The dimension of life cycle stage is envisioned by growth versus mature stage. A high emphasize on a cost leadership strategy and a mature strategy is hypothesized to individually lead to forms of bureaucratic management control.

High emphasis on a differentiation strategy and a professional service process type are expected to lead to forms of non-bureaucratic management control. The hypotheses are based on the assumption that a certain strategy is always linked to management controls with a fixed set of characteristics. The argument is furthermore grounded in the notion that not all companies apply management controls to strategy have highest performance (Channell and Langfield-Smith 2013). The results provide support for three conclusions: (i) with regard to the service process type results indicate that mass service organizations apply more bureaucratic management controls than professional service organizations, (ii) cost leaders apply more bureaucratic management controls than differentiators, and (iii) for the life cycle stage the results indicate that organizations in the mature stage of their life cycle apply more bureaucratic management controls than organizations in the growth stage of their life cycle.

2.2.2. Strategic Planning and Management

According to Saroj (2006) using quantitative method study with descriptive statistics, the findings of the generic strategy of Nepalese commercial banks has been divided for two main areas of business: deposit and lending. The different branches of the same commercial banks at the different geographical location are adapting different strategy. Around fifty two percent branches of commercial banks are concentrating on differentiation strategy and 47.4percent are following focus strategy to attract the depositors. In case of lending, majority of branches (52.6 percent) of such banks are adapting differentiation strategy followed by focus (42.1 percent) and cost leadership (5.3 percent).

According to Das T(1987) using qualitative methods study, the company called Electra results from the merger in 2001 of four competitors which were established in the 1920s. According to the results from interviewees (Holding management controller, Electra's director, and Tertiary director), the main strategic issue at that time was to conquer the market. The volume strategy was dominant, while the profit was nearly ignored. Moreover, both for motivation and for commercial reasons, the choice had been made to keep the historic brand names of the different companies, often considered as their precious goodwill.

According to Mintzberg etal (1982) implications of MCS in the formulation, implementation and monitoring of strategies were investigated. Ideally, the role of strategy is dynamic, involving

managers in continually assessing the way combinations of environmental conditions, technologies and structures enhance performance. MCS has the potential to aid managers in this process by assisting them in formulating a strategy related to markets and products, required technologies and appropriate structures. This study's basic conclusion is that MCS influence the implementation and monitoring of strategies, providing feedback for learning and information to be used interactively to formulate strategy further. Few studies in MCS have investigated these issues (Simons, 1995, 2000), rather, most have been restricted to identifying MCS that are appropriate for different strategic models (Chenhall 2004). Therefore, the findings of the paper fill this void. This study upgrades the existing theory in that it not just establishes a relationship between contextual (in our case strategy) and MCS variables, but also considers how this relationship impacts organizational performance. The research shows that the combination of performance-driven behavior and regular use of MCS leads to improved results.

Directions for future research stem from the paper's findings as well as from missed opportunities that indicate opportunities for future research. It would be worthwhile to conduct a longitudinal study on a wider sample of companies to study how and why they change their strategic orientation and the use of MCS and how this has impacted their decision-making, actions and performance management. This study can combine case-study as well as survey methods. The advantage of the present study is that it provides an impetus for future researchers to address these issues and to move beyond existing models of control and begin to systematically explore the different roles served by accounting in the management of change. According to Kaplan(1998) using mixed methods study of several findings emerge from the study. First, the control packages of the business units were found to be virtually akin to each other but, however, equally functional in the face of different contingencies. Second, the packages seemed to rely more on informal and "organic" controls as opposed to formal and "mechanistic" controls. Third, whilst cultural controls were argued to provide a contextual frame for other controls, reward and compensation controls were asserted to remain relatively separate from other package elements. Planning, cybernetic, and administrative controls, on the other hand, appeared to be tightly linked in practice. Finally, the business units' MCSs packages were argued to be of assistance in fostering organizational ambidexterity.

According to Simon R (2000), using Mixed methods of study for achieving the objective of MCS in small business context found that strategic-oriented information relating to long-run planning, monitoring of external environment, more sophisticated cost accounting as well as capital budgeting practices (i.e. capital investment calculations and analyses, long-run budgets, market surveys and analyses, scenarios and forecasts relating to strategies, innovations and environment, ABC (Activity based costing), target costing, customer costing, life-cycle costing) are not so commonly adopted, even though over 50% of firms state that they are involved somehow in that kind of planning and analyses. These kinds of lower adoption rates are also in line with the findings of Laitinen (2002) on the adoption and use of sophisticated costing techniques in technology firms. While there are numerous business strategies, Langfield-Smith (1997) suggests that there are only two primary business strategies: firstly, business strategy A (harvest, cost leadership and defender) and secondly business strategy B (build, differentiation and prospector). Business strategy research aims to identify the MCSs that fit (or match) these two business strategies (or at least one component of each business strategy). These findings highlight two relationships between business strategy and MCSs. The reliability of these findings is questionable because the studies used to compile these findings were based on qualitative and quantitative research methods, carried out in different time periods and conducted in different countries. As a result, Oliver(1991) advocate that studies should examine organizations holistically that are simultaneously examine the three aspects of business strategy, multiple MCSs categories, and performance.

According to the findings of Henri J (2006) shows that the classification of the business strategy of the acquired companies just before the acquisition and after it indicates, there were differences, though relatively minor, in the overall average scores of the four business units. However, both interview and the archival data showed significant differences in the business strategies of the four firms. In view of the differences in the quantitative and qualitative data, additional interviews were conducted to gain a better understanding of the empirical manifestations of the variable under study. The additional interviews showed tended to underestimate the differences between the firms with a differentiation strategy and those with a cost-leadership strategy.

2.2.3. Budgeting System

Abernethy and Burns J (2000) study the moderating role of style of budget use on the relation between strategic change and performance. The intensive role of accounting practices during strategic organizational changes is explored. Based on the recognition accounting as a vehicle for interaction and learning, the researchers hypothesize a reduction of disruptive performance effects caused by organizational changes of budgeting is used interactively. The theoretical assumption is that when people interact by discussing budgets, they create a shared vision which in turn can improve performance. Survey data is obtained from 63 Australian hospitals. In order to support the hypothesis, analysis should show that organizations with a greater emphasis on interactive use of budgets perform better. The construct of strategic change is operationalized using the definitions of strategy introduced by Mintzberg and Westley(1992). Styles of budget use are classified according to Simons (2000) budget system use classification. Multiple dimensions of all three constructs are measured.

The analysis reveals that style of budget use in a moderating factor of the relation between strategic change and performance. This leads to the conclusion that the relation between strategic change and performance is more positive when the style of budget use is interactive compared to when it is diagnostic.

According to the scholar Huy Q(2001) using quantitative study method the result of budget that there is positive relations between emphasis (on pressure of managers) and managers' budgetary performance whereas Henri J (2006) using similar method that is quantitative argued that too much budget emphasis would not only cause disagreement and conflict, but would also be ineffective. In fact, although a number of debates on the impacts of top managers' involvement on organization performance have been initiated a long time ago, the results are often contradictory (Baiman et al, 1990).

2.2.4. Cost Accounting and Service Pricing

According to Simon (2000), using mixed methods of study to achieve the objective of MCS in small business context, found that practices and information relating more to contribution

margin ,quality improvement analyses, profitability and satisfaction analyses of customers, efficiency of production, project follow-ups, budgets and variance analysis) seem to be moderate adopted (81%–89% of firms). These results on budgeting and quality issues differ from the findings of Reid & Speckle (2001), who report lower adoption rates on these kinds of practices in small micro firms in the UK. However, these results are quite comparable to Laitinen (2002) on small technology firms. Furthermore, variable costing seems to have still a strong position in Finnish firms. Rockness and Shields (1988) presented ten case studies of companies and found there was limited evidence that strategic management accounting techniques, such as attribute costing, strategic cost analysis, and lifecycle costing were being used or understood by managers.

2.2.5. Organizational Decision Making and Objectives

According to Henri et.al (2006) qualitative methods study to achieve MCS in Energyco plays an important role in several steps of the decision process. First it appears to have assisted in the identification and clarification of problems. Simons (2000) argues that the first step in the decision process is extremely important to understand because some issues may be given full attention while others are neglected. Also, the quality of the solution can often depend on the way in which a problem is represented. Because the MCS includes information on leading and lagging indicators, potential problems can be identified early on and managed proactively; rather than after already experiencing financial troubles, for instance. The MCS has helped to overcome a firefighting style of dealing with strategic issues and appears to have allowed a more systematic method for making decisions to solve them. The theme in the following quote was echoed by all three members of the Executive Team interviewed, and similar responses were given by the general managers and regional general managers regarding their role.

Another issue in decision making is also the limits to rationality, due to complexity and incomplete information (Simon 1995). The MCS presents a much wider scope of information on aspects of Energy performance, and allows managers to consider the impact of a decision on more than one area.

The final point is that the MCS led to a balancing process when making decisions, and this appears to be its strength in overcoming the conflict between multiple objectives. It has done this

formally by providing the framework for Board and Executive level discussions, and presents the information in a way which shows the potential impact of decisions on all strategic objectives. It has also played an informal role as it has in a sense engrained the values of the organization in the minds of those decision makers.

2.2.6. Performance Measurement

The researcher, Saroj (2006), using quantitative method study with descriptive statistics by taking a variable Performance Measurement found that all commercial banks in Nepal by comparing actual performance with predetermined target of their branches showed that 65.4 percent respondents feel their actual performance is compared with predetermined target and remaining do not know whether their actual performance is compared with standard or not. The managers of different commercial banks still desire to evaluate the performance of their banks and branches on the basis of net profit margin. After net profit margin they tend to support ROE, ROI, EVA and others (including the degree of Non-performing assets/NPA) respectively.

Mensah and Li (1993) describe a case study using qualitative and quantitative approaches at a large U.S. equipment manufacturer, focusing on efforts of the organization to model drivers for performance of its distribution system. To this end a framework of performance measurement attributes, based on prior research is created. Eight desirable attributes of performance measures are identified; diverse and complementary, objective and accurate, informative, more beneficial than costly, causally related, strategic communication devices, incentives for improvement, and supportive of improved decisions(Mensah and Li, 1993). The study is structured around four research questions, addressing the role of measure attributes and their relations to management control and strategy. Empirical data for qualitative analysis is collected through interviewees, company documents and performance data. Company documents serve as data for quantitative analysis. Results of the study indicate that adoption of performance measures depends on the organizations strategic orientation, as it influences the importance of individual attributes. The study reveals that the organization adopting a conservative strategy only abandon a performance measure that fits the strategy when it has an abundant amount of negative attributes.

The findings of Saroj (2006) using quantitative methods of study through descriptive statistics explored that the degree of competition in Nepalese commercial banking sector is very high. The

majority (76.9 percent) managers of the branches of the commercial banks of Nepal feel intense competition. The commercial banks of Nepal are competing mainly on service followed by the cost and other factors respectively.

2.2.7. Compensation and Rewards

According to the findings of Saroj (2006) by applying quantitative methods of study show that the compensation and rewards such as salary/benefit/promotion given to Nepalese commercial banking sector, is mostly determined by performance followed by education, experience, relationship, and other factors respectively. Regarding additional benefit for better performance (performance higher than the standard), 53.8 percent responded they get additional benefit for better performance. Seventeen percent respondents say they don't get any additional benefit for better performance and 28.2 percent did not provide any comment on this dimension. Majority of commercial banks are providing bonus to their employees out of profit. The amount of bonus is based on the amount of salary the employees are getting. It indicates that the bonus is not based on the outstanding performance of an employee or a group of employees.

Side by side the bank encourages employees to learn new skills. As per the researcher, at present all commercial banks are encouraging their employees to discharge better performance and enhance educational qualification and attain trainings. It is supported by the response provided by managers and employees of such commercial banks. The majority of employees (77.3 percent) working in Nepalese commercial banks responded that they generally get leave/deputation sanctioned from their bank to attain training related to their job. It also supports that the commercial banks are encouraging employees to learn new skill and knowledge.

From the finding of Das T (1987) by using qualitative methods of study and purposive sampling technique, the result of compensation systems were purely objective- and formula- based. The delegation directors and profit center managers had an annual bonus equally based on their annual sales and margins. A bonus was given when the performance was above 100 percent of the targets and was maximum when 120 percent of the targets were achieved. The targets were based on those inscribed in the annual budget.

2.3. Conclusion and Knowledge Gaps

Banking industry is high-risk business but not necessarily high profit industry. It is quite difficult to manage risk and return in banking industry. The internal management system in some of the private commercial banks of Ethiopia is inebriated from traditional management system. The pyramid shape organizational structure of some banks caused adverse effect in their business development. In any institution human resources, which is not listed in balance sheet but very important intangible assets Modern economy entered into information age. Competitive business environment in banking industry also caused lateral movement of human resources (Saroj, 2006). The traditional management theory could not completely fit the operational environment in private banking business in Ethiopia. In this context, this paper attempts to find some hints from the well-developed theory to get some new ideas.

The accounting literature emphasizes the role of MCS as an organizational mechanism that supports strategic change (Simons, 1995), but empirical studies have not addressed the way in which management uses the MCS to engage in strategic change directly. A reason for this lack of evidence is that studies on the MCS-strategy relationship have typically modeled strategy as a determinant of management accounting system, rather than as consequence of the management accounting system (Mintzberg and Westley, 1992). However, McNurlin and Sprague (2002) point out that management accounting is not easily classified as only a dependent or only an independent variable – it tends to be implicated in a more complex way in the unfolding of events as both cause and effect of changes.

So far various researchers tried to examine on this particular topic. However, there is a gap in the literature due to the absence of studies, specifically in the Ethiopian context, of the application of MCS. In order to fill the identified gap knowledge concerning the application of MCS in general, and in particular concerning study of major management control component not studied yet together with the specified topic, the researcher tried to undertake the study to replicate knowledge by using descriptive methods of study which the previous researcher Saroj (2006) only considers qualitative method and provide additional information by considering of the missed components MCS not studied together with the topic by the previous researcher so as to increase the level of understanding about the application of MCS here in Ethiopia by focusing private commercial banks which is operated in Ethiopia specifically functioned at AA.

2.3.1. Conceptual Framework

The purpose of this paper is to assess the MCS practices in the EPCBs. From the conceptual point of view, the researcher noted from the theoretical and empirical underpinnings of the above literature review section, MCS uses different techniques, such as:

- ❖ Strategic planning
- ❖ Activity based costing
- ❖ Budgeting
- ❖ JIT
- ❖ Kaizen
- ❖ Target costing
- ❖ Total quality management, etc...

Having the above general techniques of MCS, the researcher used:

- i. Planning and controlling systems
- ii. Budgeting systems
- iii. Cost accounting and service pricing
- iv. Decision making procedures
- v. Performance measurement
- vi. Compensation systems

Techniques to assess the application of MCS in the selected Private Commercial Banks of Ethiopia

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. Introduction

Research methodology is the philosophy or general principle which will guide the research (Marginson D, 2002) whereas decisions regarding what, where, when, how much, by what means concerning an inquiry or a research study constitute a research design (Kaplan, 1998). Thus, the preceding chapter has indicated that the literature on major components of MCS under the perspective of theoretical starting point, empirical evidence and knowledge gaps. Specifically from developing countries' perspective, Ethiopia in particular, it has been shown that there is no comprehensive study on the application of MCS with regard to private commercial banking sector.

3.2. Research Design

In order to achieve the main objective of this research, descriptive method of study used. The purpose of using this method was the researcher believed that by adopting survey study pertinent and precise information regarding the study could be obtained. To address the application of MCS in PBEs, survey with semi-structured interview and questionnaires mostly adopted from Simon R(2000) were employed.

This method was selected on the assumption that it helps to gather enough information on the issue under study. According to Kaplan and Norton(1996) survey method is more effective to investigate the phenomena in assessing the performance in the natural setting. In addition, it is used to obtain pertinent and precise information regarding the study subject. A survey design provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population. Thus, the survey research method was applied to express the current phenomenon of a situation and give prediction depending on the findings of the research. In addition, surveys gather data at a particular point in time with the intention of describing the nature of existing conditions, or identifying standards against which existing conditions can be compared, or determining the relationships that exist between specific events (Merchant K et al. 1997, p.169). The survey is, thus, cross-sectional, with the data collected at one point in time due to the time allotted for the research. However, the inclusion of semi-structured interview was to gather information about the views of bank Managers and officials from selected Private commercial Banks of Ethiopia.

3.3. Population of the Study

The study was undertaken in nine different private commercial banks that joined the industry in a relatively different time and operating for more than two years. According to the data gathered from NBE's website (<http://www.nbe.gov.et>), currently Ethiopian Private Commercial banks hold a total of 33,245 employees in the banking arena in the territory of Ethiopia. Even if there are branch offices at regional and district level, the researcher focused on the area of private commercial banks which are currently operating in Addis Ababa.

3.4. Sample Size and Sampling Technique

There are several ways in which potential participants can be selected for inclusion in a research study. The manner in which participants are selected is determined by several factors, including the research question being investigated, the research design being used, and the availability of appropriate numbers and types of study participants (Windolph and Moeller, 2012)

Merchant K (1982) support that sample of over 200 respondents in a survey study is likely to give an acceptable degree of accuracy. Also, systematic sampling technique permits analysis of possible selection bias or error (Shank and Govindarajan, 1993). As of 2016, there are eighteen commercial banks in Ethiopia including Commercial Bank of Ethiopia (<http://www.nbe.gov.et>). Accordingly, the researcher categorized the private commercial banks as A, B and C for the study based on their establishment date to be categorized as eldest, older and youngest respectively. Hence, those banks which are categorized as letter A are Awash, Abyssinya, Dashen, NIB, United and Wogagen; as letter B are Cooperation Bank of Oromia, Lion, Bunna, Oromia International Bank and Zemen; and as letter C are Berhan, Abay, Addis, Dehub Global, and Enat. From each category, the researcher selected three banks using random sampling method. Hence, nine banks (Abyssinya, Dashen, United, Cooperation Bank of Oromia, Lion, Oromia International Bank, Addis, Dehub Global, and Enat) selected in the study. Then, having the current total number of employees in the private banks, the researcher applied stratified sampling technique to obtain the required sample size which is 270. Thus, the researcher take 30 samples from each bank in the under the study giving equal chance for the selected six departments (which mainly focus Corporate planning and development, senior risk management advisor, controller, loan /credit department, human resources and logistics, finance department), hence five samples collected from each department from the banks. Whereas, purposive sampling

interviews also conducted with the bank Managers and officers in order to grasp important information that may not be fully secure through questionnaire. Secondary data gathered from various documents, brushers, annual reports, directives, and various books written on issues related to the topic.

3.5. Types of Data and Tools of Data Collection

To obtain concerning the application of MCS, the researcher employed both primary and secondary data sources for the study. The primary data were collected through questionnaires by setting self-administered question in person and semi-structured interview. Questionnaires were administered to employees, officers and managers of each bank. Semi-structured interviews were also be conducted with the bank Managers and officers in order to grasp important information that may not be fully secure through questionnaire. Secondary data were gathered from various documents, brushers, annual reports, directives, and various books written on issues related to the topic.

3.6. Method of Data Collection

With regards to instrument for data collection, the researcher used questionnaires, secondary data record review to collect manuals, annual reports, directives, policies and records of various training programs and Key Informants Interview (KII) to collect relevant data from managers of the banks. Semi-structured interview was used for shaping the procedure of other data collection methods.

Thus, questionnaire used as the main instruments to collect data from the three categories of private commercial banks(A, B and C) and used closed and open ended with contents of questions measuring several constraints: Assessment of MCS in the Private Banking industry of Ethiopia. Closed ended questions included to shape the information in the way that researcher needs, but if all be open ended the researcher may deviate his idea towards the response of the respondents without touching the objectives. The researcher preferred questionnaire to the other methods of data collections was that it may provide an opportunity for obtaining reliable and valid information from more number of respondents. Semi-structured interview is important to obtain information with regard to issues that required clarification such as directives, annual reports, policies and records of various training programs and vital information that maqy not applicable to be accessed using questionnaires; and it is collected concurrently with the time

of collection of the questionnaire. To increase the clarity of the questions for respondents understanding and to ensure the appropriateness of the item, a pilot study was carried out on employees of the banks.

Accordingly, the for the pilot test questionnaires were distributed to 9 respondents one from each of the selected private commercial banks in the study and check the understanding of the respondents for each question. Therefore, the feed back to the item regarding the prevailing situations of the study found to be very important to the validity of the questionnaires for the study. The items in the questionnaires grouped in to two parts. The first part contains question items related to respondent's characteristics and the second part comprises of variables related to the study. After the sample has been identified, the first contact is made with the administrative affairs head of the private commercial banks. Then, with the necessary permission, the researcher contacted list of employees including manager of the bank and department officer. In the second round activity, pilot test was conducted to enhance the transparency of the questions for the study and lastly, questionnaires were distributed to the respondents of sampled areas as it is mentioned in 3.4., five questionnaires for each of the six identified departments in every bank under the study.

3.7. Method of Data Analysis and Presentation

Based on the nature of the data collected through questionnaires and interview, the following procedures and statistical tools employed. Data was checked for consistency and completeness on daily basis then data was coded, checked, and entered to computer. Finally, it was processed and analyzed by Statistical Package for Social Sciences (SPSS) version 20 for windows. To analyze the data, different kinds of statistical methods including descriptive statistics was used. Furthermore, descriptions were made based on the results of the tables and figures using mean value, percentage, rank order and standard deviation. The data collected through interviews and documents were analyzed qualitatively by descriptive statements. The results that were obtained from the interviews used concurrently to strengthen the analysis of the questionnaires.

According to Merchant K (1982) using descriptive survey method helps the researcher in picturing the existing situation and allows relevant information using appropriate data collecting instrument. Finally, the result of descriptive study were presented by appropriate figures and tables.

CHAPTER FOUR

DATA PRESENTATION, INTERPRETATION AND ANALYSIS

4.1 Introduction

This chapter deals with the data presentation, interpretation and analysis of the study. It has two parts. The first is background of the respondents and the second part is about the major components and its application of MCS and barriers to use MCS.

To achieve its objectives a total of 270 questionnaires were prepared and distributed to officials of Ethiopia Private Commercial Banks. Out of these questionnaires 235 were filled and returned. The rest 35 questionnaires were unreturned. Therefore, the rest 235 questionnaires were valuable for further analysis. All bank managers interviewed and hence their responses taken as supporting ideas under the interpretations of questionnaires pertaining to MCS.

To analyze the survey data, the researcher used descriptive method and the paper analyzed by descriptive statistics such as frequencies, percentages, mean value, standard deviation, weighted value and rank.

4.2. Background of the Respondents

From the data collected and tabulated, the following significant characteristics of respondents have been obtained. It gives some basic information about the sample population.

Table 4.1: Characteristics of the respondents

Variable	Variable categories	Frequency	Percentages
Sex	Male	152	64.48%
	Female	83	35.52%
	Total	235	100%
Age	<25	21	8.74
	25-35	126	53.56
	36-50	85	36.06
	>50	3	1.64
	Total	235	100
Educational Background	Grade 10/12 complete	0	0
	Diploma holder	26	10.93
	Degree holder	204	86.89
	Masters holder and above	5	2.18
	Total	235	100

Source: Own computation, 2016.

As displayed in table 4.1 above, 152(64.48%) of the respondents are male, 126 (53.56%) are between 25 and 35 years of age, and 204(89%) of them are having first degree and above.

4.3. Questions Pertains to MCS

This section merely deals with the following basic elements of MCS such as; strategy and management, strategic Planning and Management, budgeting system, cost accounting and service pricing, decision making; PM and compensation and benefit plan practice of Ethiopian Private Commercial Banks.

4.3.1. Planning and Controlling Practice

Regarding the planning and controlling practice related to the monthly or quarterly income statement of Ethiopia Private Commercial Banks(EPCBs), around 91(38.8%) of the respondents revealed that the banks systematically use planning and controlling practice as their normal operation. Another 90 (38.3%) of the respondents confirmed that the banks plan and control monthly or quarterly income statements `at times`. Whereas, some 45(19.1%) and 8(3.8%) indicated that the banks plan and control their monthly or quarterly income statements `quite often` and `very seldom`, respectively. Finally, only 1(0.5%) of the respondents reported that the practice of planning and controlling monthly or quarterly income statement is not used at all.

The following table summarizes the planning and practices of the EPCBs regarding monthly or quarterly income statements, working capital and its parts, cash flow statements and branch reports and operations

Table 4.2: Planning and controlling practice of EPCBs

The bank plans and controls	Choice item	Frequency	Percent	Cumulative Percent
Monthly or quarterly income statements	NU	1	0.5	0.5
	VS	8	3.38	3.8
	AT	90	38.3	42.1
	QO	45	19.1	61.2
	S	91	38.8	100
	Total	235	100	
Working capital and its parts (deposits with banks; customer, demand, and saving deposits)	NU	-	-	-
	VS	9	3.8	3.8
	AT	31	13.1	16.9
	QO	105	44.8	61.7
	S	90	38.3	100
	Total	235	100	
Cash flow statement of the financial year describing sources and uses of earnings and capital	NU	3	1.1	1.1
	VS	5	2.2	3.3
	AT	46	19.7	23.0
	QO	77	32.8	55.7
	S	104	44.3	100
	Total	235	100	
Branch reports and operation	NU	-	-	-
	VS	1	0.5	0.5
	AT	45	19.1	19.7
	QO	76	32.2	51.9
	S	113	48.1	100
	Total	235	100	

Source: Own computation, 2016.

Referring to planning and controlling practices that pertains to working capital and its parts like deposit with banks (customer, demand and saving deposits), 105(44.8%) of the respondents disclosed that the practice is used 'quite often'. Some 90 (38.3%) of the respondents indicated that the practice of planning and controlling activities related to working capital and its parts is made 'systematically'. On the other hand, 31(13.1%) and 9(3.8%) of the respondents asserted that the practice is made 'at times' and 'very seldom', respectively.

As shown in table 4.2 above, there is no bank where the planning and controlling practice with regard to working capital and its parts is not implemented or used. Even, Access Capital in the article of banking sector review 2010 reported that there is a growth of deposits as it is compared to the year 2009. This shows that banks run and facilitate their deposit so as to achieve their target. As per the report of Access Capital, the current year deposit growth rate of 28 percent is not much lower than the average annual deposit growth rate seen in the past five years (which 31 percent). Given the lending restrictions imposed by the central bank during the year, the increase in banks' lending was of course not as fast as the growth of deposits but still managed to rise by 21 percent (from Birr 17.7 billion to 21.4 billion).

With respect to the planning and controlling practice of EPCBs in line with the cash flow statement, which mainly describes sources and uses, the respondents disclosed their attitude. Accordingly, 104(44.3 %) of the respondents said that the planning and control practice in the banks arena for cash inflow and outflow is used 'systematically' as a normal routines. Another 77 (32.8%) of the respondents confirmed that the practice is used 'quite often'. Whereas, 46(19.7%) and 8(3.3%) of the respondents reported that the planning and control practice with respect to cash inflows and cash outflows is applied 'at times', and 'very seldom', respectively.

Regarding branch reports and operations, under the perspective of planning and controlling during a financial year of the banks, even if each of EPCBs head offices are placed in the capital ,A.A, there are operations of the banking activities at branch levels out of A.A. Here with respondents' description in planning and control practice of the branch reports and operations summarized in the above table 4.2.

As it is displayed on the above table 4.2, regarding the planning and controlling practice of branch reports and operations, the majority of the respondents 113 (48.1%) revealed that follow-up and forecast is applicable as a normal routines, 76 (32.2%) used 'quite often', 45 (19.1%) used 'at times' and only 1 (0.5%)used ' very seldom' . It is very clear that the choice item 'not used' is not selected by any of the respondents.

To sum up, the planning and controlling practice of EPCBs is described by average of the listed questions for it and revealed that the range lies between 1.50 to 4.00 (i.e. from ' very seldom' to 'systematically'). But the average results of the variable (i.e. planning and controlling) shows

that more than 'quite often' which is mean value of 3.1366. The standard deviation of the result 64.66% shows that the variation of the actual values from the mean. This explanation is supported with the following table.

Table 4.3: Bank Plan and Control practice of EPCBs

Variable	No.	Minimum	Maximum	Mean	Std. Deviation
Bank Plan and Control	235	1.50	4.00	3.1366	0.64657

Source: Own computation, 2016.

4.3.2. Generic Strategy of Ethiopian Private Commercial Banks

A discussion with the respective banks managers shows that the generic strategy of EPCBs has been divided for two main areas of business: deposit and lending. Even if these are the prominent strategy for the banks, their application of it varies from area to area so as to increase the market share. The issue is further elaborated on table 4.4 as follows.

Table 4.4: The Range which the Banks are using Generic Strategy

Criteria	NU	VS	AT	QO	S	Total	Weighted value (Likert's Scale)	Mean	Rank
Differentiation Strategy	15	35	48	62	75	235	664	3.63	1
Focus Strategy	8	23	120	53	31	235	608	3.32	3
Cost leadership strategy	9	39	81	69	37	235	617	3.37	2

Source: Own computation, 2016.

Even if the banks are applying the strategies, the degree or rank of using within it varies. As per the information obtained from the respondents, differentiation strategy is ranked as first with a mean value of 3.63. Cost leadership strategy placed in the second rank and followed by focus strategy. The researcher noted that differentiation strategy is implemented in line with providing unique service to their customers. This is also supported by the interview with the officials of the bank. According to the interviewees, since the directives and policies are given by NBE, all banks apply the interest rate fixed by this central bank. Hence, in order for the banks to have large number of customer and penetrate the market (i.e. higher market share) the banks solely

use different strategies such as providing unique service for instance withdrawal of the telegraphic transfer from any of the bank's branches. This enables customers to withdraw the money in the nearby branch. In addition to differentiation strategy, the EPCBs use focus strategy so as to specialize in one of the major activities such as lending. In this respect, the interviewee added that even if banks are operated under the supervision of the central bank of Ethiopia (NBE), for instance, there is a ground rule which is similar across the banks. Therefore, currently private commercial banks attract customers mainly through their internal management system. One of the interviewees said that even if the regulation or policies usually offered and ordered by the ultimate power of NBE, the banks have a room to provide low cost service by intensively considering the organizational structure. This means that the bank can be able to provide service at low service charge if and only if the unnecessary activities and bureaucracy is removed.

Table 4.5: Strategic Planning and Management with respect to Analysis

Criteria	NU	VS	AT	QO	S	Total	Weighted value (Likert's Scale)	Mean	Rank
Benchmarking reports & analysis	10	53	65	72	35	235	602	3.29	3
Market share analysis & forecasts	10	51	59	74	41	235	614	3.35	2
Competitor analysis & forecasts	15	58	78	69	15	235	558	3.05	5
Customer analysis & forecasts	15	80	54	58	28	235	552	3.02	6
Personnel analysis (performance, satisfaction)	13	42	81	72	27	235	594	3.25	4
Analysis of business strengths & weaknesses	8	27	104	63	33	235	617	3.37	1

Source: Own computation, 2016.

Table 4.5 shows that weights of MCS with respect to their rank. It is very clear that the EPCBs make the analysis of business strengths and weaknesses with a mean value of 3.37 as the prior

activities among the alternatives, which is ranked as first. This is immediately followed by market share analysis and forecasts with a mean score of 3.35. That means, the EPCBs make market share analysis so as to obtain competitive advantage. Even the interviewees said that market share analysis is usually made by the bank in order to know their status. This idea is supported by Access Capital, which ranks the market share of Ethiopian banks with the parameter of deposits, loans, average assets, average equity and profit. This enables to work ahead to best of the bank in territory of Ethiopia as well as abroad.

The third rank; which the input of the respondent given value from the alternatives is benchmarking report and analysis, which score a mean value of 3.29. This means that the banks which operated in Ethiopia benchmarks reports and further procedure from the existing as well as from banks abroad. The value also shows that there is frequent benchmarking of reports analysis so as to have better performance and understanding the working arena. Even a discussion with the manager of the control department in one of the recently established private banks revealed that there is consistent frame of report among the banks. In addition, the working procedures; including the structure of the departments are similar across the banks.

This shows evidence that the banks benchmark among themselves and there is also clear evidence under article 8 of Proclamation No. 592/2008 of banking business proclamation that the National Bank shall, in its annual report, publish the list of licensed banks. It shall also publish, in newspapers of wide circulation, any additions to or cancellation from the said list. The above explanation further supported by Directive No. SBB/21/96. Reports shall be submitted to the Supervision Department of the NBE within twenty days after the end of the period for which the data are reported except the reserve and liquidity requirement reports which shall be submitted in accordance with Directives No. SBB/14/96 & SBB/15/96, respectively, in the form and manner as given by NBE. This Directive shall enter into force as of 20th day of November 1996. This further elaborates that each and every bank should report their financial statement according to the frame or guidelines given by the central bank of Ethiopia (NBE).

The fourth item with its mean value of 3.25 is personnel analysis. In this respect, the banks are playing in its role to evaluate their employees' performance as well as their satisfaction. From the input of the respondent, the analysis with regard to personnel is the usual practice of the EPCBs. The interviewee with one of private Bank's manager said that banks evaluate their

employees' performance using different parameters such as discipline, cope up with the new issue, capability and interest to work with. Even the annual reports of the majority of sample CBs ascertain state the fact that the Banks sustainable growth is very much dependent on its human capital. It has been successful in providing various in-house and external trainings to a considerable number of staff, with a wide range of capacities through continuous human resource development programs. Making good use of the educational assistance given by the Banks so as to increase their performance and rely on the bank. This and other rewards in the banks are usually given to the employees based on their year of experience in the banks.

In line with the competitor analysis and forecasts, the EPCBs are playing pivotal role in achieving its competitive advantage since similar privileges and rule is given to all banks by the NBE. To support this idea, article 6 of Proclamation No. 592/2008 states that fulfill, before commencing operation, sound information management and internal control systems, risk management policies and procedures, and human resource organization and such other essential obligations to carryout banking business as determined by the directive to be issued by the National Bank. This enables the bank to use different means to address their service to the targeted customer. One of the managers in the respective EPCBs favored this idea and clearly stated during the interviewee that the existing and the upcoming banks use different strategy to attract their customers. This means that even if different regulations and rules were set by NBE, so as to stay in the market the specific strategies for which each bank follows may vary. In the competition environment, it is simple and clear to make competitor analysis and forecasts so as to achieve competitive advantage by having unique skill and resources (such as new technology which is not in the hand of others).

The last criterion under strategic planning and management is customer analyses, which score a mean value of 3.02. This means that EPCBs make analysis to know about their customer satisfaction and behavior as well in the range of at times. In line with this issue the interviewees in one of the respective EPCB branch manager, explore that there is suggestion box to hear and apply the comments and feedback given by the customer; and all the banks operated in Ethiopia believe that customers are king. They also further pointed out that in order to have a large market share, the level of customer satisfaction and their behavior should be intensively analyzed and the summary of the comments given by the customers should also be put in to practice.

Based on table 4.5, banks, on average, are using a total of 6 assorted MCS practices, at least sometimes` if not even `very often` or `systematically` integrated into their normal routines (mean value of 2 or greater). All listed items which results mean value of 3 and above. From this point of view, these results indicate that banks have included in their MCS also several other practices than only traditional financial accounting – like statutory annual accounts and are also using them fairly regularly.

The usage rates alongside the adoption ranks seem to give a deeper understanding of the intensity and commitment to the use of MCS practices in banks. Table 4.5 also indicates that, in total, all items highly adopted, are also highly used among banks.

4.3.3. Budgeting System

The budget is one of the main tools utilized in the planning, control and cost management decision making process undertaken within the organizations. Hence the budgeting system in the banking sector by using survey study through questionnaire to the target respondents in line with the question whether the bank uses budget follow-ups, at least quarterly, and variance analysis, the inputs of the respondent explore in the following table.

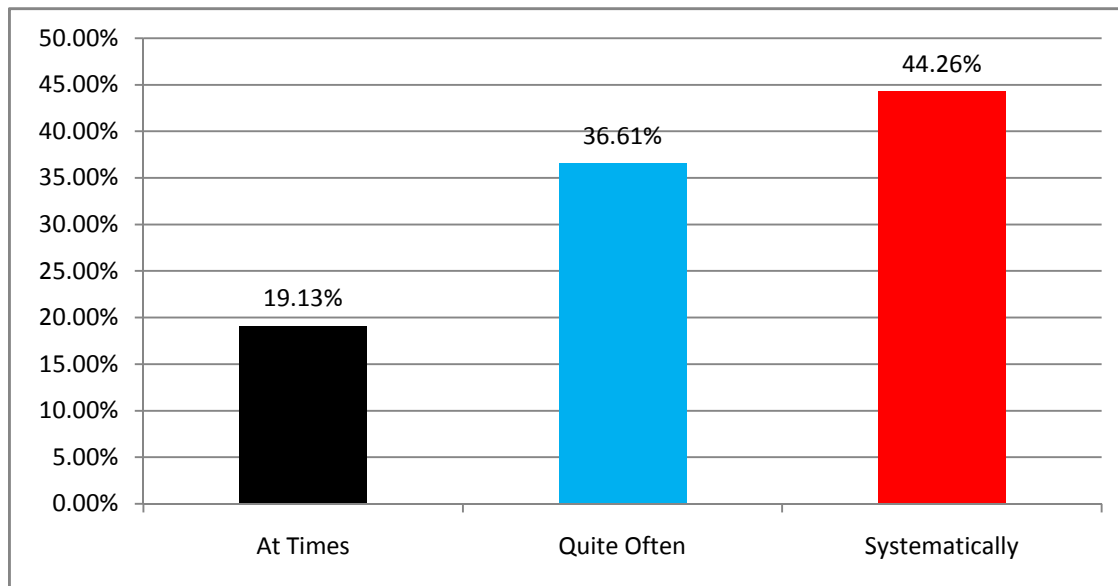
Table 4.6: Budget Follow-ups, at least Quarterly, and Variance Analysis

Choice item	Frequency	Percent	Cumulative Percent
VS	5	2.2	2.2
AT	54	23	25.1
QO	109	46.4	71.6
Total	235	100	

Source: Own computation, 2016.

The table above shows the frequency of which the EPCBs are using the budget follow up for cash flow. As displayed from the above table, more than 95 % of the respondents confirm that the EPCBs are follow up their budget and make analysis to know how much deviation results from the expected one so as to know the usage portion and additional wants.

Chart 4.1: Budget for Branch Expansion



Source: Own computation, 2016.

The above chart 4. 1 describes that the EPCBs are frequently open branch banks so as to increase the market share. Looking the above figure the EPCBs are aggressively rush to have branch banks. Even if the given alternatives includes `not used` and `very seldom`, the respondents do not mark these alternatives to explore how EPCBs are intensively open branch banks. The majority of the respondents i.e. 44.26 % marked that EPCBs in line with branch expansion as it is a normal routine. The remaining 36.61% and 19.13% of respondents marked the branch expansion `quite often`, and `at times`, respectively.

Moreover, the EPCBs are participating in other sector by contributing their efforts in the economic development. For instance Dashen Bank has the largest market share in five sectors, providing 35 percent of all manufacturing lending by private banks, 28 percent of total transport lending, 26 percent of construction lending, 25 percent of domestic trade and services lending, and 19 percent of total personal lending. In only a few sectors is the market leadership position held by others: by Awash in the case of total export loans (25 percent), by NIB in agriculture loans (29 percent), and by United in Import related loans (21 percent). Sectors, providing 35 percent of all manufacturing lending by private banks, 28 percent of total transport lending, 26 percent of construction lending, 25 percent of domestic trade and services lending, and 19 percent of total personal lending. In only a few sectors is the market leadership position held by

others: by Awash in the case of total export loans (25 percent), by NIB in agriculture loans (29 percent), and by United in Import related loans, 21 percent (Access Capital, 2010). Therefore, the respondents in this regard marked that 20.8%, 36.1%, 24%, 13.7% and 5.5% for the choice item `not used`, `very seldom`, `at times`, `quite often`, and `systematically`, respectively. There is also budget for their capital structure in order to alleviate the liquidity problem. The majority which is around 75% of the respondents said that the EPCBs have a budget for their capital structure from the range of `at times` to `systematically`.

Table 4.7: Budget for Investing in other Sector and Capital Structure

Variable	Choice item	Frequency	Percent	Cumulative Percent
The bank budget for investing in other sector	NU	48	20.8	20.8
	VS	85	36.1	56.8
	AT	57	24	88.9
	QO	32	13.7	94.5
	S	13	5.5	100
	Total	235	100	
The bank budget for their capital structure (equity and liabilities)	NU	18	7.7	7.7
	VS	45	19.1	26.8
	AT	76	32.2	59
	QO	63	26.8	85.8
	S	33	14.2	100
	Total	235	100	

Source: Own computation, 2016.

The annual reports of the majority EPCBs showed that the banks are investing in other sectors such as in insurance companies, and government treasury bills. Even the interview with one of the Corporate Planning officer of EPCBs revealed that banks are on the verge of participating in different sectors such agricultural, manufacturing sector and other sectors. With regard to the capital structure, when interview is undertaking with one of the officials of the bank said that even if banks are doing a lot on the capital structure so as not face a liquidity problem, currently with letter send by NBE compel private banks to purchase government bonds equivalent to 27

percent of their annual loans to help fund development in the country. Under the central bank directive, five-year National Bank bonds will be bought by lenders at the end of each month. He also added that the securities will offer a coupon of 3 percent and the interest which the bank pays for the depositor is 5%, hence there is a minimum loss of 2% while the money is revolving.

4.3.4. Cost Accounting and Service Pricing

The following table summarizes the cost accounting and service pricing of the EPCBs regarding calculations made on service level costs at each stage of activities, at each centers, at targets and branches

Table 4.8: Cost Accounting and Service Pricing

For determining the cost and price of service, the bank:	Choice item	Frequency	Percent	Cumulative Percent
Calculates service-level cost at each stage of activities up to customer receive it	NU	59	25.1	25.1
	VS	28	12	37.2
	AT	95	40.4	77.6
	QO	36	15.3	92.9
	S	17	7.1	100
	Total	235	100	
Calculates cost at each centers	NU	76	32.2	32.2
	VS	46	19.7	51.9
	AT	39	16.4	68
	QO	50	21.3	89.6
	S	24	10.4	100
	Total	235	100	
Calculates target costing (price and target profit are known, so planning is used for reaching allowed service cost)	NU	10	4.4	4.4
	VS	44	18.6	23
	AT	59	25.1	48.1
	QO	80	33.9	82
	S	42	18	100
	Total	235	100	
Calculations of branch costs	NU	19	8.2	8.2
	VS	28	11.5	19.7
	AT	45	19.1	38.8
	QO	83	35.5	74.3
	S	60	25.7	100
	Total	235	100	

Source: Own computation, 2016.

The calculation of service level costs at each stage of activities up to customer receive it helps to know the cost incur at each stage and simple to determine the service charge. Though there is

room to calculate the cost at each stage, the EPCBs yet under the concentration of applying it at times whose respondent revealed that 40.4%. The other 25.1%, 15.3%, 12% and 7.1% respondents marked 'not used', 'quite often', 'very seldom' and 'systematically', respectively. Looking the respondents output, the calculation of cost is not that much done in EPCBs. This issue also further supported with the interviewees of some of the branch managers of the EPCBs. They mentioned that even if the employees at bottom level who have information about the cost incur to private service undertakes the assigned activities, the price to charge is given by the top managers and board level.

In support of the above mentioned issue, the majority of the respondents which is 51.9 % show that the EPCBs are not used and practice the cost center. The remaining respondents (49.1%) revealed that the banks used cost center to know the costs incur at each department. Thus, this indicates that there is gap even if a room to calculate cost at each center.

On table 4. 8, the respondents revealed their attitude for calculation of target cost and price so as to obtain the target profit. In this regards, the majority of respondents which is 33.9% revealed that banks are using it at the level of 'quite often'. The remaining 25.1%, 18.6%, 18% and 4.4% of the respondents marked the choice given with 'at times', 'very seldom', 'systematically', and 'not used', respectively. In this respect one of the interviewee said that the bank not only at the head office level but also at the branch level forecast up coming years by stating different strategies and he also added that this is usually done by looking the past experience. In order to get the target profit, the cost should be properly controlled.

Hence using appropriate technology enables to have the target profit. This also further explained by Access Capital; which the common critique of Ethiopian banks as technologically backward has been valid for quite some time, and remains so to some extent, but many changes are taking place in this area both from initiatives by the central bank (a national payment system is operational providing a real-time and electronic inter-connection among all banks) and from initiatives by individual banks. All banks have full-fledged core banking systems, which will mean that all their branch operations will be automated, thus simplifying customer transactions and making it possible to move away from the heavily paper-based system of the past. Modern banking services such as ATM services Internet Banking and Mobile banking are increasingly becoming available. Moreover, additional technology-based services such as mobile banking are

also launched. With these innovations, the sector is becoming much more technologically in tune with banking services available in neighboring countries and even the wider world.

Finally, the question forwarded for the target respondents is with respect to the calculation of branch costs. Accordingly, the majority of the respondents which is 80% marked at a range of 'at times' to 'systematically'. This means that the EPCBs before opening their branch they calculate the maximum possible costs to incur. In this respect with the interviewees of the banks officials said that head office banks calculates the costs that will be incurred for the branch so as to know the benefits received in the future. These activities are made by the bank not only at the time of opening new branches but also during the operation. The researcher finds that the majority of the bank are easily explore the costs incur and revenue earned from it.

4.3.5. Decision Making Procedures of Ethiopian Private Commercial Banks

The bank makes decision based on investment benefit, policies or directives given by NBE, the strategic plan formulated, market survey, comments given by the employee and customers and the target set by the bank. The average of the aforementioned base of decision making which is presented in the following table.

Table 4.9: Descriptive Statistics of Decision Making

Variable	No.	Range	Minimum	Maximum	Mean	Std. Deviation
Bank Plan and Control	235	2.50	1.50	4.00	2.6776	0.60563

Source: Own computation, 2016.

The above table describes that the mean value (i.e. 2.67) which is interpreted as on average the total population is marked the decision making with respect of the above base results show that the EPCBs use more than 'at times' since the value given for choice 'at times' is 2.

The investigator understands that there is a room for upgrading the heights of decision in the proper way. Even the standard deviation, which is 60.56% shows that the variation of the actual mark value of the respondents to the choice item from the expected value (mean value=2.6776).

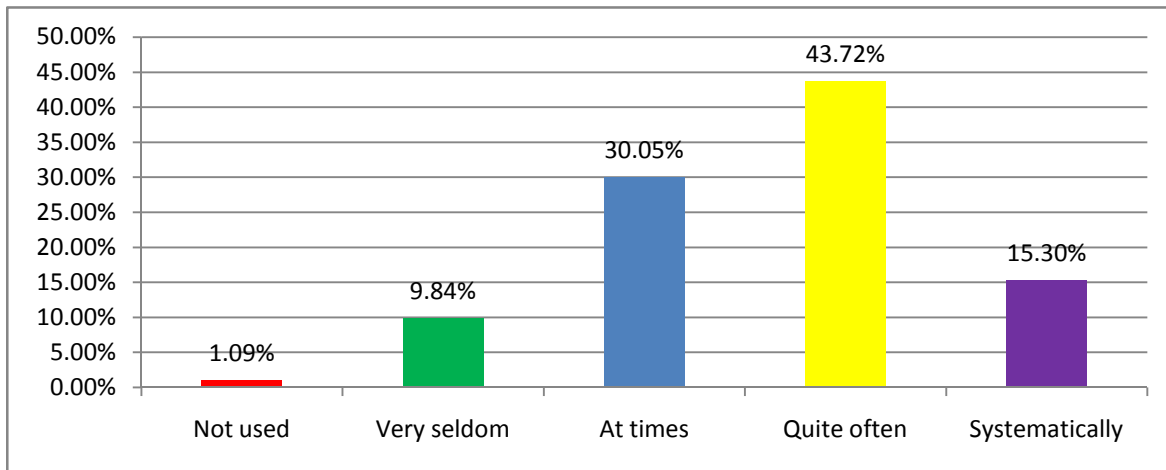
with the interviewees of the respective EPCBs officials said that the central bank of Ethiopia has the ultimate power in the supervision of all banks with respect to the banking activities even if the specific bank evaluate the investment benefit, there may have rules given by NBE. For this the interviews mentioned that credit cap or restriction given by the central bank of Ethiopia, i.e. lending restrictions imposed by the central bank during the year, the increase in banks' lending was of course not as fast as the growth of deposits but still managed to rise by 21 percent which is from Birr 17.7 to 21.4 billion (Access capital ,2010) The guidelines issued by NBE in 2003, shows that the board of directors is responsible for reviewing and approving a bank's credit risk strategy and policies. Each bank should develop a strategy that sets the objectives of its credit-granting activities and adopts the necessary policies and procedures for conducting such activities. This and other strategies formulated by the banks enable them to achieve their objectives.

In line with the decision for comments given by the employees and customers, the officials of the EPCBs said that the banks are collecting the suggestions given by the employee as well as the customers and made decisions by the branch in which the power is in hand, whereas the power which cannot in the hands of the branch manager and officer as well will transfer to the board of directors to judge and pass possible decisions by making vote through which.

4.3.6. Performance Measurement

One of the criteria for measuring the financial performance of the firm is by comparisons of financial ratios to industry averages and competitors ratios. In this respect, 43.72% of the respondents of the EPCBs confirmed that the banks are evaluating their financial performance against the industry average and competitors ratios used fairly frequently. The succeeding outcomes shows that the frequency of using the financial ratios of which 30.05% used at times, 5.30% used as normal routines, 9.84% used at very seldom and the remaining 1.09% of the respondents marked as if the bank not used the comparisons with regard to industry average and competitors ratios.

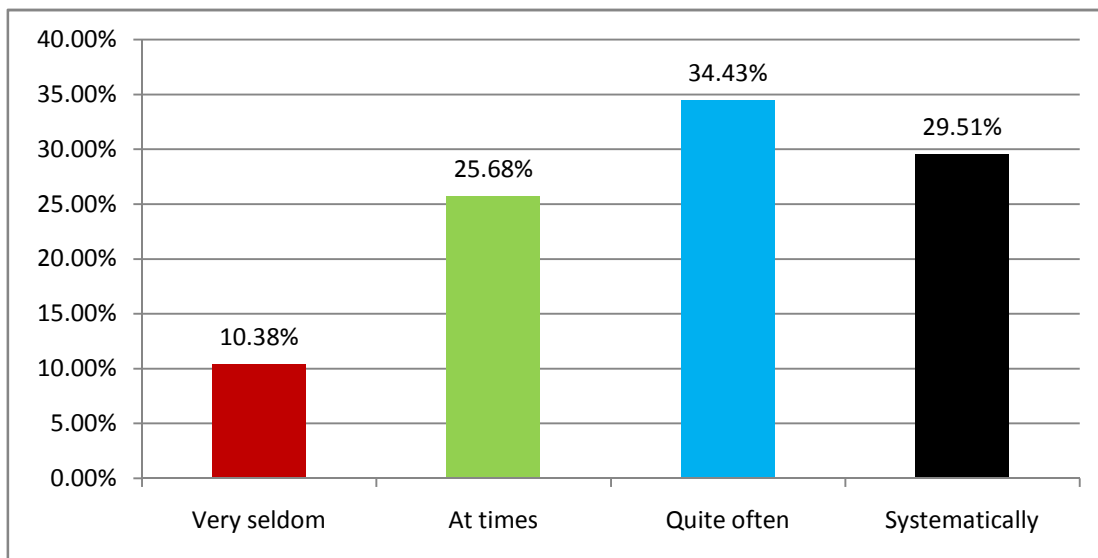
Chart 4.2: Comparisons of Financial Ratios to Industry Averages and Competitor's Ratios



Source: Own computation, 2016.

The chart above displayed how frequently the banks use the financial ratios to evaluate the financial performance of the banks and their branches. In connection with this issue, an interview with one of the private banks branch manager disclosed that by taking the audited financial statement from the central bank of Ethiopia, banks evaluate their performance with the industry as whole. He also added that not only specific bank but also due to the competition environment access capital disclose the performance of the bank according to return on asset and return on equity.

Chart 4. 3: Comparison of Actual Performance with Pre-determined Target



Source: Own computation, 2016.

With regard to the practice of comparison of actual performance with the predetermined target, as depicted in figure 4.3, 34.43 %, 29.51%, 25.68%, and 10.38 % of the respondents asserted that EPCBs compared the actual performance with predetermined one with the range of `quite often`, `systematically`, `at times` and `very seldom`, respectively. All EPCBs compare actual performance with predetermined target of their branches frequently. Coming to the individual level, 90% of the respondents feel that their actual performance is compared with predetermined target at the range of greater than or equal to `at times` and the remaining marked `very seldom` for the practice of comparison of actual performance with pre-determined one.

Table 10 below portrays the performance of the EPCBs evaluated by using the financial information such as return on investment (ROI), return on equity (ROE), net profit margin, and economic value added (EVA).

Table 4.10: Performance Evaluation Criteria in EPCBs

Criteria	NU	VS	AT	QO	S	Total	Weighted value (Likert's Scale)	Mean	Rank
Return on Investment (ROI)	13	5	62	107	48	235	684	3.74	3
Return on Equity (ROE)	13	1	59	120	42	235	687	3.75	2
Net profit margin	-	9	79	86	61	235	703	3.84	1
Economic Value Added (EVA)	9	53	86	76	11	235	571	3.12	4

Source: Own computation, 2016.

The mean value shows that how frequent the Ethiopian Privet Commercial Banks use the criteria to evaluate their performance. Among the variable mentioned, net profit margin, which is the prior rank that the EPCBs used as their means to evaluate their performance. The managers of different EPCBs still desire to evaluate the performance of their banks and branches on the basis of ROE, ROI, and EVA respectively. To sum up, the findings of this descriptive statics are in line with the findings of Saroj (2006). This is further supported by Access Capital on the article of banking sector review 2010 which stands to evaluate the performance of EPCBs. Accordingly, the performance of the bank with respect to their rank are explored using net profit margin, ROE and ROI.

4.3.7. Compensation and Benefits

Majority of EPCBs are providing bonus to their employees out of profit except some of the younger banks. The amount of bonus is based on the amount of salary an employee is earning, others such as not committing non disciplinary action, relationship with the top manager, performance of employee which is numerically presented as 91.37%, 4.91%, 2.48% and 1.24% of the respondents, respectively. The major ways of giving bonus to the employees are based on the salary getting. The researcher identifies giving bonus based on the salary usually does not encourage those who are outstanding in performance.

According to Saroj (2006), employees in any organization work for reward, and most important reward is money, but individuals expect more than wages or salary from their employers. In Ethiopian private commercial banking sector, salary/benefit/promotion is mostly determined by education and training followed by experience, performance, relationship, and other factors which are numerically expressed as the number of respondents that are 59%, 39.34%, 12%, 2.73% and 2.18%, respectively. Even with the interview with the officials of the EPCBs, additional benefit given by the bank differed with the range of the salary and the status of the employees stands for. They also added that the bank does not yet consider the performance of employee so as to give additional benefits such as fuel allowance, house allowance and other benefits.

Encouraging employees to learn new skills: The other dimension which the EPCBs are playing their role on encouraging employees to discharge better performance and enhance educational qualification and attain trainings. This issue is pointed out during the interview with the officials that the annual report of the bank shows how bank trying to scale up the heights of qualification and knowledge of employees. For this, the investigator confirmed that the bank really does a lot in this regard. But the researcher view out this encouragement is made through the experience or service offer to the bank. During the interview one of the interviewee mentioned that banks are on the verge to evaluate the performance of their employees so as to continue and sponsor for their further study and training as well.

Finally, according to Chenhall (2004) lack of human capital and physical resources are the practical barrier to the use and further development of their MCS. In order to understand better

the backgrounds of the MCS of the banks and to get some empirical support either for or against these statements above, one question in the survey was designed to focus on the possible barriers to the use of MCS practices and information. The barriers suggested during the interview with EPCBs officials indicated that inadequate skills and knowledge about the use of MCS practices and information; lack of human resources and time; insufficient cost-benefit relation in the usage of MCS information; lack of suitable computer applications, computers and required skills for the use of information technology; insufficient use of information technology. Respondents were also asked to site serious barrier among the listed one. Overall, it seems that banks suffer mostly from the lack of various human resources regarding the use of more efficient MCS and their information. In other words, the interviewees indicate that they have too little staff, which additionally does not have the time nor the needed skills for a more comprehensive adoption and use of MCS practices and information. The findings indicate that besides the suitable applications for MCS, banks also seem need guidance to their technical implementation and adoption as well as to the interpretation and use of MCS information. So, the results are in line with the findings of(Simon R, 2000).

CHAPTER FIVE

SUMMARY, CONCUSSION AND RECOMMENDATION

5.1. Introduction

This chapter is the last part of the study which arose out of the study. It comprises three sections which includes the part that tries to summarize the key findings drawn from the results discussed under chapter four, conclusions drawn from the summary of findings by taking consideration the objectives and research questions of the study, and pass possible recommendations as remedies to alleviate the existing and observable potential vaults.

5.2. Summary of Major Findings

This part of the study tries to summarize briefly the key findings which arose out of the study.

- ❖ Though EPCBs budget for their capital structure, due to the intervention by the NBE compel private banks to purchase government bonds equivalent to 27% of their annual loans to help fund development in the country. But this has been done at a loss of 2% which is the difference of interest paid to the depositor is 5% and coupon rate stated on the bond is 3%.
- ❖ To increase the market share their competitive advantage, EPCBs rushed to have more branch banks. For accomplishing this, banks set budget. Regarding the individual level in connection with the aforementioned, 80.87 % marked the level usage from quite often too systematically. Moreover, the EPCBs are participating in other sectors by contributing their share in the economic development of the country. The annual reports of the majority EPCBs showed that the banks are investing in other sectors such as in insurance companies, and government treasury bills
- ❖ It is not much done with the calculation of service level cost at each stage of activities up to customer receive by the EPCBs. The majority of the respondents (51.9 %) show that the EPCBs are not used and practiced the cost center.
- ❖ The major barriers to use and develop further their MCS in the banking sector of Ethiopia are inadequate skills and knowledge about the use of MCS practices and information; black of human resources; insufficient cost-benefit relation in the usage of MCS

information; lack of suitable computer applications, computers and other required skills for the use of information technology; insufficient use of information technology. Currently, EPCBs are highly suffered from the lack of various human resources regarding the use of more efficient MCS and their information.

- ❖ In Ethiopian private commercial banking sector, salary/benefit/promotion are mostly determined by education and training followed by experience, performance, relationship, and other factors. In addition, the amount of bonus given to the employees is based on the amount of salary they are earning. EPCBs are encouraging employees to upgrade their knowledge and skill as the benefit of employees is based on the experience or service offered to the bank, they provide paid leave to participate in training and for further education.
- ❖ EPCBs are frequently planning and controlling their activities such as monthly or quarterly income statements; working capital and its parts; cash flow statements and branch reports and operations. On the average the planning and controlling practice which score the mean value of 3.1366 in fact there is 64.66% deviation of the actual values from the expected one.
- ❖ The generic strategy of Ethiopian private banks has been divided for two main areas of business: deposit and lending. Even if these are the prominent strategy for the bank, their application of it varies from area to area so as to increase the market share. The Ethiopian private commercial banking sector is very competitive. They are competing mainly in service. In order to stay in the market and become competent, EPCBs have been adapting differentiation strategy. This strategy is also followed by cost leadership strategy and focus strategy, respectively.
- ❖ The EPCBs made analysis in the prioritized order of business strengths and weaknesses, market share and forecasts, benchmarking reports and analysis, personnel analysis, competitor analysis and forecasts; and customer analysis and forecasts, respectively.
- ❖ The majority of the target respondents (95 %) revealed that EPCBs follow up their budget and make analysis to know how much deviation results from the expected one so as to know the usage portion and additional wants..

- ❖ EPCBs make decision based on investment benefit, policies or directives given by NBE, the strategic plan formulated, market survey, comments given by the employee and customers and the target set by the bank. The mean value of decision making is 2.67 out of a score value of 4. Even though NBE intervenes in its own aspect, the banks can be tremendously go through it to achieve the objective and goals of the bank; and upgrading the heights of decision in the proper way.
- ❖ The majority of the EPCBs are measuring their financial performance of the firm by comparing of financial ratios to industry averages and competitors' ratios. Regarding this, 89.07% of the respondents explore the usage rates ranging from 'at times' to 'systematically'.
- ❖ All EPCBs compare actual performance with predetermined target of their branches frequently. Coming to the individual level, 90% of the respondents believed that their actual performance is compared with predetermined target at the range of greater than or equal to 'at times' and the remaining marked 'very seldom' for the practice of comparison of actual performance with pre-determined one. The target of branch banks and individual level is frequently monitored. The managers of different EPCBs have been evaluating the performance of their bank mainly on the basis of the traditional tools in the rank order of net profit margin, ROE, ROI, and EVA, respectively.
- ❖ The association between performance and strategic planning and management is positively and statistically significant. Hence, the strategies formulated have impact on the performance of the bank and its competitive advantage.

5.3. Conclusions

This study aims at the assessment of MCS application in EPCBs and based on the findings it is found to be that EPCBs are doing a lot with the planning and controlling activities with respect to income statement, working capital and its parts; cash flow statement; and branch reports and operations. This will in turn helps to achieve the banks goals and objectives, and increase the level of profit as well as its competitive advantages .

Even though the generic strategy of EPCBs are deposit and lending, in order to stay in the market, they are developing different strategies. Their prominent strategy is differentiation

strategy among the alternatives. This is because of common law given to all of the banks by NBE. Beside to this, Due to the intervention of NBE compel the banks to purchase the bond at a loss of 2%, may lead to a liquidity problem in the future.

It is the usual practice for EPCBs to know their status by comparing actual performances with the predetermined one, but they are not sufficiently utilized the calculation of cost within the responsibility center even if there is a room to calculate cost at each center across the departments.

Though a lot of efforts are planned to use MCS, there is serious problem of human capital which is considered as one of the barriers to use MCS. In addition to this, EPCBs are giving benefits including bonus other than outstanding performance of the employee, which will have an influence on the going concern and profit of the bank.

5.4. Recommendations

EPCBs encountered some drawbacks in applying MCS. So as to relieve these drawbacks, the following recommendations are forwarded.

- ❖ Even if the dept paying ability problem is created due to the intervention by NBE ,the bank should strengthen working in other activities like investing in other sector in order to compensate the negative margin of bank during intervention made by NBE compel to purchase bond at a coupon rate of 3%. Besides, the bank should take initiation to create liquid market (money market); an important investment option because they are a safe and liquid investment. Since the primary benefit of a money market fund is high liquidity and enable the investors can withdraw their money more quickly
- ❖ The EPCBs have a room to establish responsibility centers such as revenue centers; expense centers; profit centers; and investment centers. Hence, the researcher recommends banks to use these centers so as to determine the service price with the level of cost incurred at each departments or activities. These all center usually either decrease the cost incur or increase the profit of the bank without increasing the selling price of the service charge.
- ❖ Lack of human capital is one of the prominent barriers to use and apply MCS, the researcher recommends banking institutional sector to strengthen the knowledge of

candidates as well as the existing employees. In order to increase the use of MCS, it is better outsourced services in the area of MCS their annual accounts and statutory financial reports. Thus it might be a very natural solution to extend this outsourcing also to consist of more comprehensive MCS services for the emerging needs of banks. Another solution is implementing balanced scorecard to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.

- ❖ In order to assure going concern and get more profit, the bank should encourage outstanding employees in performance by setting aside the benefit. The performance of employees and their level can be conformed through peer evaluation horizontally, customer comments nearby official's evaluation.

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Appendix A

ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES

Dear Participant,

This questionnaire is designed to conduct a research on the topic “*The Assessment of Management control system (MCS) in selected Private Commercial banks of Ethiopia*”. The purpose of the study is for the partial fulfillment of the requirement of MSC degree in Business Administration. For the successful accomplishment of the study, the response of employees of the bank will have pivotal role by being used as valuable input for the study. So, you are kindly requested to genuinely fill the questionnaire.

Instructions:-

- Writing your name is unnecessary.
- Circle or put “✓” mark as per the questions required in the box or answer in the space provided.

Part One: Respondent Profile

1. Sex Male Female
2. Age (Years) below 25 25-35 35-50 above 50
3. Educational level 10-12 grade complete Certificate Diploma
Degree Above Degree

Part Two: Questions related with the topic

Use of MCS Supporting Business Management

Next, there are listed reports of various MCS practices and techniques that can be used to support business management in banking industries. Do you use these analyses or reports in your bank? If you do, how occasional (very seldom-quite often) is the use or is it systematic as part of your normal routines?

(Please, circle the most appropriate alternative for each now)

A. Planning and control during a financial year

The bank plans and controls:	Not used	Very seldom	At times	Quite often	Systematically
1. Monthly or quarterly income statements	1	2	3	4	5
2. Working capital and its parts (deposits with banks, customers, demand, saving deposits) including use of ratios	1	2	3	4	5
3. Cash flow statements of the financial year describing sources and uses of earnings and capital	1	2	3	4	5
4. Branch reports and operations	1	2	3	4	5

B. Strategic planning and management

The bank plans and controls:	Not used	Very seldom	At times	Quite often	Systematically
5. Benchmarking reports and analysis (for example, comparisons to a respective top-firm for learning purposes)	1	2	3	4	5
6. Market share analysis and forecasts	1	2	3	4	5
7. Competitor analysis and forecasts	1	2	3	4	5
8. Customer analysis (satisfaction, behavior etc.)	1	2	3	4	5
9. Personnel analysis (performance, satisfaction etc.)	1	2	3	4	5
10. Analysis of business strengths and weaknesses etc.)	1	2	3	4	5
11. Analysis and scenarios for alternatives strategies	1	2	3	4	5
12. Differentiation strategy (such as different in service offer, unique service)	1	2	3	4	5
13. Focus Strategy (such as specializing in lending service and etc.	1	2	3	4	5
14. Cost leadership strategy (such as low cost service, efficiency)	1	2	3	4	5

C. Budgeting system

The bank plans and controls:	Not used	Very seldom	At times	Quite often	Systematically
15. Budget follow-ups, at least quarterly	1	2	3	4	5
16. Monthly or quarterly Budget for Cash flow	1	2	3	4	5
17. Budget for branch expansion	1	2	3	4	5
18. Budget for investing in other sector	1	2	3	4	5
19. Budget for the firm's capital structure y and liabilities)	1	2	3	4	5

D. Accounting and pricing

For Determining the cost and price of service, the bank	Not used	Very seldom	At times	Quite often	Systematically
20. Calculates service-level costs at each stage of activities up to customer receive it.	1	2	3	4	5
21. Calculates cost at each centers	1	2	3	4	5
22. Calculates target costing (price and target profit are known, so planning is used for reaching allowed service costs)	1	2	3	4	5
23. Calculations of branch costs	1	2	3	4	5

E. Decision making

The bank plans and controls:	Not used	Very seldom	At times	Quite often	Systematically
24. Investments benefit	1	2	3	4	5
25. Policies or directives given by National Bank of Ethiopia	1	2	3	4	5
26. The strategic plan formulated	1	2	3	4	5
27. Market surveys and other marketing reports a like	1	2	3	4	5
28. Comments given by the employee and customers	1	2	3	4	5
29. The target set by bank	1	2	3	4	5

F. Performance measurement

The bank plans and controls:	Not used	Very seldom	At times	Quite often	Systematically
30. Is evaluated by comparisons of financial ratios to industry averages and competitors' ratios	1	2	3	4	5
31. Is evaluated on the basis of shareholder value analysis/Economic value added (EVA)	1	2	3	4	5
32. Is evaluated by comparing actual performance with predetermined target	1	2	3	4	5
33. Is evaluated on the basis of net profit margin	1	2	3	4	5
34. Is evaluated on the basis of Return on investment (ROI)	1	2	3	4	5
35. Is evaluated on the basis of Return on Equity (ROE)	1	2	3	4	5

G. Compensation and Benefit Plan

36. Salary paid by your bank (Ethiopian Birr Monthly)

- Bellow 1000 1001-2000 2001-3000
 3001-4000 4001-5000 above 5000

37. The salary increment and additional benefit given by the bank is based on, select more than one if possible?

- Performance of employees Relation with the top Manager
 Years of service other, please specify _____

38. Salary given to the employees of the bank is mostly determined by

- Performance Education and training
 Experience Others, please specify
 Relationship

39. Does the bank provided bonus to the employees out of the profits earned?

- Yes No

40. IF your answer for ! No. 39 is yes, what is the base?

- Performance Relationship
 Salary Others, please specify

41. If your answer for Q NO.39 is No, what is the reason?

Would you like to obtain a summary of the results?

1. No
2. Yes, e-mailed to the address:
3. Yes, Posted to the address:

..... End!!!.....

Appendix B

ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES

Dear Participant,

This Semi-structured interview is designed to conduct a research on the topic “***The Assessment of Management control system (MCS) in selected Private Commercial banks of Ethiopia***”. The purpose of the study is for the partial fulfillment of the requirement of MSC degree in Business Administration. For the successful accomplishment of the study, the response of employees of the bank will have pivotal role by being used as valuable input for the study. So, you are kindly requested to genuinely react the interview questions.

Thank you in advance for your cooperation!

1. How do you express the strategic planning and management of your bank?
2. How do you evaluate budgeting system and related activities in your bank?
3. How the bank calculates the cost incur for service and selling price of the service?
4. What are the bases to make decision for banking activates?
5. How the performance of your bank is evaluated?
6. What are the bases to give additional benefits and rewards?
7. What are the barriers to use of MCS practices and information?

Thank you again for your cooperation!!!!

Appendix C

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of **Mr. Tiruneh Legesse (Ass. Professor)** All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Name

Signature & Date

Appendix D

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor

Advisor

Signature & Date