ST. MARY'S UNIVERSITY

ASSESSMENT ON THE APPLICATION OF MANAGEMENT CONTROL SYSTEM IN ADDIS ABABA CITY ROAD AUTHORITY

A RESEARCH PAPER SUBMITTED TO ST. MARY'S UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION IN ACCOUNTING AND FINANCE.

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DECLARATION

I, the undersigned, declared that this Thesis is my original work; prepared under the guidance of**AsmamawGetie(Ass.Professor)**. All the sources of materials used for this thesis have dully acknowledged. I further confirmed 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.

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ENDORSEMENT

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

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ABSTRACT

The main aim of the study was to assess the Application of Management control System (MCS) and Challenges in Implementing Management control system the case of Addis Ababa City Roads Authority. This research was used descriptive research design because it enables the study to clearly investigate the characteristics and nature of the study undertaken. The data was gathered from primary sources through the use of structured questionnaires and interview.The researcher applied systematic sampling technique because the selected sample list can be easily accessed from twenty eight departments so as to obtain fairly and easily the required sample size of 350.The study utilized both quantitative and qualitative data analysis techniques. To answer the research questions, descriptive statistics such as mean, standard deviation, percentage and frequency tables were used. The finding shows that in the organizational strategic planning and management the AACRA lacks observing and forecasting possible scenarios which limit its ability to see the alternative strategies.The study revealed that the organization evaluation system is by comparing actual performance with predetermined target.The organization Control over business is achieved by the corporate parent principally by monitoring how well the budget is on target and Budget follow ups and variance analysis undertakes at least quarterly. The recommendation that was forwarded AACRA should make a tradeoff of using between financial and non- financial measures and extend to the emerging widely recommended performance measurement system.

Key words: Management control system, strategic planning and management, Organizational performance, Evaluation system

CHAPTER ONE

INTROUDTION

1.1 Background of the study

Management Control Systems (MCS) as described as acquire and use information in order to assist the coordination of planning and organizational control decisions, with the goal of improving the collective decisions within the organization (Horngren, Foster &Datar, 2000). MCS consider that the controls are characterized by the use in business management, covering performance measurement and reward systems by achieving predetermined levels Otley(2005).

According to Horngren (2002) explained Management control system is a logical integration of techniques to gather and use information to make planning and control decision, to motivate employee's behavior, and to evaluate performance. 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.

MCS set behavioral or output standards and employing mechanisms to ensure that these standards are achieved. Most of these mechanisms are diagnostic in nature; meaning that they require assessment of how well performance is achieving objectives and analysis of where problems may exist. Corrective action flowing from diagnosis is aimed at revising behavior, goals, or both in order to sufficiently reduce a perceived performance gap. Many information systems can be employed in a diagnostic control capacity, including profit plans, budgets, project management systems, human resource processes, and systems that measure strategic performance Merchant, & Van der Stede (2007).

within the management process, management control "is a process of guiding organizations into viable patterns of activity in a changing environment" . That process cannot subsist without a management control system that is structured consistently with the demands, and should provide conditions to instigate, orient and clarify managers regarding the important elements for managing their organization. The integration of the processes and resources into strategy, from the operational to the strategic level, requires management control systems for the evaluation and management of performance. The designs of the management control systems sometimes take the format of causal maps, which show the operational implications for different strategies (Berry, Broadbent &Otley, 2005).

The MCS Are Weak and unambitious attributes in terms of scope imply limited designs to meet the demand for artifacts. To some extent the attributes can interact, influencing each other. Alterations in the configuration of the attributes are certainly possible, but need to be consistent among the elements, without which the artifacts will not meet the demand or will do so only partly. The high proportion of the business to fail is the difficulty of establishing a management control system (MCS) that will suit both for head and branch companies (Harrison et al. 2003). In Ethiopia different organizations are facing challenges in properly managing their human force to meet organizational objectives.

The obligation of implementation of management control system in public organizations rests with the managers of these units. In this situation they are faced with many managerial challenges related to the necessity of introducing changes in organization management. These challenges can be defined as all situations, which make the necessity to take additional activities, not yet identified, far beyond the current situation and even not directly related to the specifics of the organization. During the management control implementation process, these challenges are related to need to eliminate many of barriers stemming from inadequate previously used methods and tools of management. A major problem could be fulfilling the requirements in the risk management area, because most of the known methods of analysis and risk assessment derive from private organizations, in particular from the financial environment (Klimczak, Pikos, 2010).Therefore this study mainly focus in examining the application of MCS in view under the

perspective of strategic plans, organization structure, reward system, performance measure, vision and mission in the study organization.

1.2 Background about the Organization

In 1993 the existing Government has established regional governments and gave them power to administer their regions with autonomy. During this time Addis Ababa was also established as one of the regions. The Addis Ababa administration during this period established the "bureau of works and urban development" and the bureau organized a department under it to carry out the road construction and maintenance works. The newly established road department constructed and maintained the city roads till the establishment of the Addis Ababa City Roads Authority in March 15, 1998 by regulation No. 7/1998 to be administrated by board of directors to construct maintain and administer the road works in Addis Ababa by the city Administration. The total length of road constructed in the city till the establishment of the authority in March 1998 was 1300 km of which 900 km was gravel road and the remaining 400 km was Asphalt surfaced road. The Addis Ababa City Roads Authority has done remarkable progress in the city roads expansion and upgrading since its establishment. To date the City Roads length reached 2814 kms of which 1534km is gravel surfaced and 1280km is Asphalt surfaced and the road net work coverage has reached 10.34% compared with the developed area of the city (http://www.aacra.gov.et/).

1.3 Statement of the Problem

The MCS comprise formal and informal mechanisms and processes used by organizations to measure, monitor and manage their performance in order to implement strategies and achieve their goals. The MCS must have specific characteristics that make them effective, such as the alignment with the strategies and goals of the organization, the compatibility of the organizational structure with the managers' responsibility for decision, the motivation to achieve the targets associated with the guidelines of the strategic plan (Horngren, Foster &Datar, 2000).

The full implementation of management control system in public organizations will require changes in attitude and scope of activity of managers of these units. Especially important is to

take responsibility for the interests and implementation strategy of an organization, with the attention to the development of unit and moving away from the formula of strong government centralization to open management with adherence to rational principles, rules of ethics and commitment to the transparency of actions Lachiewicz, (2007).

According to Ayichew (2011) Intensive efforts have been made to properly implement management control practice in Ethiopia in different organizations; the result is not significant where MCS is practiced. The issue of management control system Application has presents challenges in terms of effectively and efficiently addressing the organizational goals and objectives. Therefore, there is a potential challenges in the management control system of Addis Ababa City Roads Authorityas a result of traditional management system. From the preliminary study in the organizations there is lack of directions (employees not clearly know what is expected from them), Lack of motivation and abilities to fulfill the organization mission, vision and goal. Empirical study in abroad 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

As Ayichew E, 2011 done study focused only the application of management control system in Ethiopia Commercial Banks even if there were different managerial issues in the banking industry at the head and branch offices as well. The regression results show that strategic planning and management; and performance measurement have positive and statistical significant contribution on management control system of Ethiopian commercial banks. The priority of the majority of commercial banks is customer retention.Furthermore, for the management control process to be successful environmental factors should be taken into account and self-regulation of the company system, solving both strategic problems and operational problems.

All this means that the control process must be considered from two dimensions that are social and organizational. Despite its increasing importance the issue of MCS in public organizations in Ethiopia is not yet conducted. Therefore this study will clearly discuss the Application the components of MCSs in Addis Ababa City Roads Authority.

1.4 Research Questions

The above problems invited the researcher to carry out a study and to achieve this purpose; the researcher specifically formulated the following basic research questions.

- How the organizational strategic planning and management implemented?
- What is the compensation (reward) that has been practiced in the study organization?
- How the performance measurement system is applied?
- Does decision making capacity of the organization is effective?
- What are the budgeting system and its effectiveness in the study organizations?
- How corporate culture that has been practiced?
- What are the main challenges inthe management control system?

1.5 Objective of The study

1.5.1 General Objective of the study

The overall objective of the study was to assess the Application of Management control System(MCS) And Challenges in Implementing MCS the case of Addis Ababa City Roads Authority

1.5.2 Specific Objective of the study

The study addressed more specifically the following objectives:

- ➢ To Examine Organizational strategic planning and management implementations
- ➢ To explore the compensation that has been practiced in the study organization
- ➢ To assess performance measurement system applied
- ➢ To examine budgeting system and its effectiveness
- ➢ To Examine decision making capacity of the organization
- ➢ To investigate the corporate culture that has been practiced
- ➢ To identify the main challenges in the management control system implementation in the organization

1.6Significance of the study

This study does have a significant importance in shading light on how to implement MCSs on public organization particularly in Addis Ababa city Roads Authority. Furthermore, this study also have an importance in providing a better ground for the organization and other stakeholders, to effectively and efficiently utilize human capital and achieve organizational goals. The management control system will help the Addis Ababa city road authority to manage and control projects that has been undertaken in the organizations. It will used as a basement rock in their further stride to implement appropriate basic components of MCS. Moreover, the study may help some researchers as resource for who are interested to make further research on similar subject matter.

1.7 Scope and Limitation of the study

This study has conceptual delimitation mainly on Application of management control system in Ethiopian public organization focus on Addis Ababa City Road Authority. MCS Restricted to measuring, the performance, budgeting system, strategic planning and management, corporate culture etc for the achievement of an objective established. This study was not exploring organizational structure, direction and motivational related components of Management control system. The main limitations of this study were constraints of time and secondary data sources. The fact that the study was only conducted in one office and on selected respondent which limits the study to be more generalizable. In addition, the other limitations some respondent refused to participate in this survey.

1.8 Organization of the paper

The study is organized in five chapters. The first chapter included background of the study, statement of the problem, the objectives, research questions and the significance of the study among others. The second chapter dealt with a review of related literature on the topic whereas the third chapter covers the detailed methodology. The fourth chapter covers the result and discussion. The summary, conclusion and recommendations are provided in the fifth chapter

CHAPTER TWO

LITERATURE REVIEW

2.1 Management control system

Various definitions and interpretations of the concept of management and control have been given. This different interpretation implies that, the literature does not claim a single dominant paradigm representing consent constant law, theories, applications and methodology for management control system (Anthony & Govindarajan, 2001).

A wide variety of terms exists both within an academic sphere and in company practice, for describing the control activities. Among these, the term "management control" probably represents the most well-known and widespread term in the vocabulary of business management and as such is the most conditioned by subjective interpretations. Moreover, the control procedures have changed over the course of the years showing preference from time to time for solutions targeted at solving the contingent operating needs (Tadesse, 2016).

The earliest definition of management control system (MCS) was provided by Anthony (1965), according to whom management control is "the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives". Anthony's is definition is of slightly narrow nature since it separates management control from strategic control and operational control. On the other handOtley et.al (1995), defined MCS as a process that embody to pursue objectives, accomplish goals and successfully pursue strategies. It also integrate motives assist decision making, communicating objectives, provide and feedback.

There are several other definitions given by other authors which are somehow related to the latter definition (Anthony & Govindarajan, 2001). While it is known that the term management control implies the role of management in control, we mostly emphasis control aspect in accounting or managerial accounting, It is, therefore, essential to know objectives of control on business.

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 ensurethat 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.

Management control is the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives (Anthony et al. 2007). MCS is thus the process that links strategic planning and operational control. MCSs have the purpose of providing information useful in decision-making, planning and evaluation (Brickley 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 2007). Simons (2000) 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 Merchant and Van der Steede (2003) 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.

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 (Horngrenet al. 2002). 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 (Anthony and Govindarajan 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 (Marciallo and Kirby 1994). 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 (Wu 2003). 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 mangers 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(Laitine, 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

  I.   Short term and long term objectives
  II. External measures for shareholders and customers and internal measures of critical business process, innovation, and learning and growth
  III. Outcomes designed and the performance drives of those outcomes
  IV. 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 (Specle, 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. 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 functions, (Huy, 2001), the different characteristics of goals and planning may influence the choice of control systems (Henri, 2006).

2.2 OBJECTIVES OF CONTROL FRAMEWORK

According to Merchant and Van der stede (2003) argument, the need for management control exists due to three main reasons: Lack of direction, motivational problems and personal limitations. For assessing these issues, they propose the object of control framework, which came to divide control practices into four main groups. Literally, the classification stems from the deterrent objects that can faces on the result produced, the actions taken or the types of people employed and their shared norms and values.

The objective of MCS is to alter and influence employee behavior toward the achievement of organizational objectives. Positivist agency theory identifies the need for governance mechanisms in the principal–agent relationship, which limits the self-serving behavior of agents (Eisenhardt, 1989). The principal–agent literature on the agency model emphasizes the need for and the requirement of managerial accounting policies and procedures, such as budgeting, performance measures, and monitoring (Baiman, 1990). The link between management accounting and agency theory originates from the information economics literature (Lambert, 2006), in which the author suggests that management accounting is a domain that focuses on the performance measurement and information issues in the organization.

2.3 CATAGORIES OF CONTROL SYSTEM

The new theoretical framework is presented to enable researchers to explore the themes and patterns of MCS practices empirically and study how social settings of an organization might contribute to the evolvement of specific MCS forms in its respective social environment. Similarly, the framework offers an overall guide about MCS "as a package" to comprehend the role of the diverse social settings on the design and use of MCS practices in its environment (Mourouka et al., 2010). After a review of MCS literature and analyzing the current limitations of MCS, both conventional and the contemporary perspectives, the key MCS themes are identified and classified as: cultural, administrative and process controls, result control to understand the forms of MCS in its social context. In addition, the theoretical framework is intended to offer a bigger picture about MCS themes, both formal and informal practices. It is believed that, with this theoretical framework, the different aspects of MCS, namely; cultural,

administrative and process controls of an organization will be captured better. The three MCS control components are analyzed in the next section (Mourouka et al., 2010).

2.3.1 Cultural Controls

In any society, cultural traditions and norms represent the paramount determinant that structures all other social activities which takes place in that society (Hofstede, 1984). According to Hofstede (1980) cultural traditions and norms are the thinking models and the collective programming that specific societies share and transfer through generations. Similarly culture demonstrates the meanings that people attach to the various aspects of their own world. In management and control, Hofstede (1984) viewed that "management within a society is very much constrained by its cultural context, because it is impossible to coordinate the actions of people without a deep understanding of their values, beliefs, and expressions". To understand the role of cultural values in control and planning of the different societies, Hofstede (1980) identified that cultural beliefs, norms and values are the most important factors that shape the type of MCS in an organization. Based on the societal culture, organizations have to develop their own subculture which aims to create goal congruence among different individuals in the organization (Feldman, 1988). Therefore, as Ansari and Bell (1991) and Uddin (2009) argue, the MCS of an organization cannot be understood in isolation of its social setting in which the organization operates. Even though culture is a social phenomenon which is very complex to understand (Hofstede, 1984), however, there are three types of cultural controls that are recognized in MCS literature; clan control (Ouchi, 1979), beliefs and value controls (Simons, 1995; Herath, 2007) and symbol-based controls (Tsamenyi et al., 2008). The concept of clan control has been developed by Ouchi (1979) and it indicates that individuals, in certain groups, are exposed to socialize each other to instill a set of values in them and develop a sense of belonging inside (Chua, Lim & Sia, 2009). The concept of clan control can informally emerge within an organization to form a kind of boundaries such as an organization section or division (Malmi& Brown 2008). In the anthropology, clan control may be a network based on homogeneous ideology, philosophy, or ancestry that creates a method of peer monitoring system (Ouchi, 1979). For instance, the informal relationship between managers and their employees is a form of clan controls. Such informal connections may produce a kind of solidarity among individuals, self-regulation, mutual trust among members and commitment to the work (Cook et

al., 1997; Jones, 2000; Berry et al, 2009). A theoretical framework for management control practices beliefs and value control refers to "the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purposes and direction for the organization" (Simons, 1995, p. 34). Even though this type of clan control is informal, however, it is a useful approach to easily communicate organizational information such as vision, mission, values and other strategies. Malmi and Brown (2008) view belief and value control as operating at three levels; employees" selection and recruitment, socialization process and the alignment of employees" behavior to the organization"s objectives. Symbol-based control plays less effect on the organizations operational culture. It refers to the physical expressions of the organizational environment such as the design of offices, dress codes of the key staff and promoting specific behavior of employees (Malmi& Brown, 2008). These cultural control elements are considered the key factors that shape the design and implementation of an organizations operation generally and MCS in particular (Ansari & Bell, 1991). To succeed with the technical and operational tasks, cultural control should first succeed (Chenhall, 2003).

2.3.2 Administrative Controls

Administrative control tasks refer to the organizational structure and governance system. It is the control tasks that involve the administrative matters such as the design of organizational structure, setting responsibilities and defining governance mechanisms. In this proposed new dimensions, administrative control include the task of vision/mission, organizational structure, governance system and boards and the process of MCS change. First, is the vision and mission statement which is the "overriding purpose of the organization in line with the values or expectations of stakeholders" (Ferreira &Otley, 2009, p. 268). According to Ferreira and Otley (2009) clear vision and mission statements create goal congruence among individuals as well as directing individuals" actions towards organizational objectives (Malmi& Brown, 2008). Additionally, clear vision and mission statements may enable an organization to define its relationship with its stakeholders, such as customers, suppliers and the public at large (Chenhall, 2003). Similarly, as Ferreira and Otley (2009) view, the well-defined vision and mission statement certainly will affect the type of MCS in the organization. Although having vision/mission does not guarantee the success of MCS practices, it provides better guidelines to the management and employees and simplifies the communication process within the

organization. Second, refers to the organizational structure. Organizational structure plays an important role to determine individuals" responsibilities and accountabilities in the organization (Abernethy &Brownel, 1997). Depending on the contingent factors, there is no an identical organizational structure that is applicable to all organizations at all time, but every organization adopts the structure that is applicable to its organizational needs and that complies with its social environment (Herath, 2007). As a result, every organization should design and implement the structure that enables it to achieve its ultimate goals. Organizational policies and procedures are part of the organizational control, which is considered the most critical part of organizational structure, as well as the processes and employees" behavior that an organization wishes to achieve (Malmi& Brown, 2008). Third, refers to the governance system that is used to determine the relationship between the agent (management) and the principal (stakeholders) of an organization. The organizational governance refers to how organizational boards and management committees direct and manage their activities and responsibilities both vertically and horizontally (Malmi& Brown, 2008). In other words, governance is a way to harmonizes the different interests of the stakeholders and create formal relationship among different management lines and authorities, decision-making units and how these different divisions liaison their managerial tasks. To understand organization's governance in the different social context, Tapsell and Woods, (2010) revealed that traditional governance theories could not sufficiently explain governance forms in the various socio-cultural contexts. This means that different societies may necessitate adopting different localized forms of governance that matches to its socio-political, economic and cultural contexts. Forth, is the process of MCS change which refers to the possible changes that may occur in the MCS practices in a certain times with the fact that an organization is an open social system, which interacts with its socio-cultural and economic factors; it should cooperate and be responsive to its surrounding environments.

In response to the possible changes of market situation; technology, customer perceptions and employee attitude and morale, may also necessitate changing MCS practices to match with the organizational needs and circumstance. Ferreira and Otley (2009) point out that introducing new structure, approaches, technology, management procedures or new products and services may also make necessary to change and undertake the adjustment of certain MCS practices.

2.3.3 Process Controls

Unlike the previous control factors which involved the structural and governance systems, this type of control mostly involves the operational activities and daily routines of an organization. Process control is an integrated group of activities that are employed to accomplish specific organizational goals, such as physical, people and material elements (Atkinson et al., 1997; Anthony & Govindarajan, 2007). Based on the literature of MCS, process control refers to those operational tasks used repeatedly for operational controls. According to Anthony and Govindarajan (2007), the control mechanisms of process control include planning, budgeting, performance measurement and compensation plans. As the first operational task in an organization, planning is the "the conscious determination of courses of action designed to accomplish purposes" (Koontz, 1958, p. 48). For any organization, there are five major stakeholders to serve customers, employees, suppliers, owners, and the community (Atkinson et al., 1997). To achieve the needs of these customers, an organization should set standardized results (plan) that is in accordance with the ultimate goals (Atkinson et al., 1997). Planning enables the management to control employees" behavior and align it with the organizational goals. Also planning represents a contract between an organization and what its stakeholders desire (Anthony & Govindarajan, 2007). Planning can be action plan (short term) or strategic plan (long term) . An action plan refers to the issues of the near future such as twelve months or less, while strategic (long term) planning focuses on medium and long term future activities (Malmi& Brown, 2008). Where there is planning budgets should also exist. Budgets refer to the tasks of forecasting the future financial performance of an organization to analyze its financial competence to implement its strategies and plans (Davila & Foster, 2007). In other words, budgeting tasks concern the accounting-based information that helps translate plans into measurable actions. As King, Clarkson and Wallace (2010) state, budgets can be used as the best instrument of MCS, because it can effectively influence employees" behavior to translate organization"s goals into achievable actions. In MCS concept, there is budgeting and budgets. Budgeting refers to the process of budget preparation, while budgets are arithmetical expressions of the allocation of available financial resources to the different planned activities (Atkinson et al., 1997; Malmi& Brown, 2008). Empirically, the role of budgets in MCS was extensively researched (e.g. Fruitticher et al., 2005; King et al., 2010; Libby & Lindsay, 2010; Frow et al., 2010). However, the findings of the empirical studies reflect the role of socio-cultural and

economic situations of organizations studied. Basically, organizations use two types of budgets; operating budgets (sales, capital, production/service, labor and administrative) and financial budgets. Even though, budgeting and budgets are criticized for its rigidity, however, to the present day budgets serve as the most common performance measures to the extent that without budgets, performance measurement may not have any meaning. Therefore, budgets still seem to be a prerequisite to the efficiency of performance measurement. Performance measurement (PM) is defined as "the financial or nonfinancial measures used at different levels in organizations to evaluate the success in achieving their objectives, key success factors, strategies and plans" (Otley, 1999). The purpose of PM is to fulfill the expectations of stakeholders through quantitatively measureable results. The common financial performance measures (FPM) that are used by many organizations include; the financial ratios; profitability, liquidity, return on investment, return on equity, residual income, net earnings, earnings per share and revenue growth that are used to assess the success of the organization"s European Journal of Business and Management (Hoque, 2003; Halabi, Barrett &Dyt, 2010). Similarly, to complement the deficiency of FPM, nonfinancial measures have been developed to assess non-quantifiable aspects of an organization"s activities. The main nonfinancial measures are the economic value added, total quality management, productivity, customer satisfaction and market share (Otley, 1999). Recently, balanced scorecard (BSC) is considered as the most integrative performance measurement systems. Developed by Kaplan and Norton in 1990s, BSC was questioned as it failed to explain the informal aspects of the organizational operations specifically that which relates to the human behavior (Berry et al., 2009; Ferreira &Otley, 2009). BSC focuses on the financial measures while it ignores the regular changes of an organization's" environment (Chenhall, 2005). Furthermore, BSC is criticized for its inflexibility in managing the incentive plans and reward as well as for its subjectivity in measuring intrinsic rewards of the employees (Berry et al., 2009) Incentive plans and reward system is the thing that employee value, and hence motivates them to act in a specific way that is in the interest of the organization (Atkinson et al., 1997; Merchant &Otley, 2007). As Anthony & Govindarajan (2007) view, the main goal of incentive plans and reward system is to form goal congruence between organizations goals and employees interests. There are two types of motivating employees; extrinsic and intrinsic. Extrinsic motivation represents the quantifiable benefits that are provided to the employees through financial rewards (Stringer et al., 2011). Commonly, this type of incentive management

is the collective rewards that are given to the employees such as profit sharing schemes, team-based incentives and gainsharing plans. On the other hand, intrinsic motivation is the psychological satisfaction that individuals gain through unquantifiable approaches (Ferreira &Otley, 2009; Stringer et al., 2011). These unquantifiable approaches may include; recognition, fairness and equity, inclusiveness and praise of the employees (Ferreira &Otley, 2009). In the MCS literature, majority of the organization employ the extrinsic motivation methods while intrinsic approaches are hardly used by the studied organizations (Stringer et al., 2011). The flow of the information and communication represents the binding engine that keeps the entire system of the organization together (Ferreira &Otley, 2009). Information flow systems and networks are the approaches used to make the information flow among different divisions, both horizontally and vertically, through formal and informal roots. The efficiency of the information determines the success of the other MCS practices (Herath, 2007). The importance of information sharing among individuals in the organizations is developed by Ferreira and Otley (2009) who considered it as an indispensable control mechanism. Ferreira and Otley (2009) view that information distribution system is a mechanism that motivates employees to behave in the best interest of the organization. Efficient MCS of information flow enables the organization to take proper corrective actions on time and encourages innovation and creativity (Ferreira &Otley, 2009). Additionally, according to Ferreira and Otley (2009), information flow depends on the technology infrastructure, accounting information systems, financial reports and the budgets control practices. Furthermore, information timeliness, accuracy, relevance and reliability may also be essential elements for information flow and distribution.

2.3.4 Result Control

According to Merchant & Van der Stede (2003), result controls are an indirect form of control issue, since they influence employees" actions by taking rewards to desired results. In addition to monetary compensation, the rewards include job security, promotions, autonomy and recognition. Merchant & Van der Stede (2003), argue that result controls are on essential prerequisite for employee empowerment since they provide a substantial amount of autonomy to the employees. The autonomy occurs due to the fact that employees are being held responsible for the results they produce, not the action they take. In other perspective, the result control do not state the action employees shall and take rather focus their attention to the result to be

achieved and motivate them to take appropriate actions they believe will generate the desired result. Merchant & Van der Stede (2003), known scholars in management science have proposed four steps that are required for the implementation of result control. First, an organization should define the right performance dimensions to be measured that are congruent with the organization"s goals and strategies. Second, it is required that the organization measures performance on these dimensions. Third, these organizations ought to set specific target for every aspect of performance dimension that is measured. Finally, the organization should provide rewards and punishments to promote the kind of behaviors that are in line with the desired results.

2.4 ELEMENTS OF MANAGEMENT CONTROL SYSTEM

2.4.1. THE NATURE OF STRATEGY

According to Condly (2003), the term *'strategy'* is probably one of the most ill-defined in the business vocabulary, having a wide range of connotations. As per Kenneth, et.al (2008) strategies, defines how organization should use their resource to meet their objectives. Strategies can be viewed as constraints that organizations place on their employees, so that they will focus their activities on what their organizations do best, particularly in areas where they have an advantage over their competitors.

Most competent managers, spend considerable time thinking about the future. The result may be an in formal understanding of the future directions the entity is going to take or it may be a formal statement of specific plans about how to get there. Such a formal statement a plan is here called a strategic plan, and the process of preparing and revising this statement is called strategic planning (elsewhere called long- range planning and programming (Anthony &Govindarjan, 2001). Strategies can be specified formally or left largely unspecified. Most of organization develop formal strategy through systematic, often elaborate planning process; other organizations do not have formal written strategies instead they try to respond to opportunities that present themselves. Mint berg (1994), identifies three types of strategy: intended, realized and emergent strategies. Intended strategy is strategy as conceived of by the top management team. Here, rationality is limited and the intended strategy is the result of a process of negotiation, bargaining, and compromise, involving many individuals and groups within the organization. Realized strategy is the actual strategy that is implemented. Here, it is only partly

related to that which was intended. Emergent strategy is the decision that emerges from the complex processes in which individual managers interpret the intended strategy and adapt to changing external circumstances. Emergent strategy is the primary determinant of realized strategy. Major elements of these strategies, emerge from a series of interactions between management employee and the environment from decision making spontaneously from local experimentation designed to learn what activities lead to the greatest success.

According to Otley(1999), the contingent theory of management accounting suggest that there is no universally applicable system of management control but what the choice of appropriate control techniques will depend on the circumstance surrounding a specific organization. The central contingent variable is the strategy and objectives that the organization decides to pursue. Not only are these objectives likely to heavily influence the choice of performance measure to be used (i.e., desired outcomes), but they also must act as the criteria against which the contingent choice that have been made can be evaluated (The 'goodness of fit' of the system). Strategy is formulated at various levels of the organizations, corporation, business level, manufacturing level among others.

2.4.2 BUSINESS–LEVEL STRATEGY

According to Simons (2000), Business strategy is concerned with how to compete in defined product markets. Questions such as "How can we differentiate ourselves from competitors to create value in the market place?" or "How can we offer something unique and valuable to our targeted customers?" are typical of business-level strategy. The external business environment, internal capabilities of organizations and the expectation and influences of stakeholders are all potential influences on the development of business-level strategy. Business-level strategy is all about organizations developing a good competitive strategy.

Competitive strategy is concerned with the basis on which a business unit might achieve competitive advantage over its competitors in the market. Competitive strategy in an organization is created in the separate business units of the organization and to develop a good competitive strategy the organization must be able to identify its strategic business units. For public service organizations, the basis on which the organization chooses to sustain the quality of

it services within the agreed budgets, is how it provides best value. Michael Porter proposed three different generic strategies by which an organization could achieve competitive advantage. These were: overall cost leadership, differentiation and focus. Overall cost leadership exists when the firm is able to deliver the same benefit as competitors but at a lower cost. Differentiations exist when the firm is able to deliver benefits that exceed those of competing products. These are based on the principle that organizations achieve competitive advantage by providing their customers with what they want, or need, better or more effectively than competitors. A resource-based view emphasizes that the firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation. Resources are the firm's specific assets useful for creating a cost or differentiation advantage that few competitors can acquire easily. These includes: patents and trademarks, proprietary know how, reputation of the firm, brand quality etc. Capabilities are the firm's ability to utilize its resources effectively. An example is the ability to bring a product to market faster than competitor. For most industrial companies, the manufacturing operation is the largest, the most complex, and the most difficult-to-manage component of the firm. Because of this, firms must have comprehensive manufacturing strategies. Manufacturing strategy is a critical part of the firm's corporate and business strategies, comprising a set of well-coordinated objectives and action programs aimed at securing a long-term, sustainable advantage over competitors. It should be consistent with the firm's overall strategies, as well as with other functional strategies (Fine and Hax, 2013).

2.4.3 MANUFACTURING STRATEGY

For most industrial companies, the manufacturing operation is the largest, the most complex, and the most difficult-to-manage component of the firm. Because of this, firms must have comprehensive manufacturing strategies. Manufacturing strategy is a critical part of the firm's corporate and business strategies, comprising a set of well-coordinated objectives and action programs aimed at securing a long-term, sustainable advantage over competitors. It should be consistent with the firm's overall strategies, as well as with other functional strategies. Firms major strategies at manufacturing process includes; reducing cost of production, improving product quality, reducing lead time, reducing amount of material scrap and reducing amount of production west (Fine and Hax 1985).

According to Swamidass& Newell (1987), manufacturing strategy is viewed as the effective use of manufacturing strengths as a competitive weapon for the achievement of business and corporate goals. Manufacturing strategy reflects the goals and strategies of the business, and enables the manufacturing functions to contribute to the long-term compositeness and performance of the business. According to Bourne (2002), a manufacturing strategy is defined by a pattern of actions, both structural and infrastructural, which determine the capability of a manufacturing system and specify how it will operate to meet a set of manufacturing objectives which are consistent with overall business objectives.

2.4.4 BENEFITS AND LIMITATIONS OF STRATEGIC PLANNING

BENEFITS

Anthony &Govindarjan (2001) identified the benefits and pitfalls of a formal strategic planning process. Accordingly it can give to the organization: 1) a framework for developing the annual budget; 2) a management development tool; 3) a mechanism to force managers to think long term, and 4) a means of aligning managers with the long term strategies of the company.

1. Framework for developing the annual budget: An operating budget calls for resource commitments over the coming year, it is essential that management make such resource commitments with a clear idea of where the organization a heading over the next several years. A strategic plan provides the broader framework. Thus, an important benefit a preparing a strategic plan is that it facilities the formulation of an effective reporting budget and it facilitates optimal resource allocation decision in support of key strategic options.

2. Management development tool: Formal strategy planning in an excellent management education and training tool that provides managers with process for thinking about strategy and their implementation. It is not an overstatement to say that in formal strategic planning, the process by itself is a lot more important than the output of the process which is the plan document.

3. Mechanisms for forcing management to think long term: Managers tend to worry more about tactical issues and managing the present, day-to- day affairs of the business than about creating the future formal strategic planning force managers to make time for thinking through important long-term issues.

4. Means of aligning managers with corporate strategies: The debates, discussion and

negotiation that place during the planning process clarify corporate strategies, unify and align managers with much strategy and reveal the implication of corporate strategy for individual managers.

LIMITATIONS

There are several potential pitfalls or limitation to formal strategic planning. First, there is always a danger that planning can end up becoming a" form filling", bureaucratic exercise, devoid of strategic thinking. In order to minimize this risk of bureaucratization, organizations should periodically ask," Are we getting fresh ideas as a result of the strategic planning process?" The second limitation is that strategic planning is that, it is time consuming and expensive, the most significant expense is the devoted to it by senior management and managers at other levels in the organization (Anthony &Govindarjan, 2001)

2.5. Organizational Decision Making and Objectives

According to Heidi 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 1997). The MCS presents a much wider scope of information on

aspects of Energyco 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, and as such has helped to overcome the „silo" effect at the highest level, leading to a more balanced personal approach.

2.6. Performance Measurement

Malina and Selto (2004) 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(Malina and Selto 2004).

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 me3asures 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.

2.7. Compensation and Rewards

According to the findings of Saroj (2006) by applying quantitative methods of study shows 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 Doan (2007) 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.

2.8 Empirical review

According to a survey carried out on a sample of Canadian manufacturing firms by Gasoline (2005), in the questionnaire, organizations had to indicate the extent to which they use 73 performance measures. They also respond to questions about determinants such as strategy, organizational structure and environmental uncertainty. More than 100 organizations responded to the survey. The response rate was 50.5%. The result shows that manufacturing firms continue to use financial performance measures. Despite the recommendation from experts and academics, the proportion of firms that implement a balanced scorecard or integrated performance measurement system was low. Furthermore, organizations that use these approaches are not employing more extensively non-financial measure than those which are applying traditional performance measurement approach.

According to Auzair and Langfield-Smith (2005) 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 MCSs under investigation are action versus result control, formal versus informal control, tight versus losses 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.

According to Doan (2008) 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 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 47.4 percent 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 Metkaet.al (2006) 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 2003). 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.

According to Joni (2009) 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 Sinikka (2007), using mixed methods of study for achieving the objective ofMCS 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 (2001a) on the adoption and use of sophisticated costing techniques in technology firms.

In a study carried out by Lopez et al., (2015), which aimed to develop the arguments by conveying "process and organizational innovation" into a brief literature. Besides, their study contributes by highlighting the function of MCS and how it will improve the financial performance of business organizations. Based on some previous studies, they have used a

Multi-industry sample.

The findings of Tsamenyi et al., (2011) that was aimed at testing the linkage between MCS, Business strategies and firms' performance among Chinese enterprises in order to understand The effectiveness and efficiency of adopted MCS. Based on the data collected from 215 enterprises that were classified as "pursuing differentiation strategy", they found that the use of more nonfinancial based MCS positively influences firms' performance. In addition, for enterprises classified as "pursuing a low cost strategy", the use of more financial based MCS has a positive effect on the firm's performance. Hence, Tsamenyi et al., (2011) have contributed through their study to give a clear understanding of management accounting
Practices in business strategies and performance in a country like China

Summary of literature and knowledge gap

Some empirical research which investigate the relationship between MCS, and business strategies as well as firms' performance in order to enhance the state of the knowledge in such area, outline imitations, and suggest improvements and directions for future research. Overall, most of the selected papers that have used quantitative research approach found there is a strong linkage between MCS, strategy, and firm's performance. The findings of these studies clearly point out MCS and its role so as to support organizations in formulating and implementing the competitive strategies. As a result, managers have an imperative task to match the appropriate control systems to the right strategies, and implementation of an efficiency-based strategy leads to experience higher performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

Research design is the blueprint for fulfilling research objectives and answering research questions. It ensures that the study would be relevant to the problem and that it uses economical procedures (John et al, 2007).According to Churchill, 1979, Research design provides an overall guide for the collection and analysis of the data of a study. The importance of the research design stems from its role as a critical link between the theory and argument that informed the research and the empirical data collected (Nachmias, 2008:245). A choice of research design reflects decisions about the priority being given to a range of dimensions of the research process (Bryman & Bell, 2007:40), and this, of course, will have considerable influence on lower-level methodological procedures such as sampling and statistical packages. Therefore, it is a blueprint that enables researchers to find answers to the questions being studied for any research project. Together with the clear research plan it provides, constraints and ethical issues that a study will, inevitably, encounter must be taken into account (Saunders et al., 2003).Therefore this research was used descriptive research design because it enables the study to clearly investigate the characteristics and nature of the study undertaken.

3.2 Research Approach

The study was employ a mixed approach and generated both qualitative and quantitative data. The qualitative approach is adopted to get more insight on the quantitative data, to generate explanations for MCS Application process and its role in the organizations. The quantitative research approach is adopted to identify the factors that affect MCS Implementations and those research questions which can be analyzed by using numerical data natures. In terms of time frame, the study adopted across-sectional research in which data from the subjects will be collected in the year 2020. In this study descriptive research design is appropriate.

3.3 Target Population

The target population of this study was Addis Ababa city road authority employees who are working on different departments. Based on the information gained from the human resource management department totally 6000 employees are working at Addis Ababa city road authority (from this 2800 are permanent employees and 4200 are temporary employees who are working in contract). This study focus on Management control system so it is better to include permanent employees as a research participant since they have good knowledge about the system.

3.4 Sample size and Sampling Techniques

According to Gupta and Gupta, 2002, (2011, cited in Solomon) explained determination of sample size is an important decision that has to be taken while selecting appropriate sampling techniques. There are various factors that affect appropriate sample size determinations like the time aspect, the cost aspect, the degree of accuracy desired, etc. According to Solomon (2014, cited in Kothari, 1990): explained if sample is too small, it might be difficult to achieve the objectives of analysis. But if it is too large, it may result in resource wastage when dealing with the sample. Sample error will arise because of not studying the whole population. Whenever sampling, it is usual to miss some helpful information about the population.

According to Yemane, 1967 (Cited in Solomon, 2014) in order to make the study more accurate and viable, determination of appropriate number of sample size is important for the researcher. As a result, the researcher proposes (sample size determination formula as the best method of calculating sufficient amount of sample size for the study. The researcher applied systematic sampling technique because the selected sample list can be easily accessed from 28 departments so as to obtain fairly and easily the required sample size of 350.According to Yemane, the best formula for sample size determination in case of finite population that would implement survey methods is as follows

$$n = \frac{N}{1 + N(e)^2} \qquad n = \frac{2800}{1 + 2800(0.05)^2} \qquad n = 350$$

Where **N**=Population size,

e=expected error (level of precision) and

n= sample size

3.5 Source of Data

The data was gathered from primary sources through the use of structured questionnaires and interview. This will help to determine views and opinions pertaining to the Application of MCS. The secondary data will be collected from the organization websites (internet), books, literatures, journals, and other available sources used to draw conclusions as per the study.

3.6 Data Collection Techniques

The primary data needed to achieve the research objectives through structured questionnaires (both closed ended and open-ended questions) and interviews with the research participant. Survey is a typical method to collect primary data from the participant.Pre-testing of the questionnaire will be conducted to get accurate and relevant information in advance from the participant of the research. Key informant interviews (from managerial stuffs) and systematic observation will be undertaken to clearly answer the research questions.

3.7 Data Analysis

The study utilized both quantitative and qualitative data analysis techniques. the study was used descriptive statistics such as mean values, percentage and frequency tables will be used. The study incorporates the questions in which all of them will be measured on a 5-point Likert-Scale, with "1" stands for "Strongly disagree" and "5" stand for "Strongly Agree". Therefore, mean is used as a measure of central tendency. Furthermore, the data were encoded, processed and analyzed using SPSS.V24

CHAPTER FOUR

RESULT AND DISCUSSION

4.1 Introduction

This chapter covers data presentation, sound interpretation and analysis of the research study. It is consist of three main sub sections: the first section explains demographic characteristics of respondents or research participants; the second section provides answer to the research questions. In order to get answer to the research questions, 350 questionnaires were prepared and planned to distribute Addis Ababa city road Authority, Ethiopia that works in different departments however due to prevalence of corona (COVID-19) collecting data from the selected respondents were difficult since many of the staffs were working from home therefore researcher used internet-based data collection (email). A total of 125 responses received out of the 350 questionnaires sent out through email.

4.2 Demographic Characteristics of the respondents

Table 4.1 Demographic Characteristics of the respondent

Variable	Variable categories	Frequency	Percentages
Sex of the respondents	Male	81	64.48%
	Female	44	35.52%
	Total	**125**	**100.0**
Age of respondents	<25	17	13.6
	26-35	63	50.4
	36-40	21	16.8
	>40	24	19.2
	Total	**125**	**100**
Educational background	Below diploma	14	11.2
	Diploma	17	13.6
	BA/BSC	74	59.2
	Masters and above	20	16.0
	Total	**125**	**100**
Experience	<5	25	20
	6-10	43	34.4

	11-15	29	23.2
	>16	28	22.4
	Total	**125**	**100.0**

Source, own survey, 2020

As shown in the table 4.1 above, among the repondents 81(64.4%) of them are female and the rest 44(35.5%) proportion of are male population, at the time of the survey. This shows the mjority of the employees are of male respondents.

Age was a continuous variable in the data set, but for the purpose of this is grouped in to four age categories. Accordingly, out of the total population those in the age category of under 25 were 17 (13.6%), those in the age category of 26-35 found about 63 (50.4 %), those in age category of 36-40 accounts for 21 (16.8%),and the proportion of respondents above age 40 are 24(19.2%). The result indicates that majority of the employees are in the better age for work.

The result in the above table 4.1 from the data set of the survey is found that respondents who are below diploma educational level were 14 (11.2%), those who have a diploma are 17(13.6%), those respondents have BA/BSC had a proportion of 74(59.2%) and those who had a masters degree and above are 20(16.0%). Based on their educational status the proportion of BA/BSC are higher than the rest. This implies majority of the respondent are degree holders which is good in order to understand the management control system of the management.

As table 4.1 shows above, 25(20.0%) respondents were who works for 5 and less year, 43(34.4%) participant were who works 6-10 years in the organization. The rest, 29(23.2%) and 28(22.4%) respondents were who works for 11-15 years and 16 and above respectively. Thus; majority of the respondents who participated in the study has worked from 6 to 10 and followed by respondents who work 11-15 years in the institute compared to the rest. This indicates that, the work experience of the respondents had adequate exposure to the work area and had a potential of responding reliable responses. This also implies the long experience of the respondent helps them to understand the organization culture and value which in turn result in facilitating good management control.

4.3 Descriptive analysis

According to Pallant, (2005) Explain Descriptive statistics concern the development of certain indices from the raw data. These are mean scores, standard deviations and percentage for each subgroup. Interpreting the result of these values will also give us an indication of the impact of the independent variable. According to (Murry, 2013) create equal intervals for a range of five points Likert scale (that ranges from strongly agree to strongly disagree in the survey questionnaire).

In the analyzing of the data, standard deviation was preferable to use. Small standard deviations show that data are close to the mean whereas a large standard deviation (compared to the mean) indicates that the data points are distant from the mean. The mean is a poor fit of the data. Standard deviation is a measure of how well the mean represents the data. The variables were measured using a five-point Likert scale where 1standsforstrongly disagreeand5stands for strongly Agree. Therefore, the interpretation made using the mean of each variable, as a matter of fact the mean falls between the two ranges, hence if the mean approaches to 1 the interpretation would be the respondents disagree on the variable and if it approaches to 5 the reverse would be true.

4.3.1 Organizational strategic planning and management implementations

Under this sub section the study was discussed how the organizational strategic planning and management implemented in the Addis Ababa City road Authority.

Table 4.2 Organizational strategic planning and mgt			
	N	Mean	Std. Deviation
customer analysis (Satisfaction, behavior etc)	125	3.9920	.62857
Personal analysis (Performance, Satisfaction etc)	125	4.3920	3.60755
analysis and scenarios for alternative strategies	125	1.8560	1.02944
differentiation strategy	125	4.0960	.68890
focus stragety	125	3.9840	1.02378
Cost leadership strategy	125	2.4800	1.30508
Valid N (listwise)	125		

The above table 4.2 discusses the AACRA management control system in terms of the organization planning management dimension. Among the strategic planning and management dimensions personal analysis has a highest mean 4.3 with a standard deviation of 3.6 and followed by differentiation strategy which has a mean 4.0 with 0.68 standard deviation value. Customer analysis and focus strategy also has a mean 3.99 and 3.98 respectively.

The result also indicates analysis scenarios for alternative strategies in the organization has a lowest mean of 1.8 with 1.02 standard deviation followed by cost leadership strategy which has a mean value of 2.4.

The result implies that in the organizational strategic planning and management the AACRA lacks observing and forecasting possible scenarios which limit its ability to see the alternative strategies. But the organization is well work on the personal analysis and differentiation strategy.

Similar findings Metkaet.al (2006) implications of MCS in the formulation, implementation and monitoring of strategies were investigated.. 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.

4.3.2 Compensation that has been practiced in the organization

Under this sub section the research was discussed compensation or reward that has been practiced in the study organizations.

Table 4.3 compensation or reward practiced			
	N	Mean	Std. Deviation
Uses predetermined criteria in evaluation and rewarding	125	1.7200	.76832
financial rewards are shared to employee and	125	1.6080	.58054

	N	Mean	Std. Deviation
managements			
rewarding is financial	125	3.9680	.75066
Rewarding is non financial like giving educational scholarship	125	4.2080	.87341
Valid N (listwise)	125		

Source: own survey, 2020

Tables 4.3 try to see the organization compensation practice which is one of the elements in the management control system. The result revealed that the organization reward the employees in both non financial and financial rewards which have a mean value of 4.2 and 3.9 mean score respectively.

The table further shows the uses of predetermined criteria in evaluation and rewarding in the organization has a mean of 1.7 with a standard deviation of 0.76 also financial rewards are shared to employees and management has a lowest mean score of 1.6 with 0.58 standard deviation value. This implies the characteristics of the organization of being public sector that its main goal is not getting profit.

Similar finding According to the findings of Saroj (2006) by applying quantitative methods of study shows 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.

4.3.3 Performance measurement System Applied

Under this sub section it has been discussed performance measurement system applied in Addis Ababa city road authority.

Table 4.4 Performance measurement system applied			
	N	Mean	Std. Deviation
evaluated by comparing actual performance with pre determined target	125	4.0720	.59806

The organization evaluated the employee Based on financial measures	125	2.6160	1.26226
Evaluated based on non financial measures	125	4.3760	.61780
evaluated on the base of ROI	125	3.0160	1.29505
Valid N (listwise)	125		

Source: own survey, 2020

Among the dimensions under the performance measurement according to table 4.4, evaluation based on non financial measures has the highest mean of 4.3 with 0.61 standard deviation value. The respondents also agree on the organization evaluation system by comparing actual performance with predetermined target which has a mean 4.0 with 0.59 standard deviation values. This implies that the organization evaluates the employees by comparing there performance with the preset plans or goals.

The result also shows that the organization evaluate the employees based on financial measures has a lowest mean of 2.6 with 1.26 standard deviation , and followed by evaluation on the bases of ROI which has a mean 3.0 with 1.29 standard deviation. From this we can understand that since AACRA is a public sector it focus its evaluation of the employees manly based on non financial measures of goal based evaluation system.

The researcher, Saroj (2006), the result was found that 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.

4.3.4 Budgeting system and its effectiveness
Here the study were discussed how budgeting system works and its effectiveness in the study organizations.

Table 4.5 Budgeting system			
	N	Mean	Std. Deviation
Budget targets require cost to be managed carefully	125	3.7360	1.18556
Budget for the capital structure	125	2.4720	1.24159
Budget follow ups, at least quarterly and variance analysis	125	4.2160	.56202
Control over business is achieved by the corporate parent principally by monitoring how well the budget is on target	125	4.2320	.71995
Valid N (listwise)	125		

Source: own survey, 2020

From the descriptive statistics result the respondents were answered questions related to budgeting system of the Addis Ababa City Road Authority pertinent to management control system.The budget is one of the tools utilized in the planning, control and cost managementdecision making process undertaken within the organizations. Budget targets require cost to be managed carefully so Mean 3.7360 it approaches to 4 it shows the respondents were agreed. The result implies cost of the organizations should be managed properly.

The second statement Budget for the capital structure the mean is 2.4720 which means the number lays on disagree. The result implies unable to clearly decide capital project to pursue and which to reject. In this regard the organizations have limitations in differentiating projects might not even be profitable when all costs are considered.

The statement Budget follow ups, at least quarterly and variance analysis the Mean 4.2160 shows the respondents were agreed that the organizations make an assessment and follow up the budget utilizations. When significant variance was identified in the budget monitoring corrective actions were going to be taken. When the variance was temporary it needs to be monitored in the continuous way.

Control over business is achieved by the corporate parent principally by monitoring how well the budget is on target the mean is 4.2320 it shows the respondents were agreed that the organization has able to jointly investigate whether the budget were spent on the target.

Similar finding Simons (2000) budget system use classification. 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.

4.3.5 Decision making capacity of the organization

Under this sub section the study were try to investigate decision making capacity of the organization is effective or not using five scale likert questions.

Table 4.6 Decision making capacity of the organization			
	N	Mean	Std. Deviation
The target set by the organization	125	4.4880	.66740
Comments given by the employee	125	2.0240	1.15328
The strategic plan formulated	125	2.7680	1.31453
Policies or directions given by AACRA	125	1.9680	1.06964
Valid N (listwise)	125		

Source: own survey, 2020

The above descriptive statistics result indicated how decision making in the organization has role in Management control system. The first statement was the target set by the organization (Mean 4.48) it shows that respondents were agreed that decision was made in selecting the target or focus of the organizations.

From the result the statement Comments given by the employee and customers were given the lost mean 2.0240 (which indicated the respondents were disagreed on the statement. The result implies comments and feedback were not forwarded by the employees. In the organizations the employees were not involved in giving comments when ever needed.

The strategic plan formulated the mean is 2.7680 which lays on neutral. This result clearly indicated that employee were in doubt (it mean there were a gap on their participation in formulating the strategic plan of the organizations.

Policies or directions given by Addis Ababa City Road Authority (Mean 1.9680 which is disagree) this result shows decision making of the employee in policies were low. This implies in

the perspective of Management control system there were Centralize decision-making in some areas of the organization.

Similar finding Ayichew (2011) found that CBs 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.

4.3.6 Corporate culture of the organizations

Under this sub section the research was discussed how corporate cultures were practiced in the study organization in the perspective of management control system.

Table 4.7 corporate culture			
	N	Mean	Std. Deviation
Promoting accountability	125	4.4880	.66740
Enhancement of fairness	125	2.7680	1.28349
Openness to information flow	125	1.7040	.69589
Creating trust among colleagues	125	2.1280	.70683
Involving the team in decision making	125	2.0480	1.04616
Commitment to the organizations	125	4.0880	.75151
good working relationship	125	4.1040	.65776
Empowerment of staff	125	1.8720	1.06238
Valid N (listwise)	125		

Source: own survey, 2020

This result shows the beliefs and behaviors that determine how a company's employees and management interact and handle outside business transactions.promoting accountability (mean 4.48 which is agreed on the statement). This result implies employee has developed behaviors that helped them to take responsibility and being accountable for their actions.

Enhancement of fairness (Mean 2.7680 which lies on neutral) this shows the respondents were neutral or undecided about fairness or equal distribution of resources in the organizations.

The third Openness to information flow (Mean 1.7040) which means the participants was disagreed on the statement. From the culture or belief of the organizations there was no openness for smooth communication in between the employees.

Creating trust among colleagues (Mean 2.1280) the respondents were disagreed on the statement. This result shows employees of the organizations and management was not interacted, it means trusts were not developed among them.

Involving the team in decision making (Mean 2.0480) they were disagreed. As the result clearly indicated the importance of having a strong organizational culture were not able them to make and encourage them to participate in decision making.

Commitment to the organizations the Mean 4.0880 were lays on Agreed. Due to the organizational culture (corporate culture) created employees of the organizations were motivated or encouraged to dedicate their effort to the organizations.

Good working relationship the mean were 4.1040 which shows the respondents agreed on the statement. This culture consists of shared beliefs and values established by leaders and then communicated and reinforced through various methods, ultimately shaping employee perceptions, behaviors and understanding that creates good working relationship among each other.

Empowerment of staff (Mean 1.8720) this shows the research participants were disagreed on empowerment of employees. Organizations were not providing their employees with a certain degree of autonomy and control in their day-to-day activities.

Similar finding Mullakhmetovb (2013) found that corporate culture make it possible to use social, moral and psychological and ethical toolkit as well as the organization's culture in the managerial activities, thus contributing to enhanced effectiveness of the managerial activities and to more convenient working conditions of the personnel.

4.3.7 Challenges in implementing Management control system

Under this sub sections the study has tried to discuss factors that affect the application of Management control system in the organization.

Table 4.8 challenges in implementing MCS			
	N	Mean	Std. Deviation
the organization nature has an effect on the control system	125	4.0880	.64778
The structure of the organizations affects the MCS	125	2.0160	.87974
The corporate strategy affect control system	125	2.9360	1.34251
Organizational diversification of the company affects the MCS	125	3.9200	.88536
Management style of the organizations affects the control system	125	3.7600	1.18049
Expectation of stakeholders affects the control system	125	3.4080	1.32650
Valid N (listwise)	125		

Source: own survey, 2020

The above table clearly indicated main challenges in implementing management control system in the study organizations. The first statement the organization nature has an effect on the control system the mean is 4.0880 which shows the respondents were agreed that organizational nature has an impact on effective implementation of management control system.

The structure of the organizations affects the MCS the mean were2.0160 (which shows the respondents were disagreed on the statement mentioned as a factor). The result implies the overall structure of the organization doesn't have an effect on the management control system in Addis Ababa city Road Authority.

The corporate strategy affect control system mean is 2.9360 which lay on neutral. Corporate strategy clearly defined, long-term vision that organizations set, seeking to create corporate value and motivate the workforce to implement the proper actions to achieve. In addition, corporate strategy is a continuous process that requires a constant effort to engage investors in trusting the company with their money, thereby increasing the company's equity. This shows the respondents were not differentiate whether corporate strategy has an impact on management control system the study organizations. Organizational diversification of the company affects the MCS the mean

were3.9200 which shows they were agreed. The result implies since the organization is working with many stakeholders this scenario has a significant impact on the management control system.

Management style of the organizations affects the control system the organization nature has an effect on the control system the mean is 4.0880 which shows the respondents were agreed that organizational nature has an impact on effective implementation of management control system.

Management style of the organizations affects the control system mean value shows 3.7600 the respondents were agreed on the statement as it affects the management control system of the organizations. This implies management styles as it is necessary for a manager to accomplish objectives while maintaining a content and effective work team. Less skilled or motivated employees would require a style that is more controlling and fosters consistent supervision to ensure productivity. Highly motivated or skilled employees require less supervision and direction as they are typically more technically skilled than management and have the ability, and desire, to make more autonomous decisions. These employees would benefit from a management style that is less controlling or hands-off.

Expectation of stakeholders affects the control system the mean value is 3.4080 which lays on neutral that implies respondents were not clearly identify whether stakeholder has a clear impact on management control system of the organizations. Similar findings Wahyudi (2009) In these sense, corporate culture seems to be a crucial factor that can speed or slow down the adoption and development of appropriate models and tools for the efficient and effective planning, management and reporting of universities resources and activities Given these the true factors of success or failure of management control systems in universities. In this sense, the analysis of management control experiences could stress the role of controversies' management to design the different paths of control systems' introduction and development.

CHAPTER FIVE

SUMARRY, CONCLUSION AND RECOMMENDATION

This research assesses the application of Management control System (MCS) And Challenges in Implementing MCS the case of Addis Ababa City Roads Authority. This section presents the summary, overall conclusion of the study, and finally recommendations for both the company and for researchers.

5.1 Summary of Major Findings

The quantitative research approach is adopted to identify the factors that affect MCS Implementations and those research questions which can be analyzed by using numerical data natures. In terms of time frame, the study adopted across-sectional research in which data from the subjects will be collected in the year 2020. In this study descriptive research design is appropriate. In order to get answer the research questions, 350 questionnaires were prepared and planned to distribute Addis Ababa city road Authority, Ethiopia that works in different departments however but A total of 125 responses received out of the 350 questionnaires sent out through email.

From demographic characteristics out of the total population those in the age category of under 25 were 17 (13.6%), those in the age category of 26-35 found about 63 (50.4 %), those in age category of 36-40 accounts for 21 (16.8%),and the proportion of respondents above age 40 are 24(19.2%).

The result indicates that majority of the employees are in the better age for work. from the data set of the survey is found that respondents who are below diploma educational level were 14 (11.2%), those who have a diploma are 17(13.6%), those respondents have BA/BSC had a proportion of 74(59.2%) and those who had a masters degree and above are 20(16.0%).25(20.0%).

Respondents were who works for 5 and less years, 43(34.4%) participant were who works 6-10 years in the organization. The rest, 29(23.2%) and 28(22.4%) respondents were who works for 11-15 years and 16 and above respectively. Thus; majority of the respondents who participated in the study has worked from 6 to 10 and followed by respondents who work 11-15 years in the

institute compared to the rest. This indicates that, the work experience of the respondents had adequate exposure to the work area and had a potential of responding reliable responses.

The variable Organizational strategic planning and management the finding clear shows that in the organizational strategic planning and management the AACRA lacks observing and forecasting possible scenarios which limit its ability to see the alternative strategies. But the organization is well work on the personal analysis and differentiation strategy.

Compensation practiced the organizations The result shows the uses of predetermined criteria in evaluation and rewarding in the organization has a mean of 1.7 with a standard deviation of 0.76 also financial rewards are shared to employees and management has a lowest mean score of 1.6 with 0.58 standard deviation value. This implies the characteristics of the organization of being public sector that its main goal is not getting profit.

The statement Budget follow ups, at least quarterly and variance analysis the Mean 4.2160 shows the respondents were agreed that the organizations make an assessment and follow up the budget utilizations. When significant variance was identified in the budget monitoring corrective actions were going to be taken. When the variance was temporary it needs to be monitored in the continuous way. Control over business is achieved by the corporate parent principally by monitoring how well the budget is on target the mean is 4.2320 it shows the respondents were agreed that the organization has able to jointly investigate whether the budget were spent on the target.

Decision making related issues was discussed and found the result the strategic plan formulated the mean is 2.7680 which lays on neutral. This result clearly indicated that employee were in doubt (it mean there were a gap on their participation in formulating the strategic plan of the organizations. Policies or directions given by Addis Ababa City Road Authority (Mean 1.9680 which is disagree) this result shows decision making of the employee in policies were low. This implies in the perspective of Management control system there were Centralize decision-making in some areas of the organization.

Involving the team in decision making (Mean 2.0480) as the result clearly indicated the importance of having a strong organizational culture was not able those to make and encourage them to participate in decision making. Commitment to the organizations the Mean 4.0880 were lays on Agreed. Due to the organizational culture (corporate culture) created employees of the organizations were motivated or encouraged to dedicate their effort to the organizations. Good working relationship the mean were 4.1040 which shows This culture consists of shared beliefs and values established by leaders and then communicated and reinforced through various methods, ultimately shaping employee perceptions, behaviors and understanding that creates good working relationship among each other. Empowerment of staff (Mean 1.8720) this shows the Organizations were not providing their employees with a certain degree of autonomy and control in their day-to-day activities.

From the challenges in Implementing MCS the study found that organization nature has an effect on the control system the mean is 4.0880 which shows the respondents were agreed that organizational nature has an impact on effective implementation of management control system. Organizational diversification of the company affects the MCS the mean were3.9200 which shows they were agreed. The result implies since the organization is working with many stakeholders this scenario has a significant impact on the management control system. Management style of the organizations affects the control system mean value shows 3.7600 the respondents were agreed on the statement as it affects the management control system of the organizations. This implies management styles as it is necessary for a manager to accomplish objectives while maintaining a content and effective work team.

5.2 Conclusion

The finding shows that in the organizational strategic planning and management the AACRA lacks observing and forecasting possible scenarios which limit its ability to see the alternative strategies. But the organization is well work on the personal analysis and differentiation strategy.

AACRA is a public sector it focus its evaluation of the employees manly based on non financial measures of goal based evaluation system. The study revealed that the organization evaluation system is by comparing actual performance with predetermined target.

The organization Control over business is achieved by the corporate parent principally by monitoring how well the budget is on target and Budget follow ups and variance analysis undertakes at least quarterly.

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

The result further indicates that the organization nature and expectation of stakeholders affects the control system. Overall structure of the organization doesn't have an effect on the management control system in Addis Ababa city Road Authority.

Performance measurement system applied shows that the organization evaluate the employees based on financial measures has a lowest mean of 2.6 with 1.26 standard deviation , and followed by evaluation on the bases of ROI which has a mean 3.0 with 1.29 standard deviation. From this we can understand that since AACRA is a public sector it focus its evaluation of the employees manly based on non financial measures of goal based evaluation system.

5.3 Recommendation

Quality and timely delivery of report requires skill manpower. With this regard, AACRA should consider to enhance institutional strength at all level, through Continuous creation of awareness on project manuals, finance policy and regulations to narrow the gap of knowledge observed around accountants and finance officers.

Performance measurement literature indicates, performance measurement system should in corporate any financial and nonfinancial measure that provides incremental information on managerial efforts. However, AACRA approach to performance measurement is supplementing extensive traditional financial measure less mix of non – financial measures like Customer Satisfaction Index (Gauge of a company's success at meeting customers' needs). As it is argued by different scholars, the non-financial measures are the real measure of performance and they are less exposed to data manipulation as financial measures. Therefore, AACRA should make a

tradeoff of using between financial and non- financial measures and extend to the emerging widely recommended performance measurement system.

AACRA has to enhance measuring individual performance using different various criteria and performance indicators in measuring its employee performance. Therefore, the organization performance measurement system should in corporate any financial and non-financial measurement system as performance measurement tools which will provide incremental information on managerial efforts.

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APPENDIX

ST. MARY'S UNIVERSITY COLLEGE
SCHOOL OF GRADUATE STUDIES
FACULTY OF BUSINESS

Department of MBA in Accounting and Finance

Dear participants,

I am conducting a study on "**ASSESSMENT ON THE APPLICATION OF MANAGEMENT CONTROL SYSTEM IN ADDIS ABABA CITY ROAD AUTHORITY"**. This research is conducted in partial fulfillment of the masters of Degree in Business and Administration (**MBA**) at St, Mary's university school of graduate studies. The survey is intendedtoassess the Application of Management control System (MCS) And Challenges in Implementing MCS the case of Addis Ababa City Roads Authority
.

The questionnaire will not take more than 15 minutes of your time. I do not foresee that you will experience any negative consequences by completing this questionnaire. The researcher will keep any individual information provided herein confidential, not to let it out of his possession, and to analyze the feedback received only at a group level.It will be a great contribution if you may complete all the items covered in the questionnaire since your opinion is of utmost importance for this study.

I thank you in advance for sharing your valuable experience and time in completing the questionnaire

Part One: GENERAL INFORMATION - Please put '√' in the box

1. Gender

Male ☐ Female ☐

2. Age Group:

≤25 26 – 35 ☐ ☐

36 – 40 41 and above ☐ ☐

3. Educational Status:

Below Diploma ☐ Diploma ☐

BA/BSC ☐ Masters & Above ☐

4. Experience:

≤ 5 6 – 10 ☐ ☐

11 – 15 16 and Above ☐ ☐

PART TWO: ORGANIZATIONAL STRATEGIC PLANNING AND MANAGEMENT IMPLEMENTATIONS

Please read each statements in the first column carefully and show the extent of your agreement on the statements by putting (√) the in the next column using the following rating scale (Likert Scale). The rate are - 1 = Strongly Disagree, 2 = Disagree; 3 = Neutral, 4 = Agree, 5 = Strongly Agree

1. **How the organizational strategic planning and management implemented?**

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Customer analysis (satisfaction, behavior etc.)					

Personnel analysis (performance, satisfaction etc.)				
Analysis and scenarios for alternative strategies				
Differentiation strategy (different in service offer, unique service)				
Focus Strategy (specializing in lending Service and etc.)				
Cost leadership strategy (low cost service, efficiency)				

PART THREE: COMPENSATION THAT HAS BEEN PRACTICED IN THE STUDY ORGANIZATION

Please read each statements in the first column carefully and show the extent of your agreement on the statements by putting (√) the in the next column using the following rating scale (Likert Scale). The rate are - 1 = Strongly Disagree, 2 = Disagree; 3 = Neutral, 4 = Agree, 5 = Strongly Agree

1. **What is the compensation (reward) that has been practiced in the study organization?**

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly disagree
The organizations uses predetermined criteria in evaluation and rewarding					
Financial rewards are shared to employee & managements (e.g. profit sharing)					
Rewarding is financial (bonuses, share-based rewards)					

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Rewarding is non-financial (e.g. recognition, promotion, training)					

PART FOUR: PERFORMANCE MEASUREMENT SYSTEM APPLIEDRELATED QUESTIONS

Pleasereadeachstatementcarefullyandshowtheextentofyouragreementonthestatementsby**circling**thenumbersinthecolumnusingthefollowingratingscale(LikertScale).**Where:**1=StronglyDisagree2=Disagree3=Neutral4=Agree5=Strongly

1. **How the performance measurement system is applied?**

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongy Agree
evaluated by comparing actual performance with pre-determined target					
evaluated based on financial measures					
evaluated based on non-financial measures					
evaluated on the basis of Return on investment					

PART FIVE: PERFORMANCE MEASUREMENT SYSTEM APPLIEDRELATED QUESTIONS

Pleasereadeachstatementcarefullyandshowtheextentofyouragreementonthestatementsby**circli
ng**thenumbersinthecolumnusingthefollowingratingscale(LikertScale).**Where:**1=StronglyDis
agree2=Disagree3=Neutral4=Agree5=Strongly

1. **How does budgeting system works and its effectiveness?**

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongy Agree
Budget targets require costs to be managed carefully in my business unit (reverse coded)					
Budget for the firm's capital structure(equity and liabilities)					
Budget follow-ups, at least quarterly, and variance analysis					
Control over my business is achieved by the corporate parent principally by monitoring how well my budget is on target					

**PART SIX:DECISION MAKING CAPACITY OF THE ORGANIZATIONRELATED
QUESTIONS**

Pleasereadeachstatementcarefullyandshowtheextentofyouragreementonthestatementsby**circli ng**thenumbersinthecolumnusingthefollowingratingscale(LikertScale).**Where:**1=StronglyDis agree2=Disagree3=Neutral4=Agree5=Strongly

1. **Does decision making capacity of the organization is effective?**

The organizations makesdecision based on:	Strongly Disagree	Disagree	Neutral	Agree	Strongly disagree
The target set by the organizations					
Comments given by the employee and customers					
The Strategic plan formulated					
Policies or directives given by the Addis Ababa City Administration office					

PART SEVEN:DECISION MAKING CAPACITY OF THE ORGANIZATIONRELATED QUESTIONS

Pleasereadeachstatementcarefullyandshowtheextentofyouragreementonthestatementsby**circli ng**thenumbersinthecolumnusingthefollowingratingscale(LikertScale).**Where:**1=StronglyDis agree2=Disagree3=Neutral4=Agree5=Strongly

1. **How do you rate the implementation of corporate culture?**

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Promoting accountability					

	Strongly Disagree	Disagree	Neutral	Agree	Strongly disagree
Enhancement of fairness					
Openness to information flow					
Creating trust among colleagues					
Involving the team in decision making					
Commitment to the Organization					
Good working relationship					
Empowerment of staff					

PART EIGHT:FACTORS THAT AFFECT MANAGEMENT CONTROL SYSTEM APPLICATION THE STUDY ORGANIZATION RELATED QUESTIONS

Pleasereadeachstatementcarefullyandshowtheextentofyouragreementonthestatementsby**circling**thenumbersinthecolumnusingthefollowingratingscale(LikertScale).**Where:**1=StronglyDisagree2=Disagree3=Neutral4=Agree5=Strongly

1. **What are the Factors that affect Management control system Application?**

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly disagree
The organizations uses predetermined criteria in evaluation and rewarding					
Financial rewards are shared to employee & managements (e.g. profit sharing)					
Rewarding is financial (bonuses, share-based rewards)					

Rewarding is non-financial (e.g. recognition, promotion, training)					