ADDIS ABABA UNIVERSITY

SCHOOL OF GRADUATE STUDIES

MANAGEMENT CONTROL SYSTEM IN MANUFACTURING COMPANIES:

A CASE OF BGI ETHIOPIA

A PARTIAL FULFILLMENT OF A MASTER'S OF SCIENCE DEGREE IN ACCOUNTING AND FINANCE

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DECLARATION

I, the undersigned, declare that this project is my original work and has not been presented for a degree in any other university, and that all sources of materials used for the project have been duly acknowledged.

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ABSTRACT

In general, business environment is becoming more complex and competitive in nature. Companies in different industries are upcoming with a number of differentiated products and characterized by high quality with the level best required level of innovative skills. These all devotions and efforts are aimed of existing successfully in the industry they belong. Walsh et al, (2005) argue that, appropriate design and use of MCS elements have a direct relationship with the success of the organization in competitive market environment. This paper is aimed at assessing BGI Ethiopia on three selected elements of management control system specifically, result control group, evaluating the practice through identifying and relying on theoretical propositions derived from the literature and finally, to recommend on how to improve these elements in their organization.

In this research, an exploratory case study approach along a qualitative research method for collecting and analyzing the data are used. The case chosen in this study is BGI Ethiopia which is one of the brewery companies in the country. The empirical findings were analyzed through identifying themes from the data, by relying on theoretical propositions derived from the literature. The results show the following facts: *Strategy Planning*: the strategic planning practice being used by BGI Ethiopia is in line with the theoretical propositions derived from the literature and control by using goals is highly emphasized.

Performance Measurement and Evaluation: The new performance measurement literature indicates, performance measurement system should in corporate any financial and non-financial measure that provides incremental information on managerial efforts. However, BGI Ethiopia's approach to performance measurement is supplementing extensive traditional financial measure less mix of non – financial measures. The *reward and incentive* are not used very significantly. The system in use extensively consists of monetary rewards; both short term and long term incentives and do not use non-monetary incentives in greater extent to motivate its employees and the system seems incapable of achieving result control, since they influence employees' actions by taking rewards to desired results.

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ABBERAVIATIONS

MC	Management Control
MCS	Management Control System
RC	Result Control
BSC	Balance Scorecard
KPI	Key Performance Indicator
SP	Strategy Planning
PMS	Performance Measurement System
RMS	Reward and Motivation System

CHAPTER ONE

INTRODUCTION

1.1. BACK GROUNG OF THE STUDY

In today's manufacturing industry, customers are becoming more and more demanding on timely deliveries, zero defects and short-lead times which are becoming the norm in almost all industries. Furthermore, market environment has come to be competitive; markets are becoming more international, dynamic and customer driven. According to Krumwiede, et al, 2007, pp 45-62, customers are also want more variety, better quality goods and services, including both reliability and faster delivery. Technological developments are occurring at a faster pace, resulting in new product innovation and improvement in manufacturing industry processes. The resulting competitive environment requires low cost and high quality products in increasing varieties. Walt, 2004, argue that, one way to achieve this is when well defined and integrated management control system constituting proper basis of result control is established.

Management control system is a concept that got attention for the past two decades. Several scholars in the field of management science have been writing more on the essence of management control system in various perspectives. According to Otley et.al [1995, pp.55-60], MCS is processes that embody the techniques and mechanisms which companies' employ to pursue objectives, accomplish goals and successfully pursue strategies. It also integrate motives assist decision making, communicating objectives and provide feedback. 'Anthony and Govindarajan, [2000] have defined, management control system as the process by which managers influence other member of the organization to implement the organization's strategies and can therefore be perceived as the link between strategy formulation and task control to truly achieve success of the organization.

Management control system is represented by its mostly used elements. These are strategic planning, budgeting for internal reporting and decision making; incentives and motivations; performance measurement and evaluations; product costing, pricing and cost control; and waste minimization. These techniques are not mutually exclusive, rather may complement and reinforce each other in an effective management control system.

This paper considers the three elements of management control system stated above; strategic planning, performance measurement and evaluations and incentives including motivations which are major variables of result control. According to Merchant and 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 and Vander Stede argue that result controls are essential prerequisite for employee empowerment since they provide a substantial amount of autonomy to the employees.

1.2. STATEMENT OF THE PROBLEMS

In general, business environment is becoming more complex and competitive in nature. Companies in different industries are upcoming with a number of differentiated products and characterized by high quality with the level best required level of innovative skills. These all devotions and efforts are aimed at bringing success to the industry they belong. According to Walsh et al, [2005], appropriate design and use of MCS elements have a direct relationship with the success of the organization in competitive market environment.

According to Hopper et al [2004], by setting proper management control system, the firm can gain coupled economic rewards, more efficient allocation of resources supplemented by new initiative such as total quality management, continuous improvement and enhanced benefits to employee.

Moreover, internal control become more sensitive in adjusting operation to market information and communication would improve along with advance in information technology, relatively transparent, modern market oriented accounting system would be established in order to assist firms in the decision making process, reporting and overall achievement of its objectives. But, the design, application and existence of better management control system is aggregate contribution made by commonly used elements.

Since, the late 1960's *strategy planning* has become topical with an ever increasing interest in the subject. This is due to a rapid change in business environment in both public and private sector (Bedford et al 1989). The *strategy planning* that is appropriate for one environment setting may be inappropriate in subsequent time periods and the statements of goals need to be clarified and restated in times of rapid changes (Bedford et al, 1989).

Thompson and Strickland [2000] also argue that, good strategy is the one well matched to a company's external and internal situations; as the company's situation changes in a significant ways, then adjustment in a strategy typically are needed. According to Bedford et.al [1989], without constant clarification and reformulation, statement of plans [strategy] becomes ambiguous and there is always a danger that planning can end up becoming a" *form filling"*, bureaucratic exercise, devoid of strategic thinking.

The effectiveness of *performance measurement system* is also an issue of growing importance to industrialists and academicians. Many organizations are investing considerable amount of resource in implementing a measure that reflects all dimensions of their performance [Adam & Baile, 2002]. Different literature generally classifies *performance measure* in two broad categories: *Financia*l and *Non-Financial*. The financial measures have been criticized because they provide a picture that is too narrow and have tendency to manipulate data. Moreover, factors such as non-Financial measures are not taken in to account [Shield`` & Kaplan, 1997].

According to Anthony & Govindarajan [2001], The financial measures encourage a short term action that are not in the companies' long term interest; the pressure to meet current profit level, the more likely the unit manager will be to take short term action that may be wrong in the long run.

Many companies do not have a formal mechanism for updating the measure to align with changing in strategy. As a result, most companies continue to use measures based on yesterday's strategy [Anthony & Govindarajan, 2001]. Furthermore, a various performance measures that have been developed over the years, creates difficulties for firms to actually understand and know the right performance measures that fit their operational activities [Jonson & Lesshammar, 1999].

According to Bonner & Sprinkle, 2002 cited in Condly, et al [2003], *Reward* and *compensation* control intends to motivate and increase the performance of individuals and groups within organizations by attaching rewards to the achievement of goals or task. Various incentive programs target either the individual or the group. Brickley et al [2007] summarized the four potential problems with subjective performance evaluation: shirking among supervisors, forced distribution, influence costs, and reneging. In other words, supervisors may shirk on performance evaluations, for instance, by rating all employees about the same, overstating the poor performers, compressing ratings around some norm rather than disentangling good performers from bad performers, or ranking employees based on personal likes and dislikes. Forced distribution refers to an allotment where a fixed fraction of employees is assigned to specific categories. This can also lead to inaccuracies – especially if applied to small groups. Influence costs include those unproductive activities employees engage in order to influence outcomes. Reneging refers to the potential that a firm will break a promise to reward superior performance, since the subjective measures are not verifiable.

In addition, Condly, et al [2003], argues that, an incentive targeted to team of employees is less powerful than individual incentives. Some incentive programs last only for a few days or weeks while others go on for years. The duration of an incentive program might influence their effect and the long run and intermediary incentives are less effective than short term incentives [Condly, et al 2003].

In Ethiopian manufacturing enterprises management control practice is not well developed. Since, the manufacturing sector is a nascent industry; no sophisticated system may be expected. Yet, in this global world of trade and industry, where customers have several choice, competitive products and services only are destined to succeeds. As indicated above[Welsh et.al, 2005] success of the business organization in competitive market environment is directly related to design and use of the elements of MCS.

Due to the yet nascent manufacturing industry of the country, case study or survey of MCS practice may not as such be of interest. However, we can not deter study of MCS and its application in Ethiopia industries.

BGI Ethiopia is an international company engaged in the brewery business for years operating in several countries, and it s now operating in Ethiopia. It is one of the companies that introduced competition in the country breaking the traditional consus building approach on pricing and distribution of goods. This study, therefore, takes BGI Ethiopia as a case study to demonstrate the design and the use of elements of MCS.

1.2.1 RESEARCH QUESTIONS

So as to evaluate the elements of management control system the following research questions are formulated in order to conduct the study.

- What are strategies being pursued by BGI Ethiopia in producing and marketing its product (Both business level and manufacturing strategies)?
- Is BGI Ethiopia's strategies being used are subject to adjustment as change occurred in the business environment (internal and external environment)?

- Which performance measures techniques are being used by BGI Ethiopia (Financial / non-financial / hybrid)?
- How does BGI Ethiopia measure performance? The process [Both at entity and individual level] and how often measured?
- What is the purpose of reward and motivation plans of BGI Ethiopia?
- What types of incentive and motivation system are being used by BGI Ethiopia (material/ non- material, monetary/ non- monetary, group/ individual based, the time pattern and how it is used (the process)?
- What is the extent of employees' benefits in the designed incentive and motivation system of BGI Ethiopia?

1.3 OBJECTIVES OF THE STUDY

1.3.1 GENERAL OBJECTIVES

The objective of this study is to assess BGI Ethiopia's on selected elements of management control system specifically, result control group.

1.3.2 SPECIFIC OBJECTIVES

The specific objectives of this paper are:

- To assess whether BGI Ethiopia's strategies are well designed and adjusted to accommodate changes in the business environment.
- To investigate what methods of performance measurement and evaluation used framework are used in MC and task control (financial, non-financial or mixed measures, individual or team based performance measure).
- To analyze reward, incentive and system of motivation used by the company to motivate its employees.

1.4 SIGNIFICANCE OF THE STUDY

It is stated in the problem discussion that, the current growing business environment is becoming more complex and dynamic in nature. Several improvements in quality of goods and services, innovation skills have been observed. In a normal circumstance, these features are demanded by almost all companies. In other term, it will lead to successful existence in the today's competitive market environment. The role of well defined MCS tools has been undoubtedly argued by various management science scholars.

This paper tries to bring to light the experience of one of the internationally experienced company to demonstrate the practice of MC. Practice of the company is evaluated against the theoretical principles and any gap is reported. It is hoped that the study shed light on important aspect of MCS practice and will also provoke future research on the subject in connection to enterprises in the country.

1.5 SCOPE OF THE STUDY

In conducting this study only one company is selected for the assessment. Since, it is a case study; the findings cannot be generalized to all manufacturing companies. Among management control system tools, planning, performance measurement and evaluation, reward, incentive and motivation are selected to be analyzed. The need to focus on one company alone arose from the fact that BGI Ethiopia has international experience to work in competition environment.

1.6 STRUCTURE OF THE STUDY

Chapter one introduces the topic under study. It explains the background of the study and organization, statement of the problem, objective of the study, significance of the study, and finally the plan of the study. Chapter two discusses the method of research design; data collection and analysis.

The chapter three reviews the related literature to the topic understudy. It starts with an over view of different definition of the MCS. It continued with the discussion of tools of MCS to give clear essences

In chapter four, using interview, questionnaire at departmental level, and some documented data, the empirical findings from BGI are analyzed.

Chapter five presents the conclusion drawn from the findings and recommendations.

CHAPTER TWO

2. METHODOLOGY OF THE STUDY

The methodology of the study aims to describe the methodological approach of the study, and the research process as well.

2.1 RESEARCH DESIGN

The exploratory research design is used which is aimed at investigating/evaluating the case on management control system environment based on the research questions. In preparing this paper, the researcher also used a qualitative method. The qualitative method is much about interpreting information of different kinds and it is engaged with the main emphasis to gain insight of the organization's operations and to construct explanations. The reason for choosing qualitative approach is due, to the aim of receiving in depth information regarding how the management control elements are practiced and used in BGI Ethiopia.

2.2 DATA COLLECTION TECHINIQUES

In this research, the major methods used for data collection are interview, and questionnaire. The items are aimed at obtaining information about different aspects of the selected management control system tools. Apart from these tools, some secondary data are used. The questionnaire included open ended and close ended items structured into three sections. The sections include:

Mission, Vision, and Strategic Planning: This section seeks to understand what are the key strategies that are central to the organization's overall future success, and how the company evaluating its achievement for each of these objectives.

Performance Measurement and Evaluation**:** This section is structured to investigate the kind of performance measurement framework being used by the organization. The recent performance measurement literature suggests, that organizations must use new performance measurement approaches such as the balanced scorecard and that measures should be aligned with contextual factors such as strategy and organizational structure. This section is aimed at evaluating the measures being used by the organization and individual or team based performance measure are being used by the case enterprise.

Incentives, Reward and Motivation System: This section is aimed to investigate how employees are evaluated and rewarded, and the type of reward and motivation system being used in motivating employees: material and the non-material. This section also includes a pattern of time the reward and motivation process is taken place.

2.3 TYPES OF DATA AND METHODS OF COLLECTION

PRIMARY DATA

For this research, the primary data was collected through an interview and self administered structure questionnaire. The questionnaire included open ended and close ended items; the respondent provides answers for the close ended items. Then an interview was conducted, the purpose of the interview was to get a picture of the current situation of the company and to answer the open ended items on the questionnaire. The interview was analyzed on the basis of the notes to be written during the interview.

SECONDARY DATA

In addition to the interview and questionnaire, secondary data was collected from the company's operating manuals, policy manuals, strategic plan document and reference to performance report to investigate the strategic plans and for performance measurement and evaluations system.

2.4 METHODS OF DATA ANALYSIS

For this study, the researcher used the theoretical propositions analytical data analysis. The original objectives and design of the case study is based on each propositions, which in turn reflected a set of research questions, views of the literature and propositions. The empirical evidences are analyzed through identifying theme from the data. The interview, questioner and other data transcript will be carefully identified to find the points that match with the conceptual framework.

2.5 SELECTION OF THE COMPANIES

To conduct this study, the manufacturing company BGI Ethiopia is selected. This is due to:

- BGI Ethiopia is one the successful manufacturing company in the brewery industry. Selecting a successful company has a merit of asking about the contribution of the management control system to the success of the company.
- BGI Ethiopia has international experience in operating brewery beyond Ethiopia with sufficient experience to competitive environment.
- It is believed that BGI Ethiopia has standard system of management information and control system as compared to many of our brewery companies that were operating and are more uniform pricing of products instead of competition.

CHAPTER THREE

3. REVIEW OF RELATED LITERATURE

3.1 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].

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 hand Otley 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.

3.2 OBJECTS 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.

3.2.1 CATAGORIES OF CONTROL SYSTEM

Result control

According to Merchant and 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 and Vander Stede 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, 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.

Action Control

Action control aim to ensure that employees perform certain actions that are in the organization's best interests. The effectiveness and stability depend on the manager's knowledge of the desired actions as well as their ability to ensure that these actions occur.
According to Merchant and Van der stede, action controls come in four different forms: behavioral constraints, pre action reviews, action accountability and redundancy. Behavioral constraint can be applied physically (on) administratively. A physical constraint includes limiting the access to valuable and classified areas. Administrative control on the other hand compromise elements such as restriction of decision making authority. For instance limiting the amount of expenditure a manager operating at a certain level (on approve) and separation of duties.

A Pre action review refers to both formal and informal reviews of actions. A typical example of a formal pre action review is the requirement of approvals for expenditure of certain nature such as capital expenditure. A coffee break conversation between a manager and subordinates on progress of a certain project would be a simple example of an informal pre action review [Merchant & Van der stede, 2003].

Action accountability is the third form of action controls which relates the idea of holding employees accountable for the actions they take. The requirement for implementing action accountability controls are virtually similar to the requirements presented in related with result controls. An organization should first define what actions are acceptable on unacceptable, communicate those definitions to employees, observe what happens and finally reward appropriate actions and punishment unacceptable actions [Merchant & Van der stede, 2003].

The authors state that the communication of the actions for which employees are held accountable can be carried out in two ways, either administratively (or) socially. Work rules, policies and procedures as well as company codes of conduct are typically examples of administrative modes of communications. If the actions are not communicated in written form, they can be communicated orally i.e., in meetings (or) in private face-to-face communication.

The authors proposed redundancy as the fourth form of action control. Redundancy refers to assigning of an excessive amount to conduct a task. The idea is to increase the probability that a task will be satisfactorily accomplished. However, Merchant of Van der stede, point out, this is not a very common form of action controls since it is expensive and inefficient in nature.

Personal Control

Merchant & Van der stede, [2003], argue that personal controls are aimed at serving three basic purpose and three major implementation methods. Firstly, personal controls help to make it clear to employees what the organization expects from them. Secondly, they are helpful in ensuring that each employee has all the necessary capabilities such as experience and intelligence and resources to perform a good job. Thirdly, personal control may be used to increase the likelihood that employees will engage in self-monitoring.

According to Merchant & Van der stede, [2003], personal controls can be implemented through three major methods: (a) selection and placement of employees, (b) training (c) job design and provide on placement can sometimes be regarded as a single most important elements of MCS. Finding the right people in the right place to do particular job of highest significance. Therefore firms, devote a considerable effort of time to conduct it on a proper basis. Training obviously addresses the basic purpose of personal controls by producing information about organizations expectation and the best work practice.

Moreover, training can have a positive effect on employee's motivation through giving a greater sense of professionalism. Finally, merchant and Vander stede, argue job design or provision of necessary can be used to increase the probability that an employee will succeed. This implies the employee jobs are not too complex and there are all the necessary job specification and resource in place.

Cultural controls

According to Merchant & Vander stede, [2003], as organizations culture is based on shared traditions, norms, beliefs, values, ideologies, attitudes and ways of behaving, it creates a powerful group pressure on individuals who do not act compliantly. It is however, questionable whether managers are able to create or shape organizations culture even if they wanted to. These authors' states that cultures remain relatively fixed overtime, but managers have five different methods of shaping-culture: codes of conduct, group based rewards, intra organizational transfers, physical and social arrangement and tone at the top.

3.3 ELEMENTS OF MANAGEMENT CONTROL SYSTEM

3.3.1 STRATEGIC PLANNING

3.3.1.1 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 [2008l 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.

3.3.1.2 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, 1985].

3.3.1.3 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.

3.3.1.4 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]

3.3.2 PERFORMANCE MEASURMENT AND EVALUATION

According to Neely et al [1995], performance measure can be defined as the process of quantifying the efficiency and effectiveness of action. Literally it is the process of quantifying action, where measurement is the process of qualification and action leads to performance.

3.3.2.1 PERFORMANCE MEASUREMENT

There is currently considerable interest in performance measurement. Management interest can be gauged from the high levels of attendance at the large number of industrial conferences on the subject. Academic interest is manifest through the considerable number of papers on the topic [Neely, 1999].

In the late 1970s and 1980s, authors expressed a general dissatisfaction with traditional backward looking accounting based performance measurement systems, identifying their shortcomings and arguing for change. In the late 1980s and early 1990s, this dissatisfaction led to the development of "balanced" or "multi-dimensional" performance measurement frameworks. These new frameworks placed emphasis on non-financial, external and future looking performance measures. They were then quickly followed by the development of management processes specifically designed to give practicing managers the tools to develop or redesign their performance measurement system.

According to Neely *et al.* [1995], performance measurement can be defined as the process of quantifying the efficiency and effectiveness of action. In a general term, it is the process of quantifying action, where measurement is the process of quantification and action leads to performance. According to the marketing perspective, organizations achieve their goals, that is, they perform, by satisfying their customers with greater efficiency and effectiveness than their competitors.

The terms efficiency and effectiveness are used precisely in this context. Effectiveness refers to the extent to which customer requirements are met, while efficiency is a measure of how economically the firm's resources are utilized when providing a given level of customer satisfaction. This is an important point because it not only identifies two fundamental dimensions of performance, but also highlights the fact that there can be internal as well as external reasons for pursuing specific courses of action. Take, for example, one of the quality-related dimensions of performance – product reliability.

In terms of effectiveness, achieving a higher level of product reliability might lead to greater customer satisfaction. In terms of efficiency, it might reduce the costs incurred by the business through decreased field failure and warranty claims. Hence the level of performance a business attains is a function of the efficiency and effectiveness of the actions it undertakes. Even though, the measurements of business performance has long been of central interest to both managers and management accounting researchers, management accounting has tended to restrict itself to considering only financial performance and to use frameworks and theories drawn primarily from the discipline of economics.

Most economic theories analyzing the choice of performance measure indicate the performance measure systems should incorporate any financial (on) non financial measures that provide incremental information on managerial effort. Despite these model firms traditionally have relied almost exclusively as financial measure such as budgets profits, accounting returns and stock returns for measuring performance.

In an attempt to overcome these criticisms, performance measurement frameworks have been developed to encourage a more balanced view. These new performance measurement frameworks may have answered the question “what types of measures should a company use?” but they did not provide specific advice to a company implementing a performance measurement system. To do this a management process was needed and there are a number of different approaches in the literature. For example:

- Bitton (1990) proposes an approach based on the GRAI methodology for enterprise modeling, breaking down the planning and control of manufacturing into discrete decision making units and then attaching appropriate performance measures to each decision;
- Dixon *et al.* (1990). use their performance measurement questionnaire (PMQ) to identify strengths and failings in the current performance measurement system and then propose a workshop to develop, revise and re-focus the set of performance measures;
- Kaplan and Norton’s (1993), approach for the development of the balanced scorecard was based around using interviews with members of the senior management team to surface differences in strategic priorities before resolving these differences through facilitated workshops; there are number of other similar consultancy processes.
- Eccles and Pyburn (1992) described a facilitated process which makes managers’ thinking explicit through building a performance model linking changes in people’s knowledge and organizational processes, through performance in the market, to the financial performance of the business. A similar approach is now adopted for the development of the balanced scorecard (Kaplan and Norton, 1996).
- Neely et. al (1996), have developed a management process which is fully described in the workbook getting the Measure of Your Business.

3.3.2.2 FINANCIAL AND NON - FINANCIAL PERFORMANCE MEASURE

Most economic theories analyzing the choice of performance measures indicate that performance measurement systems should incorporate any financial or non-financial measure that provides incremental information on managerial effort (Felltham and Xie, 1994). Despite these models, firms traditionally have relied almost exclusively on financial measures such as budgets, profits, accounting returns and stock returns for measuring performance (Balkcom et al. 1997). Many firms now believe that the heavy emphasis placed on financial measures is inconsistent with their relative importance.

3.4.2.4 INDIVIDUAL MEASURES OF PERFORMANCE

According to Jackson (2000), argument, in measuring individual performance, an important aspect is to use a limited amount of performance measures in order to take appropriate actions. To produce unnecessary data is expensive, and can lead to more harm than good. More measurement will require a greater deal of time for analysis by managers, or, alternatively, it is a waste to collect data if they are ignored. It is therefore important to pay attention to limiting the data requirements to both the necessary detail and frequency, to consider whether the data is needed for a specific useful purpose, and whether the cost of producing it is not higher than expected benefit (Bernalak, 1997).

Tengan (2005), concludes, a large number of performance measures also increase the risk of information overload, meaning that it is practically impossible to distinguish information with high importance from information with less value Information overload can lead to all information being ignored instead of used. In other words, it is vital that old performance measures, that are no longer of interest, are removed from the performance measurement system.

3.4.2.5 ENTITY LEVEL PERFORMANCE MEASUREMENT

Performance measurement system as an entity identifies various dimension of a performance measurement system and examines the performance system as a whole. According to Neely *et al.* (1995), it is possible to build a performance measurement framework around the concepts of results and determinants. Neely et al. (1995), have suggested that the manufacturing task, and hence the key dimensions of manufacturing performance, can be defined in terms of quality, time, price (cost), and flexibility. Other authors take different stances. Fitzgerald et al. (1991) suggest that there are two basic types of performance measures process in any organization – those that relate to results (competitiveness, financial performance) to the planned one and those that focus on the determinants of the results (quality, flexibility, resource utilization and innovation). Concluding, this suggests that it should be possible to build a performance measurement framework around the concepts of results and determinants.

3.4.2.5.1 PERFORMANCE MEASURMENT TO QUALITY

Traditionally quality has been defined in terms of conformance to specification and hence Quality-based measures of performance have focused on issues such as the number of defects produced and the cost of quality. For performance measures relating to quality, the following are identified: Performance, Features, Reliability, Conformance, Technical durability, Serviceability, Aesthetics Cost, Perceived quality.

3.4.2.5.2 PERFORMANCE MEASUREMENTS TO TIME

Time has been described as both a source of competitive advantage and the fundamental measure of manufacturing performance. Under the just-in-time (JIT) manufacturing Philosophy the production or delivery of goods just too early or just too late is seen as waste. Similarly, one of the objectives of optimized production technology (OPT) is the minimization of throughput times. For performance measures relating to time, the following are identified: Manufacturing lead time, Rate of production introduction, Deliver lead time, Due-date performance and Frequency of delivery.

3.4.2.5.3 PERFORMANCE MEASUREMENT TO COST

These are a set of metrics to understand factory-related costs that are incurred during productions and expenses that occur apart from the actual manufacturing. Along with costs such as direct material and direct labor, the cost of manufacturing overhead. For performance measures relating to cost, the following are identified: Manufacturing cost, Value added, Selling price, Running cost and Service cost.

3.4.2.5.4 PERFORMANCE MEASUREMENT TO FLEXIBILITY

Slack (1983) identifies range, cost and time as dimensions of flexibility, although he later modifies this model so that it includes only range and response, where range refers to the issue of how far the manufacturing system can change and response focuses on the question of how rapidly and cheaply it can change.

Gerwin (1987) observes that very little is known about the implications of flexibility for manufacturing management and suggests that part of the problem arises from the lack of operational measures of flexibility. For performance measures relating to flexibility, the following are identified: Material quality, Output quality, new product, Modify product, Deliverability, Volume, and Resource mix.

3.4.2.6 CRITERIA FOR SUCCESSFUL PERFORMANCE MEASURMENT

In designing a successful performance measure, one should first question what criteria a performance measure should fulfill to be considered as successful. The criteria of a successful performance measure are as follows: when the information from the performance measure is considered as being beneficial to the organization. The term beneficial should in this context be interpreted as a combination of quality and usefulness and when the information from the performance measures is used by the organization.

To collect information that is not used is a waste of resources. This criterion is highly dependent on the information retrieved from the measure going to the right person at the right time. In other words, it is suggested that the success and importance of a performance measure increases with increased information benefit and increased information usage (Tangen, 2005).

3.4.2.7 REASERCH FINDINGS ON PERFORMANCE MEASUREMENT ALTERNATIVES

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 to 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 the chartered institute of management accountants' research report (1993) there does not appear to be an optimal mix of specific financial and non financial indicators applicable to all manufacturers. Rather, each company must find a balance of measure which it views as sufficiently adding to the management of its operational level.

According to survey conducted by Schiemann and Lingle (2005), on 203 executives in 1996 regarding the quality, uses and perceived importance of various financial and non-financial performance measures (Schiemann and Lingle 2005).

Their results are presented in the following table. While 82 percent of the respondents valued financial information highly, more than 90 percent clearly defined financial measures in each performance area, included these measures in regular management reviews, and linked compensation to financial performance.

In contrast, 85 percent valued customer information highly, but only 76 percent included satisfaction measures in management reviews, just 48 percent clearly defined customer satisfaction for each performance area or used these measures for driving organizational change, and only 37 percent linked compensation to customer satisfaction. Similar disparities exist for measures of operating efficiency, employee performance, community and environment, and innovation and change. More importantly, most executives had little confidence in any of their measures, with only 61 percent willing to bet their jobs on the quality of their financial performance information and only 41 percent on the quality of operating efficiency indicators, the highest rated non-financial measure.

3.4.8 TYPES OF PERFORMANCE MEASURING VARIABLES

The following tables summarizes of financial and non-financial performance measuring variables, which are identified from the performance measurement literature [Neely et al 1995, Anthony and Govindarajan, 2000]

QUALITY	B. TIME
	o Manufacturing lead-time
o Cost quality	o Rate of production introduction
o Cost reduction resulting from quality	o Deliver lead time
o product improvement	o Due-date performance
o Market share	o Frequency of delivery
o Number of customer complaints	o Time-to-market for new products
A. CUSTOMERS AND SALES:	C. PRODUCTION
	o Inventory turnover ratio
o Average sales order [booking]	o Number and length of down time
o Number of lines or products	o Number of units produced
o Number of new customer contacts	o Number of machine or plant hours used
o Number of new customers	o Number of production waste
o Number of warranty claims	o Unit of output per hours of labor
o Total sales per region	o Account receivable turnover
o Total sales per sale representative	o Amount of finished goods inventory
o Selling price	o Amount of material scrap produced
o Customer satisfaction	o Amount of raw material inventory
o Number of new products	o Amount of work in process inventory
o Back orders	o Quantity of energy consumed
o customer retention	o Number of production waste
o customer loyalty	o Cost per damaged unit produced

Table 1:Non-financial performance measurement parameters [KSF]

Source: Neely et al 1995 and Anthony and Govindarajan, 2000

A. FINANCIAL RATIOS	B.VARIANCE OF LABOR, MATERIAL
o	
o Current ratio	o Labor efficiency variance
o Profit before tax	o Labor rate variance
o Return on sales	o Materials price variance
o Total expenses	o Materials quantity variance
o Total net cash flow	
o Operating margin	C. STOCK, MARKET SHARE
o Total of cash receipts	o Earnings per share
o Manufacturing cost	o Price-earnings ratio
o Running cost	Stock price
o Asset turnover	E. REVENUES AND PROFITS
o Total operating cash flows	o Cost of goods sold
o Total costs by department	o Gross profit margin
Total of cash disbursements	o Total sales of revenues
D. ACCOUNT RECIEVABLE	Net profit
o Number of doubtful account receivable	
o Total sales per employee	

Table 2: Financial performance measurement parameters

Source: Neely et al 1995, Anthony and Govindarajan, 2000

3.4.3 INCENTIVES AND MOTIVATIONS

3.4.3.1 THE CONCEPT OF INCENTIVE AND MOTIVATION

The major element of *financial result control system* deals with the provision of organizational *rewards*. According to Steven Kerr, [2003] cited in Kenneth et al, [2008], performance should be clear and unambiguousness of what needs to be done and incentives follows performance. Although there are potentially a very large number of incentives that could be utilized a useful distinction is between the *material* and the *non-material.*

Additionally, material (tangible) incentives could be broken down further into monetary and non-monetary. Thus, three incentives types are identified: monetary i.e., cash, non monetary tangible and non-monetary intangible. None of the studies identified used inventive non-monetary intangible, though this could not have known before the meta-analytic review of studies began (Steven J. Condly et al, 2003).

People either work as individuals, (or) as part of units. Various incentive programs target either the individual (or) the group. Presumably, individuals have more control over an outcome when it is more (or) less under their individual may in fact put considerable effort, but still not realize any bonus because of performance lapses on the part of team members. Therefore, incentives targeted to individual employees would be more powerful than team incentives (Condly et al. 2003).

Reward and compensation control intend to motivate and increase the performance of individuals and groups within organizations by attaching rewards to the achievement of goals. It has been argued that reward and compensation control are of help in controlling employees effort direction (the tasks individuals focus on) effort duration (how long individuals devote themselves to the task) and effort intensity (the amount of attention individuals devote to the task) (Bonner & Sprinke, 2002 cited in Condly, et al 2003).

3.4.3.2 NATURE OF INCENTIVES AND MOTIVATION

3.4.3.2.1 INTRINSIC MOTIVATION

There are two types of motivation present in the workplace: intrinsic and extrinsic [Adams, 2007]. This means that job-related variables affecting motivation have intrinsic and extrinsic motivational value that drives employees to perform. Given that most employees are intrinsically and extrinsically motivated simultaneously, hence a conclusion can be made that intrinsic and extrinsic motivations are not mutually exclusive.

Intrinsic stems from the word "internal" which implies that motivation comes from within the individual, in other words, this type of motivation is self-generated. When intrinsically motivated, the individual will strive to satisfy the three innate psychological needs, namely needs for, autonomy, competence, and relatedness. (Deci, Ryan, 2000), Such employees like to have substantial freedom to make decisions, a channel to express creativity, opportunities for advancement, recognition for good work, be treated in a polite and thoughtful manner, and possess the passion to take on tasks that are both challenging and meaningful of which feel an inherent sense of accomplishment upon successful completion. For instance, an employee who has encountered an intriguingly difficult problem is unlikely to surrender just because the problem appears to be unsolvable. Instead, the employee will put forth his/her best efforts, say by investing more time or taking the task home, as he/she views the problem as challenging and worthwhile to complete. In fact, many researchers have acknowledged and proven that intrinsic motivation does have a positive long-term effect and is regarded as the "true motivators".

3.4.3.2.2 EXTRINSIC MOTIVATION

Extrinsic motivation refers to motivation that comes from outside an individual in exchange for external rewards not derived from the work itself. Extrinsic motivation takes place in the form of tangible monetary or non-monetary incentives such as pay rise, gift certificates, stock options, vacation trips, wall plaques, company banquets, movie tickets etc. For instance, an employee may work doubly hard to finish a project before the scheduled deadline because of the tangible reward that accompanies for working efficiently.

The extrinsic rewards can act as positive reinforces and have found to be an effective tool for short-term gains (Adams 2007) i.e. meeting immediate goals, it may have long-term adverse impacts on employees' behavior. Considerable research results indicate that employees who do not expect to receive extrinsic rewards outperform those who expect reward (Kohn 1993).

However, extrinsic rewards can still be useful if administered under the right circumstances, such as the absence or low levels of intrinsic motivation or when the job is unchallenging and mundane.

3.4.3.3 TYPES OF EXTRINSIC INCENTIVES

3.4.3.3.1 MONETARY INCENTIVES

Attractive remuneration packages are offered to entice best talents to a position, ensuring they perform at maximum efficacy, and retain talented employees within the organization while commission-based remuneration are extended to encourage employees to meet organizational targets.

Today, organizations provide monetary incentives in two ways, namely, direct monetary compensation and indirect monetary compensation. Two of the most commonly acknowledged direct monetary compensations are salary and commission [Jeffrey and Shaffer, 2007].

Indirect monetary compensation or otherwise simply known as employee benefits may include reimbursement for education, childcare benefits, insurance and paid leave. Certainly salary is important as it not only satisfies every human basic physiological need but also it is quite often used as a basis for comparison against similar positions in other organizations. However, in order to evaluate the overall attractiveness of an organization's total remuneration package, one must also examine other forms of indirect compensation such as profit-sharing, Employee Stock Ownership Plan (ESOP) and the like. Most of the indirect form of compensation are used to address the second level needs of employees i.e. need for safety [Jeffrey and Shaffer, 2007].

Profit-sharing plan is an incentive-based remuneration that recognizes employees' effort and positive contribution towards the organization's success by disbursing a percentage (approximately 15-20%) of the organization's profit to eligible employees. Employee Stock Ownership Plan (ESOP), like profit-sharing plan, has been a growing worldwide phenomenon in the recent years. This scheme enables employees to have a share of ownership of the organization they work for. The underlying objectives of an ESOP are to attract, retain, motivate, and reward employees [Hewitt Associates 2006].

Common stocks are usually acquired through the ESOP distribution where stocks are allocated to each individual employee's account or purchased directly from the organization and dividends are paid contingent on the value of the stock. In both cases, the employees' performance is directly linked to the rewards. As a result, employees are inclined to commit to goals, work hard and help make the organization successful [Hewitt Associates 2006].

According to Hewitt Associates [2006], In addition to base pay, nowadays more and more organizations are turning to variable incentives to align employees' behavior with organization goals. The four commonly adopted types of variable incentives are: membership/seniority-based rewards, job status-based rewards, competency-based rewards and performance-based rewards. Shane et al. (2001), presents about, seniority-based rewards, which tend to be based on age, and may do not truly motivate job performance while rewards based on job, competency and performance ensure that employees are paid based on their value and contribution. When salary is contingent on the efforts of an employee, very likely the employee will enhance his/her competitiveness and performance in the workplace.

Monetary incentives provide the flexibility for the recipient to spend the money however he/she wants and it may be useful when employees can expect the same kind of reward the following year if they put in the same amount of hard work as before. Employees, whose efforts relate closely to key performance results, such as executives, production and sales workers, may benefit the most from monetary incentives. Nevertheless, organizations cannot rely solely on monetary incentives to motivate the diverse workforce due to the limitations it brings. Firstly, according to Hertzberg's theory, money can prevent employee dissatisfaction but does not necessarily motivate.

Secondly, while employees see bonus payments in a positive light, there are, however, negative impacts on motivation if the incentive plan is not carefully designed.

3.4.3.3.1.1 TANGIBLE NON- MONETARY INCENTIVES

In today's workplace, the use of tangible non-monetary incentives to motivate employees and boost performance is ever increasing. The 2005 Incentive Federation Study of the top 5 most frequently used tangible non-monetary incentives are gift certificates, plaques/trophies, apparels, cameras and watches. Tangible non-monetary incentives are as important as monetary incentives. When carefully designed and implemented, these incentives pegged to performance can be a very effective tool for motivation and to increase productivity. Since tangible non-monetary incentives are often less expensive easily administered and more personal, it can be used to consistently reward employee's excellent performance (Incentive Federation 2005).

Jeffrey and Shaffer (2007) identified four psychological processes that influence how employees perceive tangible non-monetary incentives. The four processes can be split into two categories: first, perceived value of the reward that includes *evaluability* and *separability*, and second, value of earning the reward that includes justifiability and social reinforcement. According to expectancy theory of motivation, an employee's decision to exert effort on a task is positively related to the value of earning the incentive. If the tangible non-monetary incentives offered are valued by the employees, where the expectancy and value of earning the incentive is high, then very likely they will be motivated to achieve the results.

Tangible non-monetary incentives are said to be more valuable than monetary incentives. This means that the perceived value of a tangible non-monetary incentive increases when the incentive appears to be attractive or is able to ignite pleasurable affections from within the employee. Moreover, since it is difficult to ascribe an actual monetary value to non-monetary incentives like award plaques or paid-up vacation trips, therefore the emotional feeling attached to the item becomes a substitute for the" predicted consumption utility" of the incentive (Scott & Shaffer 2007).

Tangible non-monetary incentives are typically viewed upon as luxury items especially if the purchase cannot be justified had the employee bought it. For example, lower income strata families may not have expendable income to enjoy pleasurable activities with their family. Offering tangible non-monetary incentives such as a night at a movie theatre or a family dinner at a nice restaurant may be valuable to them. Hence through hard work is the most attractive way to acquire something which would be unjustifiable otherwise.

Lastly, employees need social acknowledgement for something good they have done. Tangible non-monetary incentives serve this purpose particularly better than monetary an incentive as the latter is, firstly, a socially unacceptable manner of seeking cognition from peers and, secondly, people are uncomfortable and unlikely to flaunt their monetary rewards in front of others. Conversely, the physicality of a tangible on-monetary incentive like a wall plaque is palpable to everyone and the employee has no reason to feel embarrass raving about it. In addition, the tangibility provides a lasting reminder of achievement, and most importantly, how the reward was achieved (Incentive Federation 2005).

3.4.3.3.1.2 INTANGIBLE NON-MONETARY INCENTIVES

Intangible non-monetary incentives are the third cluster of rewards that completes an organization's total rewards system. Incentives that fall under this category are either social-related or job-related.

First of all, employee recognition is defined as a channel through which employer's use to express gratitude to employees for their good work attitude, efforts, contributions, or outstanding performance. There are many permutations and combinations to recognize employees, such as formally or informally, publicly or privately, and written or verbal or nonverbal [Hewitt Associates 2006].

Motivating employees through recognition involves little to no cost for the organization and sometimes it is offered along with tangible incentives. There is a subtle difference between recognition, feedback, and social greetings but for this paper, these incentives will be termed as 'social rewards'

All employees want to be acknowledged for a job well done, whether it is from one's superiors, peers, family or friends. When their efforts go unappreciated or unnoticed, they start to develop a feeling of resentment against the organization. A simple thank- you note, a smile, a friendly greeting, a pat on the back, a nod of the head, and a warm hand shake are all simple gestures needed to make employees feel cared-for by the organization. In addition, if the recognizer is someone respectable or with superior status, it will have considerable positive impact on the employee.

Showing appreciation to employees often goes beyond friendly social gestures. Employees want to feel appreciated and valued by the organization. This is where recognition comes in. Employees whose efforts are recognized feel good about themselves and hence a strong mental link between their actions and the positive emotional reward is formed [Jeffrey and Shaffer, 2007].

Consistent with reinforcement theory, through such positive reinforcement, the likelihood of the behavior to be repeated will increase. Praise and recognition boost employees' morale as it allows employees to think better of themselves and their ability to contribute to organization goals. Employees with high self-esteem are more intrinsically motivated, optimistic, willing to work harder, participative at work, work efficiently, have lower absenteeism rate and are generally more satisfied with their jobs (Scott & Shaffer 2007).

3.4.3.6 REASERCH FINDINGS ON INCENTIVES AND MOTIVATION

According to research findings done by Condly et al., 2003, of all adequately designed field and laboratory research on the use of incentives to motivate performance on approximately 600 studies, 45 were qualified. The overall average effect of all incentive programs in all working settings and on all work task was a 22% gain in performance.

This effect was not influenced by locating of the study (business, government or school) the competitive structure of the incentive system (programs where only the highest performers get incentives versus programs where everyone who increased performance receivers incentives. In these studies, money was found to result in higher performance gains then non-monetary, tangible incentives. Condly et.al (2003) also discovered that long - term incentives generate higher performance out comes than short- term incentives programs. Contrary to the believes that extrinsic reward hinder intrinsic motivation, the study found that employees who are rewarded for exceeding targets are inclined to invest more time and efforts on tasks that leads to satisfaction.

3.4.3.7 CLASSIFICATION AND TYPES OF INCENTIVES

For this research the framework for classification of incentives developed by Pattanayak 2005 is selected to be considered.

MONTARY INCENTIVES	TANGIBLE NON –MONTARY INCENTIVES	INTANGIBLE NON- MONTARY INCENTIVES
<u>DIRECT COMPENSATION</u>: o Base salary o Commission o Bonus <u>IN DIRECT COMPENSATION</u>: o Insurance for health/disability/life o Profit sharing plans o Retirement plans o Employee Stock Ownership Plan (ESOP) o Educational o Overtime policy o Paid leave o Unpaid leave o Subsidized utilities o Subsidized housing o Travel expenses o Childcare	<u>TREATS:</u> o Free meal treats o Free food/beverage o Festival bashes o Coffee breaks o Picnics o Birthday treats <u>AWARDS</u> o Plaques or trophies o Certificates or scrolls o Letters of appreciation o Knick-knacks: o Decorative o Tie pins or brooches o Calendars or diaries o Watch o Electronic items o Newspaper <u>TOKENS</u>: o Tickets to movies/ sports events/concerts o Gift like Certificates, Accessories/garments o Paid-up vacation trips o Anniversary/birthday	<u>SOCIAL REWARDS</u>: o Informal recognition o Verbal recognition o Formal recognition at office; get-togethers o Feedback o Friendly greetings o Pat on the back o Club privileges o Use of company facilities, equipment, supplies <u>TASK RELATED REWARDS</u>: o More responsibility o Meaningful work o Job rotation o Special assignments o Training o Representing the company at public o Autonomy over work o Promotion o Flexible hours

Table 3: Classification of incentives by Pattanayak 2005

SUMMARY OF THEORITICAL PROPOSITIONS

For analyzing the selected elements of management control system specifically, result control group, reviewing the present practices being used and then comparing those practices with the theoretical frameworks, the theoretical proposition that state what MC elements should be in practice are used. These are the major theoretical proposition:

Strategic Planning: In evaluating this element, theoretical proposition by Anthony and Govindarjan, [2001], Simons [2002], Fin and Hax [1998], for business and manufacturing level strategy, Thompson and Strickland [2002] and Bedford et.al. [1989] are used to analyze the strategy and change in the environment.

Performance measurement and evaluation: In analyzing the choice of performance measure Felltham and Xie [1994] and Fitzgerald et.al 1995, to evaluate performance measurement process and Bernalak [1997] for the process in measuring individual performance are used.

Incentives and motivations: To evaluate the incentives and motivation system, theoretical proposition by Condly [2003], Jeffrey and Shaffer, [2007], Hewitt Associates [2006] and Scott & Shaffer [2007] are mainly used.

CHAPTER FOUR

4. EMPERICAL FINDINGS AND ANALYSIS

4.1 BACK GROUND OF COMPANY

In 1922, Addis Ababa was just beginning to see the first sparks of technology when Saint George the nation's first brewery was founded. The founder was Mussie Dawit Hale from Belgian and latter sold it to a German company. The brewery stand near the Mexico square, Addis Ababa and occupies an area of 20,000 square meters of land on the same site it was 80 years before. It was a fine and a big building and it started off as one of the pioneers in the Ethiopia's industrial development.

The factory started with 300 employees who worked in two shifts for 24 hours. They started with machine that operates by hand and foot and were done by direct human labor. Transporting of raw materials to the silo, fermenting of the malt, boiling the barley, filtering the beer and filling the bottles and other were done manually. The management staffs and leading technicians were all were foreigners. During its first year of operations 200 bottles which were half liter size were produced daily.

In 1952/3, an Ethiopian company took over the brewery and was organized as a share holding entity, with the larger share owned by Emperor Haile Silasse. In 1970's the name of the brewery was changed to "Pilsher Brewery" and later as "Addis Ababa Brewery". Saint George brewery is once again privatized. The factory is now owned by BGI an internationally acclaimed brewing company that operates in many countries all over the world.

It has excellent reputation in producing quality beer and brought Saint George to the same standard. BGI invested 700 million birr in restructuring Saint George brewery factory. Currently it has $162 million capitals. In 1989, BGI Ethiopia opened the sister company in Kombolcha. As of 2010 [2002 EC] data, it has 784 permanent employees in both st. George and kombolcha divisions. St. George division has 507 employees, 74 females and 433 men. Besides, this division has 240 temporary employees paying 25 birr per day. Kombolcha division, employees 277 permanent employees. The head quarter is in Addis Ababa, the Saint George division and the kombolcha division are administered under the Saint George division.

4.1.2 PRODUCT

BGI Ethiopia Currently is producing bottled beer and un bottled beer. These products are almost the same except their alcoholic content and price difference. Under the bottled beer it produces, three type of beers; st.George, Castle and Bati. Each beer is expressed as Regular larger beer, Draught fresh beers [which are fresh and pasteurized].

4.1.3 TARGET MARKET

There is a potential local demand for the products in beverage industry. Even though this is the case, BGI Ethiopia exports significant quantities of its product to the rest of the world. It exports to Europe; London, Rome, Parries, Frankfurt and Sidney, Washington and other African countries. For the domestic market, it divided the country in to 8 zones to distribute its products. The division is based on potential demand. This are, central, Addis Ababa, west1, west2, east, south, north, and north east and the Addis Ababa division constitutes 45% of all the domestic markets.

4.1.4 BGI ETHIOPIA'S ORGANIZATIONAL STRUCTURE

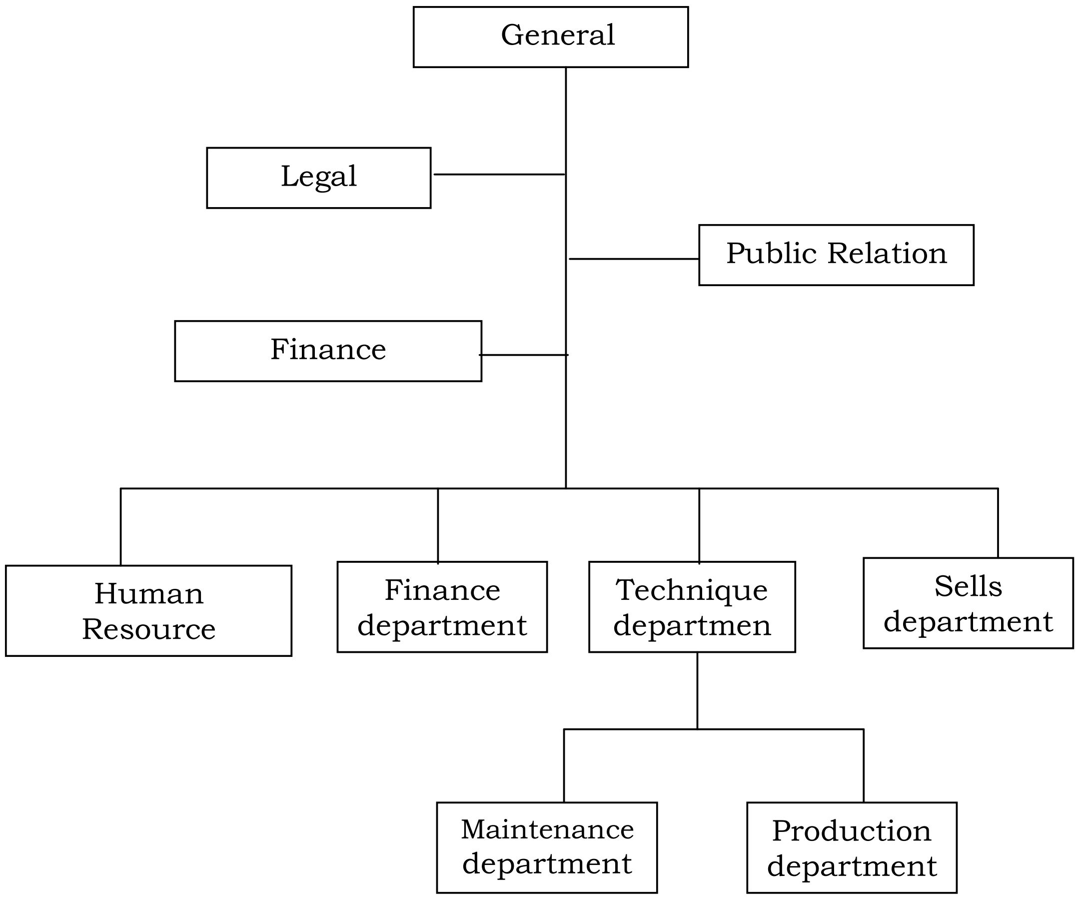

Figure 1

4.2 STRATEGY PLANNING

4.2.1 BUSINESS LEVEL STRATEGY

BGI Ethiopia has a formal statement of plans about how to get the future competitive position. BGI Ethiopia has a general business strategy that is continuously increasing quality of its product and market share through customer satisfaction to get higher financial profits.

As it is stated in their vision statements supplying quality beer along increasing, dependable customer service to achieve higher customer satisfaction is the core value of the company. The company uses quality products and customer satisfactions as the core weapon to be differentiated from other competitors and it is a customer oriented company.

BGI Ethiopia is a customer based company. It had various actions in creating long term intimacy with its customers. As per the interview held with newly assigned sales and marketing manager of castle wine, who has worked in different position in sales department, BGI extends various kinds of support to beer sellers in order to guarantee the safe delivery of beer to customers and to increase its customer satisfaction. BGI Ethiopia is the only and first enterprise to offer such service free of charge which has a significant role in creating strong customer intimacy. Beer and cooling go hand - in – hand, But most of its customers refrigerators' are very old, so the brewery allocates a large amount of budgets every year for the purchase of refrigerator that are distributed to customers. It also gives a refrigerator maintenance services. CO_2 gas is paramount to serve draught beer and is other cheap means that can damage the quality. Therefore, the factory covers the expense of CO_2 gas for those customers who cannot afford it.

Apart from the training at the brewery a mobile professional group gives cleaning service to beer selling out lets. The company provides modern washing machines to its customers with the necessary training so that they could join the cleaning process. The brewery demonstrates its dependable partnership with its customers by furnishing their shops with neon lights donating professional devices and by extending its assistance to those who require it.

4.2.2 MANUFACTURING STRATEGY

The empirical evidence has shown that, BGI Ethiopia has no a clearly stated manufacture strategies. However, the interview held with the technical and production department head, claimed BGI Ethiopia is using the widely used manufacturing process strategies. Reducing the production cost, increasing quality of products and reducing production waste are core components of company's manufacturing process strategy.

4.2.3 STRATEGY Vs CHANGE IN THE ENVIROMENT

Interviews held with the regional sales manager of BGI Ethiopia claimed that, the business level strategy has been changing due to deliberate and emergent change in internal and external environment. The most significant driver is the dynamic nature of the business. The regional sales manager said, “We do have personnel in a regional level who are responsible in evaluating each major activities of the business environment, i.e. competitors, customers and then report to the management staffs”.

Through this process when there is a change in the business environment, the strategy which copes up the new emerged environment. The manager extends, “We are not operating as a company, rather we are a team” while asked about alignment of the news strategy with operating departments. Since, it is all about deciding the way to get the future position, in preparing the new strategy plan, all department are a member. But, the time pattern of reviewing its objectives and strategies is not clearly stated.

4.3 PERFORMANCE MEASURMENT AND EVALUATION

4.3.1 ENTITY LEVEL PERFORMANCE MEASURMENT

To analyze the performance measures currently being monitored by BGI Ethiopia, the appropriate way selected is identifying the mix of financial and non-financial measures from performance measurement literature (from Anthony and Govindrajan 2000, Neely, 1995). Then, 64 performance measure consisting 48 non-financial measures and 26 financial measures are outlined. The non-financial measures are grouped in 4 dimensions and the financial measures grouped in 5 dimensions.

Three major departments that have exposure to those measures; production, sales and marketing and accounting department were given these measures and asked which measure they are considering for measuring the entity performance.

The result showed, out of 38 non-financial measures the company uses only 17 non- financial measures and out of 26 financial measures identified, BGI Ethiopia is monitoring 25 financial measures. Thus, BGI Ethiopia is monitoring a traditional performance measurement with a mix of financial and non- financial measure relaying almost exclusively on the financial measure. The following table's shows the non-financial measures and financial measures being used by BGI Ethiopia.

4.3.1.2 FRAMEWORK OF PERFORMANCE MEASURES CURRENTLY BEING USED BY BGI ETHIOPIA [Financial]

B. FINANCIAL RATIOS	B. VARIANCE OF LABOR, MATERIAL
o Current ratio	
o Profit before tax	o Labor efficiency variance
o Return on sales	o Materials price variance
o Total expenses	o Materials quantity variance
o Total net cash flow	
o Operating margin	C. STOCK, MARKET SHARE
o Total of cash receipts	o Earnings per share
o Manufacturing cost	o Price-earnings ratio
o Running cost	o Stock price
o Asset turnover	G. REVENUES AND PROFITS
o Total operating cash flows	o Cost of goods sold
o Total costs by department	o Gross profit margin
o Total of cash disbursements	o Total sales of revenues
F. ACCOUNT RECIEVABLE	o Net profit
o Number of doubtful account receivable	
o Total sales per employee	

Table 5: Financial performance measures being used by BGI Ethiopia

4.3.1.3 FRAMEWORK OF PERFORMANCE MEASURES CURRENTLY BEING USED BY BGI ETHIOPIA [Non- financial]

D. <u>QUALITY</u> ○ Cost quality ○ Cost reduction resulting from quality ○ Number of customer complaints E. <u>CUSTOMERS AND SALES:</u> ○ Average sales order [booking] ○ Number of new customer contacts ○ Number of new customers ○ Number of warranty claims ○ Total sales per region ○ Total sales per sale representation ○ Customer satisfaction ○ Number of new products ○ Back orders ○ customer retention ○ customer loyalty	F. <u>TIME</u> ○ Manufacturing lead-time ○ Deliver lead time ○ Due-date performance ○ Frequency of delivery G. <u>PRODUCTION</u> ○ Inventory turnover ratio ○ Number of units produced ○ Number of production waste ○ Amount of finished goods inventory ○ Amount of material scrap produced ○ Amount of raw material inventory ○ Amount of work in process inventory ○ Quantity of energy consumed ○ Number of production waste

Table 6: Non- financial performance measures being used by BGI Ethiopia

4.3.2 PROCESS OF MEASURING ENTITY PERFORMANCE

4.3.2.1 FINANCIAL MEASURE

BGI Ethiopia measures its entity level performance annually. At the beginning of each year entity wide financial plan that to be achieved with in that period will be prepared and distributed to each department aimed at creating alignment. This financial plan contains extensively financial or accounting measures such as, profit before tax, return on sales, total expenses, total net cash flow, operating margin, total of cash receipts, manufacturing cost, running cost, asset turnover. Then, at the end of the period, plans will be compared with the performance (outcomes).

4.3.2.2 NON-FINANCIAL MEASURE

BGI Ethiopia is using the non-financial measures as indicators of performance. According to sales and marketing department head, for instance "backorders" which is a non-financial measure, is used as an indicator of imbalance between sales and production department and suggests customer dissatisfaction. Customer satisfaction is also measured by the number of complaints letter and customer survey made once year for major customers. Customer loyalty is also used as an indication of their performance and measured in terms of repeated purchase made by customers.

4.3.3 INDIVIDUAL MEASURE OF PERFORMANCE

The interview held with the vice human resource manager showed that, BG1 Ethiopia has individual performance measurement system that is integrated with incentive and motivation plan. The company measures its employee performance twice a year. The first measurement is held on July each year and known by employees as "short term" performance measure. This measure is aimed at alerting employees to the second phase of performance measurement which held on December 31st. The purposes of these measures are, determining the value of all employees, improving employee's performance and identifying the need for trainings. In all these process if any default is identified, employees will be communicated by direct letter. The immediate boss is responsible to measure its employee's performance and later the result of employees in all departments will be given to the human resource department.

Table below shows the level and a group of employees whose performance is measured.

S.N0	*CATEGORIES*	*EMPLOYEES MEASURED*	LEVEL
1	Ordinary Employees	All Employees	1
2	Sales Employees	Direct sales staffs Sales management Staffs	2
3	Management Staffs	All department heads Top management	3

Table: 7

For all categories, BGI Ethiopia use the most commonly used rating reference in measuring its employee's performance. These include unsatisfactory, Average, Good, Very Good and Excellent and the following definitions are attached with.

- *Unsatisfactory:* Refers individuals constantly, doesn't meet the job requirements.
- *Average:* Individual sometimes doesn't meet the job requirement.
- *Good:* refers individual meet the job requirement and sometimes exceeds the requirements of the job.
- *Very Good*: Individual consistently exceeds the requirements of the job.

These rates of references identified above are attached with the following values:

UNSATISFACTORY	*AVERAGE*	*GOOD*	*VERY GOOD*	EXCELLENT
0.01-1.0	1.01-2.0	2.01-3.0	3.01-4.0	4.01-5.0

Table: 8

4.3.3.1 ORDINARY EMPLOYEES

The company uses measuring form which contains various core criteria and key performance indicators. For all the three categories identified above, form that are different in content are used. All employees are subject to the first performance indicator which is known as "*General*". This indicator contains five criteria; Punctuality, Quality of work, Volume and swiftness, Team work and safe guarding of company assets. Under these five criteria there are different items aimed at measuring the real achievement of employees.

Punctuality measures the time lines and the ethical state of employees. Quality of work is designed to measure the jobs knowledge and quality of work done by employees. Under team work and company sprit indicators, both the external and internal environments are considered.

The internal factors measure employee's ability to work in team and to cooperate with others workers within the company. The ability of employees in giving good image of the company to third party through its behavior is measured under external factor. Safeguarding of companies assets uses to measure employee's performance in protecting and maintaining company's assets and properties. Finally, criteria's and core indicators will be correlated with value given above along the rating references given to each employee.

4.3.3.2 SALES EMPLOYEES

Since, BGI Ethiopia is a customer based company; it had another parameter to measure its sales department employee's performance.

4.3.3.2.1 DIRECT SALES STAFF

In addition to *"general"* performance indicators used for all employees, the company uses two performance indicators to measure its direct sales staffs that have direct contact with its customers. These are customer relationship and company image.

The first indicator is aimed to evaluate the sales man skills in maintaining good relationship with customers even in adverse condition, finding solution for customer's problems and even anticipating customer problems and taking sound decisions. The later criteria measures ability related with companies position in whatever and whenever conditions.

4.3.3.2.2 SALES MANAGEMENT STAFFS

Apart from indicators that used to measure direct sales staffs, sales management staffs are subject to indicators that aimed to measure management competency skills. These are communication, initiative and judgments. Communication indicators measures the skills in communicating with subordinates, appearance and politeness, writing and oral expression assertivtiy (skills of arguing someone), coordination with other departments, ability in making sound decisions and recognizing significant deviations from standards. Searching for new ideas, supporting creative effort are issues under initiative and judgment indicators. Flexibility and adaptability indicators used to measure skills of sales management in adapting to change in work conditions and working methods, readiness and eagerness for training and related issues.

4.3.3.3 MANAGEMENT STAFFS

BGI Ethiopia uses three performance indicators for measuring employees of management staffs. The first indicator is *"General"* that used for all employees. Second, it uses “self management" indicator which include three factors to measure their competency in different dimensions.

These are communication, initiative judgment and flexibility. Communication indicators measures the skills in communicating with subordinates, appearance and politeness, writing and oral expression assertvitiy (skills of arguing someone), coordination with other departments, ability in making sound decisions and recognizing significant deviations from standards. Searching for new ideas, supporting creative effort are issues under initiative and judgment indicators.

Flexibility and adaptability indicators used to measure skills of sales management in adapting to change in work conditions and working methods, readiness and eagerness for training and related issues. The third is "supervision of man power". It measures ability of leadership, stimulating effective work, commands, confidence and respect and controlling work done. For these all performance indicators using the value attached with rate of reference the result is computed and communicated to employees.

For all the above groups, criteria’s and core indicators will be correlated with value given along the rating references given to each employee and given to the human resource department which finalize the results and communicate to each employees. The company attaches letter permanently for those employees who got unsatisfactory aggregate status. Furthermore, the company has a system through which immediate discussion is held with employees with average aggregate status. As we have seen above, BGI Ethiopia uses various criteria and performance indicators in measuring its employee performance.

4.4 INCENTIVES AND MOTIVATIOINS

4.4.1 PURPOSE OF INCENTIVES

BGI Ethiopia uses reward system for different purpose. Primary, it uses to motivate employees to greater performance. As far as concerning the interview held with w/o Alemtsehay Yamane, the reward system is also used to inform employees about which parameters are important and where they should put their focus at the future time. Furthermore, it also used to retain key performers as well as to attract competent employees used to employees and it way for the company to share profits with the employees and making them feel appreciated.

4.4.2 GROUP Vs INDIVIDUAL INCENTIVES

The discussion about group or individual based incentives, interview with the vice Human resource manager claimed, BGI Ethiopian is currently using a combination of these two modes of incentives. But, it ought to prefer more individual based rewards since; they are supposed to be more independents.

4.4.3 CURRENT REWARD SYSTEM

BGI Ethiopian has a reward and compensation system that integrated two groups within the company. The first, Category contains the management staff and the second is for remaining employee.

In order to analyze, the types of incentives and reward being used by BGI Ethiopia, which is the relevant question in the study, 49 types of incentives and rewards which contains monetary, non- monetary intangible and non monetary tangible that has been used by different companies were identified from the literature [Pattanayak, 2005]. These 49 types of incentives were given to the human resource department and they are asked to choose incentives that are being used by the company. Table 3, shows the 49 incentives type identified.

The empirical findings shows, the reward and incentive system in use extensively consists of monetary rewards. The only thing that could be seen as non-monetary incentives is that, the festive basher, coffee breaks, Job rotation, training and growth. In general BGI Ethiopia do not are non-monetary incentives in greater extent to motivate it employees. The following table shows types of incentives and reward being used by BG1 Ethiopia

4.4.3.1 TYPES OF INCENTIVES AND REWARDS BEING USED BY BGI ETHIOPIA

MONTARY INCENTIVES	TANGIBLE NON –MONTARY INCENTIVES	INTANGIBLE NON- MONTARY INCENTIVES
DIRECT COMPENSATION: o Base salary o Commission o Bonus IN DIRECT COMPENSATION: o Insurance for health/disability/life o Profit sharing plans o Retirement plans o Educational o Overtime policy o Paid leave o Unpaid leave o Subsidized utilities o Travel expenses	TREATS: o Festival bashes o Coffee breaks	TASK RELATED REWARDS: o Meaningful work o Job rotation o Training o Representing the company at public o Promotion o Flexible hours

Table 7: Incentives and reward types being used by BGI Ethiopia

4.4.3.2 MONETARY INCENTIVES

As we can see from the above table, out of the 16, monetary incentive identified the company exclusively relied on 13 monetary incentives to motivate its employee. The major monetary incentives includes performance based salary, short term incentive plan and long –term incentive plan. The short term incentive plan is usually received in the form of cash bonus and commission. This type of incentive is given to employees based on the performance result of each employee that is done twice a year. The long-term incentive plan is defined over periods greater than one year. It is given to employees for specified years mostly 3 to 4 years. The company assesses the cost of living and inflation level each year and provided increment in salary to enhance the level of living for its employees.

4.4.3.2.1 SHORT TERM INCENTIVES

BONUS

BG Ethiopia uses a different manner for paying bonus to its employees. There is no specified percentage of profit to be paid in the form of bonus. The criteria being used to pay or not to pay bonus is the yearly budgeted sales and performance of sales. The company pays bonus if the yearly sales grew at 50 percent. The payment is based employee performance measured and it ranges from 0 to 3 month salary. The following table shows the scale being use for baying bonus.

Status	*Points*		*Bonus [salary] Monthly salary]*
	From	To	
Unsatisfactory	0.0	2.0	0.5
Average	1.01	2.0	1.0
Good	2.01	3.0	2.0
Very Good	3.01	4.0	2.5
Excellent	4.01	5.0	3.0

2. COMMISSION ON SALES

The company pays commission on sales based on performance of employees at different levels .Among these levels sales coordinators, sales officers, sales drivers and sales department wage based employees are the major one .As it is presented is performance Measurement discussion, the amount of sales performed will be compared with the budgeted one. These are the scales, for paying commissions.

1. **FOR SALES CORDINATOR level 3**

Basis: 75% of salary

PERFORMANCE [% OF BUDGETED]	*COMMISSION [% OF SALARY]*
Up to 84.9	0
85 - 89.9	10
90 - 94.9	15
95 – 99.9	25
100 – 109.9	35
110 – 119.9	50
≥ 119.9	70

2. **FOR SALES CORDINATOR LEVEL 1 and 2**

Company's sales coordinators with level 1 and 2 are eligible to get sales commission based on their achievement of budgeted sales. As it is summarized below, the basis for computation of commission is 80 % their salary. For instance, if he/she achieved 85 - 089.9% of the budgeted sales, he/she will have 15%, of 80% of their salary. The following table shows the scales for sales coordinator level 1 and 2.

Basis: 80% of salary

PERFORMANCE [% OF BUDGETED]	*COMMISSION [% OF SALARY]*
Up to 89.9	0
85 - 89.9	15
90 - 94.9	15
95 – 99.9	25
100 – 119.9	30
100 – 109.9	35
≥ 120	50

3. FOR JUNIOR AND SENIOR SALES OFFICERS

Company's junior and senior sales officers are eligible to get sales commission based on their achievement of budgeted sales. The following table shows the scale for paying commissions.

Basis: 80% of salary

PERFORMANCE [% OF BUDGETED]	*COMMISSION [% OF SALARY]*
Up to 89.9	0
85 - 89.9	15
90 - 94.9	10
95 – 99.9	15
100 – 119.9	20
110 – 109.9	35
≥ 120	50

4. FOR SALES DEPARTMENT DRIVERS

Based on the following scales, drivers in the sales department will have commission based on their performance of sales against the budgeted figures.

Basis: 100% of salary

PERFORMANCE [% OF BUDGETED]	*COMMISSION [% OF SALARY]*
Up to 99.9	0
100 - 109.9	5
> 110	10

4.4.3.2.2 LONG – TERM INCENTIVES

BGI Ethiopia is monitoring the long - term incentives as main motivation factor. According to w/o Alemtsehay Tamene, the vice Human resource department head, considering the country's economic situations, inflation, BGI Ethiopia pays incremental salary to enhance the living level of its employee which mostly lasts to three years. This payment is based on the following criteria:

- If sales within the year increases by 20% than the budgeted amount, 2% of salary increase will be paid. In addition, 3% of total last year salary will also be paid.
- If sales increase by 50% than the budgeted one, additional 2% of their salary will be paid.

This long term incentive is based on the result obtained from individual performance measure which held each year and uses the following scale:

STATUS	*POINTS*		*SALARY INCREASE % OF MONTHLY SALARY*
	From	To	
Unsatisfactory	0.01	1.0	0.5
Average	1.01	2.0	1.5
Good	2.01	3.0	3.0
Very Good	3.01	4.0	4.0
Excellent	4.01	5.0	5.0

4.4.4 NON – MONETARY INCENTIVES

In today's workplace, the use of tangible non-monetary incentives to motivate employees and boost performance is ever increasing. The 2005 Incentive Federation Study of the top 5 most frequently used tangible non-monetary incentives are gift certificates, plaques/trophies, apparels, cameras and watches. Tangible non-monetary incentives are as important as monetary incentives.

However, BGI Ethiopia does not use tangible – non monetary incentives as main tool to motivate its employee. As it is shown in table 7, out of 20 tangible – non incentives identified, the company is using only 2 incentives. There for, one can say that, BGI Ethiopia does not give emphasis for tangible – non monetary incentives.

4.4.5 INTANGIBLE NON- MONETARY INCENTIVES

It is widely believed that Praise and recognition boost employees' morale as it allows employees to think better of themselves and their ability to contribute to organization goals. Employees with high self-esteem are more intrinsically motivated, optimistic, willing to work harder, participative at work, work efficiently, have lower absenteeism rate and are generally more satisfied with their jobs [Scott & Shaffer 2007].

BGI Ethiopia has given a less attention to motivational value that can be achieved by intangible non – monetary incentives. As it is shown in table 3, out of 16 intangible non – monetary incentives identified, the company is monitoring only 6 intangible non – monetary incentives to motivate its employees.

As it is discussed in BGI Ethiopia's short – term incentive practice, bonus has been used as a form of profit sharing to employees. But, employees stock ownership plan has not been an issue and are not used as a motivation factor.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

The intention of this study was to assess BGI Ethiopia on selected elements of management control system specifically, result control group, reviewing the present practices being monitored, comparing those practices with the theoretical frameworks and research findings, then to recommend on how to improve these variables to give strength for organization's management control system in general and result control variables in specific. A qualitative research method was chosen with the main emphasis to gain insight of the organization's operations and to construct explanations. The findings of this study provide useful information in this regard. Based on the findings and the information gathered in the process of this study, the following conclusions and recommendations are drawn:

Most competent managers spend considerable time thinking about the future. The result may be an informal understanding of the future directions the entity is going to take (or) it may be formal statements of specific plans about how to get future position. Such statement of plans is known as a strategic plan [Anthony and Govindarjan, 2001]. Accordingly, BGI Ethiopia has a general business strategy that is continuously increasing quality of its product and market share through customer satisfaction to get higher financial profits.

According to Simons (2002) business level strategy is about how to compete in defined product market. Question such as "how we can differentiate ourselves from competitors to create value in the market place?" and "How can we offer something unique and valuable to our targeted customers?" are typical business level strategy. BGI Ethiopia uses quality products and customer satisfactions as the core weapon to be differentiated from other competitors.

BGI Ethiopia is customer based company. According to Neely et.al (2005), companies which are customer based, does whatever it takes to provide products for unique customers needs and do not look for one time business, instead focus on long term customer relationship built through responding to unique customer needs. Accordingly, BGI Ethiopia is extending various kinds of support to beer sellers in order to guarantee the safe delivery of beer to customers and to increase its customer satisfaction. BGI Ethiopia is the only and first enterprise to offer such service free of charge which has a significant role in creating strong customer intimacy.

As per Fin and Hax (1998), for most of industrial companies, the manufacturing operations is the largest the most complex and most difficult to manage components of the firm. Because of this firms must have comprehensive manufacturing strategies. Major strategies at manufacturing process includes, reducing production cost, improving product quality and reducing amount of production waste. Eventhiough it is not clearly stated, BGI Ethiopia is monitoring the widely recommended manufacturing process strategies. Reducing the production cost, increasing quality of products and reducing production waste are core components of company's manufacturing process strategy.

Thompson and Strickland (2002) argues, good strategy is the one well matched to companies external and internal situations and as the company situation changes in a significant ways, adjustment in a strategy typically are needed. Bedford et.al. (1989), also argues, without constant classification and reformulation strategy become ambiguous. Accordingly, BGI Ethiopia's business strategy has been changing due to deliberate or emergent change in the environment. For instance, in the last periods, its strategy has changed due to the dynamic nature of business environment mainly, customers and competitors. The company has regional experts who are responsible in assessing the overall business environment which has been core input in designing new strategy. However, the period of reviewing the existing strategy is not clearly stated.

Felltham and Xie [1994], in analyzing the choice of performance measure, the new performance measure indicates performance measurement system should in corporate any financial and non-financial measure that provides incremental information on managerial efforts. Despite this model, firms traditionally have relied almost exclusively on financial measures such as budgets, profits, accounting return stock return for measuring performance [Balkcony et al, 1997]. BGI Ethiopia's approach to performance measurement is supplementing extensive traditional financial measure less mix of non – financial measures. As result showed, out of 38 non-financial measures the company is monitoring only 17 non-financial measures and out of 26 financial measures identified, it is using 25 financial measures. The company gave very less emphasis for the real performance measuring variables.

When we look the practice of performance measuring process for both entity and individual level, BGI Ethiopia has been extensively using the one that relate financial performance to the planned one giving less importance for quality, flexibility resource utilization and innovation which referred to us non-financial measure. For measuring individual's performance, BGI Ethiopia is using various criteria and performance indicators in measuring its employee performance which is not recommended.

Generally, in performance measurement practice assessed, there are some practice that been used with little modification in theoretical principles and many of the practices are in line with theoretical principles. Apart from this the system being used has various best practices that should be kept up. These include, conducting twice a year performance measurement for favoring poor performers, adopting close supervision in measuring process, quick communication of result to employees with the necessary feedback and training for poor performers.

According to condly, 2003, people can either work as individuals or as part of units and various invectives incentives programs target either the group or individuals. Presumably, individuals have more control over the outcome, when it's more under their individual and in fact put considerable effort and incentives targeted to individual employees would be more powerful than team incentives. The empirical findings are in line with most of the expectation out lined from the literature, BGI Ethiopia is using both group and individual based incentives giving higher emphasis on individual based incentives.

The reward and incentive system in use extensively consists of monetary rewards; both short term and long term incentives and do not use non-monetary incentives [both intangible and tangible non-monetary incentives] in greater extent to motivate it employees. The only thing that could be seen as non-monetary incentives is that, the festival basher, coffee breaks, Job rotation, training and growth. According to Shane et.al [2001], Employees whose efforts relate closely to key performance result such as executives, production and sales workers may benefits the most from monetary incentives. Nevertheless, organization cannot rely solely on monetary incentives to motivate the diverse work force due to limitation it brings. First, According to Mintezberg's theory money can prevent employee's dissatisfaction but does not necessarily motivate. Second, while employees see bonus payments in positive light, these are however, negative impacts on motivation if the incentives plan is not carefully designed.

According to research findings by Condly et al [2003], of all adequately designed field and laboratory research on the use of incentives to motivate performance on approximately 600 studies, 45 were qualified and has discovered that long - term incentives generate higher performance out comes than short- term incentives programs. BGI Ethiopia's incentive and motivation plan has also long- term incentive to motivate employees.

5.1 RECOMMENDATION

***Strategy Planning*:** the strategic planning practice being used by BGI Ethiopia is in line with the theoretical propositions derived from the literature and control by using goals is highly emphasized. Its business strategy has been changing due to deliberate or emergent change in the internal and external environment.

However, the period of reviewing the existing strategy is not clearly stated. As it is argued by different authors, strategy should not only be reviewed when the pressure comes from both internal and external environments, rather it should be reviewed continuously. BGI Ethiopia must adopt a pro active system with proper revision period for its objectives and plans so as to achieve its objectives.

Performance Measurement and Evaluation: The new performance measurement literature indicates, performance measurement system should in corporate any financial and non-financial measure that provides incremental information on managerial efforts. However, BGI Ethiopia's approach to performance measurement is supplementing extensive traditional financial measure less mix of non – financial measures. 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, BGI Ethiopia should make a tradeoff of using between financial and non- financial measures and extend to the emerging widely recommended performance measurement system such as BSC.

Fitzgerald et.al 1995, suggest two types of performance measurement process for both entity and individual level. These are those relates the result, i.e. financial performance, competitiveness to the planned one and that focus on the determinants of the results i.e. quality, flexibility resource utilization and innovation. BGI Ethiopia has been extensively using the one that relate financial performance to the planned one giving less importance for quality, flexibility resource utilization and innovation[non-financial]. It must also explore the other side, because it is proved that, they tend to provide real information about firms performance for managers.

Bernalak 1997, in measuring individual performance important attention should be given in limiting the data requirement and to both necessary details and frequency because it sometime take long time in analyzing those data and can lead to move harm than good. However, the empirical findings showed BGI Ethiopia using different various criteria and performance indicators in measuring its employee performance. Thus, these indicators must be limited in number and comprehensive in nature to alleviate those problems.

Incentives, reward and motivations: The reward and incentive system in use extensively consists of monetary rewards; both short term and long term incentives and do not use non-monetary incentives both intangible and tangible non-monetary incentives. However, when carefully designed and implemented, tangible non-monetary incentives pegged to performance can be a very effective tool for motivation and to increase productivity. Since tangible non-monetary incentives are often less expensive easily administered and more personal, it can be used to consistently reward employee's excellent performance, the company should consider these types of incentives to motivate its employees.

Showing appreciation to employees often goes beyond friendly social gestures. Employees want to feel appreciated and valued by the organization. This is where recognition comes in. Employees whose efforts are recognized feel good about themselves and hence a strong mental link between their actions and the positive emotional reward is formed. The in tangible non-monetary incentives does not cost the company, rather it need only commitment and have a significant value in motivating employees. Therefore, the company needs to adopt these incentives for motivating its employees in achieving the organization.

5.2 LIMITATION AND SUGGESTION FOR FURTHER RESEARCH

In doing this research, an exploratory case study approach with a qualitative research method for collecting and analyzing the data are used. The case chosen in this study is BGI Ethiopia which is one of the brewery companies in the country and methods used for data collection are interview and questionnaire. Due to resource and time constraint, I was not allowed to reach employees for the interview and questionnaire. Therefore, for interview and questionnaire only management staffs that are responsible for topic under study are considered. This research can be replicated to make use of concrete evidence from employees what they actually feel about the practice of topic under study.

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APPENDIX

ADDIS ABABA UNIVERSITY

SCHOOL OF BUSINESS AND PUBLIC ADMINSTRATION

DEPARTMENT OF ACCOUNTING AND FINANCE

QUESTIONNAIRE FOR MASTERS IN ACCOUNTING AND FINANCE

PURPOSE OF THE QUESIONNERIE

As part of my graduation requirements, I am conducting a qualitative research for my project on the topic of Management control system in manufacturing industry: A case BGI Ethiopia. This questionnaire is data collection instrument for the aforementioned topic, administered by Siyoum Guta. The data collected is strictly for academic purposes and no public disclosure of the information in will be allowed in any form.

PLANNING DEPARTMENT

RESPONDANTS PROFILE:

POSITION____

1. ABOUT MISSION, VISION AND STRATEGY [INTERVIEW]

1 What are the mission, vision and strategic objectives of your organization?

2. Have you ever update your strategies with change in the environment?

3. How does your organization make changes in strategies?

6. If yes, what are those drivers?

2. ABOUT PERFORMANCE MEASUREMENT [QUESITIONNER]

1. ENTITY LEVEL

MARKETING OR SALES DEPARTMENT

The following are performance measurement variables commonly used by manufacturing firms. From the list of performance measure below, chose the performance measures that your organization uses for measuring your department performance.

S.NO	ITEMS	YES	NO
1	Average sales order		
2	Number of new customer contacts		
3	Number of warranty claims		
4	sales per region		
5	customer loyalty		
6	market shares		
7	Deliver lead time		
8	Number of customer orders completed		
9	Frequency of delivery		
10	Number of customer orders receive		
11	Total Costs by department		
12	Total expenses		
13	Total net cash flows		

[OR]

Your practice, any other performance measurement variables with which your department's performance measured and the bench marks your result is compared?

PRODUCTION DEPARTMENT

From the list of performance measure below, chose the performance measures your organization uses for performance measurement:

S.NO	ITEMS	YES	NO
1	Amount of finished goods inventory		
2	Amount of material scrap produced		
3	Amount of raw material inventory		
4	Amount of work in process inventory		
5	Cost per unit produced		
6	Number and length of down time		
7	Inventory turnover ratio		
8	Number of units of finished goods in the inventory		
9	Number of units produced		
10	Rate of production capacity or resources used		
11	Number of machine or plant hours used		
12	Quantity of energy consumed		
13	Unit of output per hours of labor used		
14	Production waste		
15	Unit of output per unit of raw materials used		
16	Cost per damaged unit produced		
17	Manufacturing lead time		
18	Rate of production introduction		
19	Material quality		
20	Output quality		
21	New product development		

[OR]

Your practice, any other performance measurement variables with which your department's performance measured and the bench marks your result is compared?

ACCOUNTING DEPARTMENT

From the list of performance measure below, chose the performance measures your organization uses for performance measurement:

S.NO	ITEMS	YES	NO
1	Cost of goods sold		
2	Gross profit margin		
3	Total sales of revenues		
4	Net profit		
5	Return on equity (ROE		
6	Return on investment (ROI)		
7	Customer satisfaction: survey ratings		
8	Return on assets (ROA)		
9	Return on capital (ROC)		
10	Risk adjusted return on capital (RAROC)		
11	Return on capital employed (ROCE)		

[OR]

Any other performance measurement variables that you think the firm uses to measure its performance and bench marks used to compare the result.

2. INDIVIDUAL PERFORMANCE MEASUREMENT

HUMAN RESOURCE DEPARTMENT

RESPONDANTS PROFILE:

POSITION____

1. How do you know if your employees are working towards achieving its pre-set goals? (Indicators)

2. What is the performance measurement practice being used by your organization to measure employees performance?

3. What kind of performance measures are being used in your organization? Pre set goals as bench mark, or other and what criteria are used to select these measures?

4. How often do you assess the individual performance? And what actions are to be considered if the employees are appeared to be poor performers?

[OR]

The general practice of measuring individual performance in your organization and the bench mark against which the result is compared.

3. INCENTIVE, REWARD AND MOTIVATION [INTERVIEW]

HUMAN RESOURCE DEPARTMENT

RESPONDANTS PROFILE:

POSITION____

PART ONE

1. What is the incentive and reward practice being used by your organization to motivate employees?

2. What kind of incentives and rewards are being used in your organization? (Intrinsic / extrinsic, monetary/ non- monetary, long-term/ short term) and what criteria are used to select those tools?

3. How often your organizations provide incentive and reward to motivate employees? (The time pattern)

4. Do you think that incentive, reward for motivations used as a controlling mechanism?

5. Is there key employees turn over? How do judge the turn over?

PART TWO [QUESITIONNER]

From the list of incentives and rewards below, chose the incentive and rewards your organization uses for motivating employees:

A. Monetary incentives

1. Direct Compensation:
(1) Base salary ______ (2) Commission________ (3) Bonus_________

2. Indirect Compensation:
(1) Insurance for health/disability/life______(2)Profit sharing plans_______(3) Retirement plans ______(4)Employee Stock_______(5)Ownership Plan_______
3._Employee stock ownership plan (ESOP)
(1)Educational______(2)Overtime policy______(3)Paid leave______(4)Unpaid leave

_____ (5)Subsidized utilities______(6) Subsidized housing_____(7)Travel expenses_______(8)Childcare______

B. Tangible Non-Monetary Incentives

1. Free meal treats

(1) Free food/beverage_______ (2) Festival bashes______ (3) Coffee breaks______

(4) Picnics______ (5) Birthday treats_______

2. Awards

(1)Plaques or trophies_______ (2) Certificates or scrolls_______(3)Letters appreciation_______

3. Knick-knacks

(1) Decorative________(2)Tie pins or brooches_______(3)Calendars or diaries___

(4)Watch________ (5) Electronic items ________(6)Newspaper or magazine Subscription________

4. Tokens

(1)Tickets to movies/sports events/concerts______ (2) Gift certificates_____(2)Paid-up vacation trips______ (4) Anniversary/birthday presents

C. Intangible Non-Monetary Incentives

5. Social rewards

(1) Informal recognition_______ (2) Verbal recognition or praise_____(3)Formal recognition at office get-togethers______(4) Feedback_______(5)Friendly greetings______(6) Club privileges______(7)Use of company facilities equipment, supplies for personal projects________

6. Task-related rewards

(1) Job rotation_____ (2) Special assignments______(3)Training_____ (4) Participation in decision-making______ (5) Growth opportunities______ (6) Autonomy over work_____ (7) Promotion______(8) Flexible hours_____

THANK YOU A LOT FOR YOUR TIME!!!

ADDIS ABABA UNIVERSITY

SCHOOL OF GRADUATE STUDIES

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By: SIYOUM GUTA

DEPARTMENT OF ACCOUNTING AND FINANCE,

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