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Department of Accounting and Finance**

**Budget and Budgetary control System and Its Impact on  
Organizational Performance: Case of Private Banking Industry in  
Ethiopia**

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## DECLARATIONS

I, the undersigned, do hereby declare that this thesis is my original work and that it has not been submitted partially or in full by any other person for an award of a degree in any other university/institution and that all sources of materials used for the thesis have been duly acknowledged.

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## EXAMINERS' THESIS APPROVAL SHEET

The undersigned certify that they have read and hereby recommend to Addis Ababa University to accept the Thesis submitted by Wolansa Zilelew Bogale and entitled “**Budget and Budgetary control System and Its Impact On Organizational Performance: Case of Private Banking Industry in Ethiopia**”, in partial fulfillment of the requirements for the award of a Master’s Degree in Accounting and Finance.

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## ABSTRACT

The purpose of this study is mainly to empirically examine the practice of budgeting and budgetary control system and its impacts in private banking industry in Ethiopia. Beside this, it also tries to identify problems associated with budgeting and budgetary controls and offer alternative solutions. The descriptive research design was used. The data that was used for the study is a primary data collected using structured questionnaire from 128 respondents randomly selected from all private banks. Purposive or judgmental sampling was applied to select target working units while simple random sampling was used to select respondents from these units. The descriptive statistics was used and STATA 14 plus Excel Spreadsheet were applied for conducting the data analysis. The study revealed that private commercial banks have a budgeting and budgetary control system in place. It was found out that a budget and budgetary control affects the financial and non-financial performance of the banks. That is, the study shows that the presence of an effective budget and budgetary control system can improve the overall organizational performance of the banks. However, according to the result of this study, their budget and budgetary control system is not effective as they failed to comply with the major essentials of an effective budgeting and budgetary control systems. Moreover, the study result shows that there are problems that should be addressed by the senior managers so as to improve their budget and budgetary control systems. The study recommended that banks should advance their budget and budgetary control system to be fully benefited from the system to improve their overall performance. The banks should ensure full participation of all concerned staffs in their budgeting system and also deliver capacity development and awareness creation trainings on the concepts and techniques of budget and budgetary control systems. Moreover, there should also be application of an appropriate information technology tool in the banks budgeting system.

**Keywords:** *Budget, Budgetary control, Performance, Private Banks, Ethiopia*

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# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

A budget is a significant management tool for planning, monitoring, and controlling the financial resources. It is a financial plan that indicates a proposed expenditure for a specific budget year and the means of financing them. Likewise, a budget serves as performance evaluation, coordinating activities, plan implementation and communicating, motivating and authorizing action in organizations. Moreover, budget is used to evaluate what occurred in the preceding period (Horngren, 2006).

According to Institution of Cost Management (1998), a budget is a planned and approved resource before a defined period to achieve a set of objectives. Budgets are very important for planning and empower management to imagine further on and look before they bound. The budget is also vital tool that organizations use to set direction of their policy, cost implications of their plans and sources of funds. Moreover, budget is an appropriate controlling devices impacting performance of organizations (Bruns & Waterhouse, 1975). The budget play a significant role in banking sector as it illustrate how the bank plans to spend its funds and serve as a controlling mechanism too (Wainiana, 2010).

On the other hand, budgetary control is a process of developing an expenditure plan and periodically comparing actual expenditures against that plan to check whether its patterns need adjustment to stay on the right way. Budgetary control is applied by the public and private sector as well as individuals in order to manage their spending activities (Dunk, 2009). Moreover, organizations also use budgetary control system to project future while developing their plan and budget (Epstein and McFarlan, 2011). An organization needs to apply a budgetary control so that it could effectively implement its planned budget (Carr and Joseph, 2000). This is therefore; organizations have been using budgetary control as it has contributed in maintaining the budget process and control the allocation of resources. Generally, an organization can compare actual performance and budget and determine any variances followed by proper adjustment through budget control (Carr and Joseph, 2000).

When we came to organizational performances, it is about the evaluation result of all or parts of a given project or organization by using a predetermined criteria. Performance measurement is essential to an organization such that it can be used to ascertain if the budget and budgetary control instituted achieves the expected outcomes during a specified period of time. According to Upadhaya, Munir and Blount (2014), organizational performance is often measured from three particular areas, which are financial performance that includes profits, return on assets, and return on investment; market performance such as sales volume, and market share; and shareholder's return which may include total shareholder return, and economic value added. The banking sector performance especially the private banks performance could be assessed through these three aspects. That is why this research is done to see the role of budgeting and budgetary control processes going on in the financial and non-financial performance of the banking industry.

Ethiopian banking sector used to be dominated by the state for over half a century. Following the opening up of the sector for private operators in 1994, 16 private commercial banks joined Ethiopian banking sector. All these privately owned banks in the market have survived until present and none has been experiencing symptoms suggesting possible bankruptcy. Moreover, compared to other share companies in Ethiopia, the banking share companies are showing a fastest and continuous growth. A budget and budgetary control system is assumed to be a center of increasing organizational efficiency, controlling costs and maximizing profits. Then, the need to look at the practice and role of the system in organizational performance is found to be a vital importance. This is the main reason that draws the researcher's focus to do the study in this area and sector. Therefore, this research was conducted to assess the methods, processes and challenges of budget preparation and control as well as its effect on organizational performance in the case of the private commercial banks operating in Ethiopian banking industry.

## **1.2. Statement of the Problem**

In any business organization a budget features a great role in determining the future revenue and expenditure and also the risks associated to it. A budget is a financial plan that is used to focus attention on finance and the overall operations of an organization. It forces firms' management to make better forecasting. Moreover, budgets enable a company's managers to measure actual performance against predicted target. Likewise, budget coordinates all working units of the firm

for attaining goals by ensuring a common understanding among them (Horngren. et. al, 2012). This is therefore, firms prepare budget with due care to improve their performance. A budgetary control is also play a vital role to effectively develop a budget plan and periodically compare actual spending against the planned budget so as to stay on the right way by conducting all the required adjustment in timely manner.

A budget and budgetary control system have various advantages or positive impacts for any organization to perform successfully. Bradstreet(2004) specified that many scholars illustrate the impact of budget and budgetary control system on the organization performance and they have argued that failure of many of the organizations came from the fact that their budget and budgetary control system is weak.

The researcher has tried to assess different studies that had been done both globally and locally. Accordingly, different studies were conducted on the related area. The focus of these studies was on tools, methods and practice of budgeting and control. They did not exhaustively show the effect of budgeting and control on other factors which have vital role for successful and sustainable organization performance. Further, most of the studies were conducted in other countries whose approach might be different from that of Ethiopia. For instance, Adongo and Jogongo (2013) conducted a study on budgetary controls and financial performance in case of Kenyan state corporations. Lambe Isaac (2014) has also conducted a study on the impact of budgeting on performance in case of Nigerian financial institutions.

Most of the studies that were conducted in this research topic were mainly in industries other than bank. There are limited studies conducted specific to the banking sector. To mention some of these researches, Daniel Mahinda Mwangi (2012) did his study concerning budgeting and its impact on financial performance in Kenya banking industry. Locally, Bedilu Assefa (2015) has done his study in relation to budgeting in the case of Development Bank of Ethiopia. This study evaluates budgeting and budget performance as well as key problems in budgeting operations. But, the present study is conducted with different scope that is in case of private banks as well as with more specific objectives.

It is a very fact that budgeting and budgetary control has an invaluable role for ensuring all rounded organizational performance. However, the budgeting and budgetary control system should fulfill the best recommended standards. So far no study has been made on the

effectiveness of budgeting and budgetary control particularly in case of private banking industry in Ethiopia. This study was therefore intended to assess the effectiveness of budgeting and budgetary control among private banking sector in Ethiopia. Beside this, this study has tried to identify problems associated with budgeting and budgetary controls and offer alternative solutions.

To sum up, different studies were conducted in line with budget and budgetary control of different sectors in the world in general and in Ethiopia in particular. However, so far as to the researcher's knowledge, no study has been done which considers the practices of budgeting and budgetary control and its effect on the overall performance of the private banking sector in Ethiopia. Thus, this study is designed to fill these critical research gaps.

### **1.3. Objectives of the Study**

#### **1.3.1. General objective**

The main objective of this study is to examine the practice of budgeting and budgetary control system and its effect on the organizational performance of private banking industry in Ethiopia.

#### **1.3.2. Specific objectives**

This research attempted to take a look at the following specific objectives.

- To assess budget and budgetary control practice of private commercial banks in Ethiopia.
- To evaluate the effectiveness of budgeting and budgetary control process of private commercial banks in Ethiopia.
- To see the major effects of budget and budgetary control system on the organizational performance of private banking sector in Ethiopia.
- To identify the challenges related to budgets and budgetary control system of private commercial banks in Ethiopia.

### **1.4. Research Questions**

In this study the following basic research questions were properly investigated and answered accordingly.

- How is the practice of budgeting and its controlling system in Ethiopian private banks?

- Does the budgeting and budgetary control process of private banks is effective?
- What are the major impacts of budget and budgetary control system on organizational performance in private banks of Ethiopia??
- What are the major constraints that are observed in association with budgets and budgetary control system in private banks of Ethiopia?

### **1.5.Scope of the Study**

The scope of this study is the practice and impacts of budget and budgetary control process on organizational performance in private commercial banks that are operating in the Ethiopian banking industry. Thus, the researcher considered all private commercial banks for the purpose of this study. The research is restricted on private banks as the State owned are being impacted by government policies which might have its own effect on the result of the research. Moreover, it will require more effort, time and cost to test whether there is a significant difference between public and private banks in the practice of budget and budgetary control. So, to make the study more specific and meaningful, the researcher has decided to limit the scope of this study on the private banks only.

### **1.6.Significance of the Study**

This study is very significant and relevant for private commercial banks, because banks that do not operate with proper budgeting and budgetary control system will later face serious financial problems. Moreover, it will also serve as a working document to policy makers and any concerned organs. The study will further serve as benchmark data for any further investigation, as a useful material for academic purposes, and as an added literature to the existing knowledge.

### **1.7.Organization of the Study**

This research paper is prepared in five distinct chapters. Chapter one is about the introductory parts while chapter two looks at the theoretical and empirical literature review. Chapter three contains the chosen research methodology and approaches used in conducting the study while the fourth chapter focus on data analysis and presentation part of the study. The last chapter, which is chapter five gives conclusions and recommendations based on the results of the study and also put the limitations of this research and ideas for further studies.

# **CHAPTER TWO**

## **LITERATURE REVIEW**

### **2.1. Introduction**

In this chapter both the theoretical and empirical literatures which were reviewed by the researcher are presented. Based on these important concepts, definitions, and literatures the findings of this research will be discussed.

### **2.2. Theoretical Literature Review**

This sub section of the paper comprises the most important points that were reviewed from different literatures that will help us to get better understanding on the research area. The concepts and interrelationship between budgeting, budgetary control and organizational performance is also discussed.

#### **2.2.1. Definition of Budget**

As to the Chartered Institute of Management Accountants (CMA), budget is defined as “a plan quantified in monetary terms, developed prior to a defined period typically presenting the planned income to be generated and expenditure to be incurred during that period and the capital to be engaged for attaining a give objective.”

A budget is a numerical expression of a proposed plan of action which includes both financial and nonfinancial aspects of the plan, and it serves as an outline to follow in an upcoming period (Horngren et al, 2012).

On the other way round, Lucey (2003) defines budget as a qualitative statement, for a definite period of time, which may include intended revenue, expenses, assets, liabilities and cash-flows. Thus, it is important for an organization to have a budget to know how much money it needs to carry out its activities and also forces it to be rigorous in thinking through the implications of its activity planning.

### 2.2.2. Purpose of Budget

Agalega (2014) pointed out the following purposes that budget may be prepared to achieve. These are:-

**Planning:** Budget development needs complete information of earlier performance, determination of the existing position and forecasting of the upcoming time. Planning gives data about the structure and behavior of expenditure, sources and trends in revenue and demands of various functions. There is therefore the need for constant monitoring of activities and programs to ensure that actual performance conforms to plans and corrective actions are taken on deviations from plans. Managers are forced by forward planning to formally reflect possible future courses of action, properly evaluate them and select the most appropriate option.

**Coordination:** For any organization to fulfill its vision, it is essential to coordinate its several activities and ensure that they are on the way to achieve those goals. The budgeting system is a good platform to create this coordination.

**Communication:** The budgeting system allows communication within an organization, both vertically and horizontally. There is communication at all stages of the budgetary control process, particularly during budget preparation and control.

**Control:** Performance of the organization compared with the budget point out the proper management action to be taken to direct its operations to achieve its objectives. Here, a budget review is an important tool to make sure that the execution process stays on the right track.

**Motivation:** Budgeting system can influence the conduct of managers and employees, and it may motivate them to increase their performance. An inappropriate target can possibly be demotivating effect. In this aspect there should be a level of cooperation in the budgeting process as participation can have a positive motivational effect.

**Performance Evaluation:** Performance of managers is frequently evaluated by the budget targets. Rewards, for example, bonuses or performance-related pay can be associated with the achievement of budgetary targets. Managers can also use the budget to assess their own performance and explain that they are so near to meeting the agreed performance targets. This way, budgeting acts as a performance evaluation tool.

**Forecasting and setting targets:** Budgeting represents management projections of the future and may act as the forecast of event in the real world.

**Decision making:** A budgetary review assists and encourages decision making, choices, urgencies, scheduling, resource and spending. It helps managers to find comprehensive and better understanding of how to formulate plans and achieve objectives.

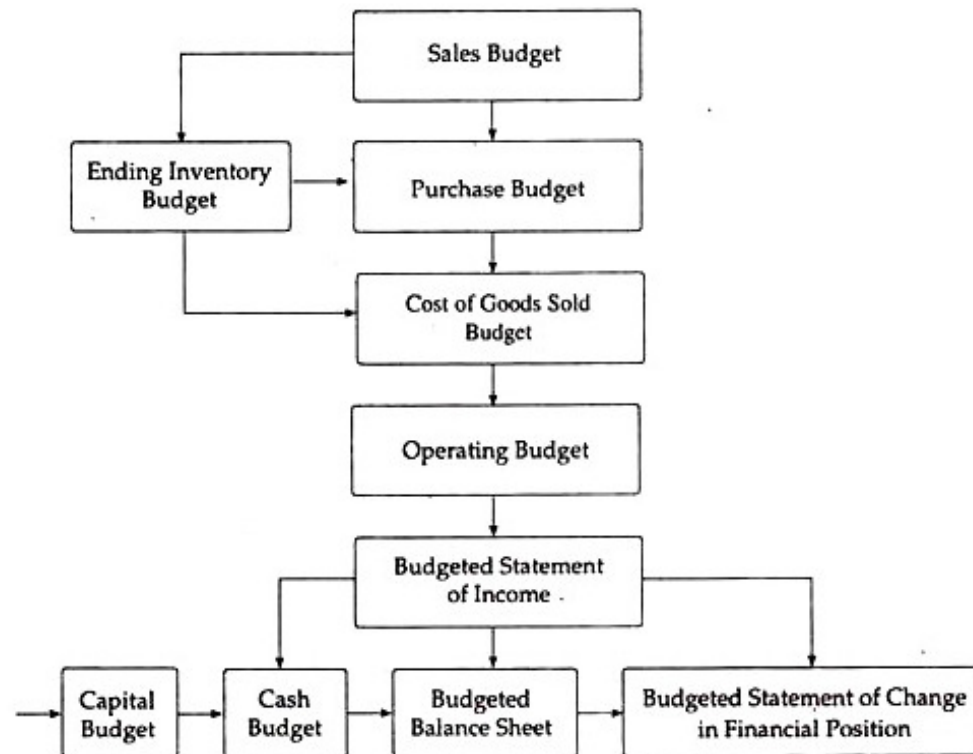
### **2.2.3. Types of Budget**

There are different types of budgets that have been developed for different purposes. Some of the most important classifications of the budgets are discussed in this sub section. Pushpender Pal (2020) identified four major types of classification of budget. These are: On the Basis of Time, On the Basis of Function, On the Basis of Flexibility, and On the Basis of Nature of Business Activity.

Based on time that budgets will cover, they could be classified as long-term, short-term, and current budgets. Long-term Budgets are budgets prepared with the long term plan or based on the long term forecasts of the organization. This is budget is usually developed for a period of five to ten years. Short-term Budgets are budgets which have to be prepared based on short term forecasts for a period of one or five years. While, Current Budgets are budgets that are prepared for a very short period like from one month to one year.

Budgets that are prepared for specific period may also be classified according to the basic functions that are being carried on in the business concerns. Therefore budgets can be grouped in to two major categories based on the basis of functions. Those are master budget and functional budget. Master Budget is a summary budget of the functional budgets. Master budget is the blueprint showing the proposed activity and the anticipated financial results during the coming year. It usually takes the form of budgeted profit and loss account and balance sheet items. It consolidates the overall plans of an organization for a shorter duration of time that is usually prepared on an annual basis. Generally, Master Budget is a summary budget incorporating all financial budgets. From this point of view, Master Budget is a picture that shows the overall (total) plans of the budget period, and it includes figures relating to sales, production, costs, profit and profit planning etc. For instance, the following diagram shows the Master Budget for a non-manufacturing business concern

**Figure 1: Master Budget for A Non-Manufacturing Business Concern**



(Source: Pushpender, 2020)

Coming to the Functional Budgets (they are also called Subsidiary Budgets), they are budgets that are prepared on the basis of approved plans for specific department or unit. These may vary in number from business to business. The major types of functional budgets are sales budget, production budget, raw material budget, labor budget, plant budget, research and development budget, overheads budget, and financial budgets that is cash budget, capital budget and expenditure budget.

Based on Flexibility criterion budgets can be classified as fixed budget and flexible budget. Fixed budgets are budgets that are developed for a fixed or standard volume of activity. That is these categories of budgets do not change with the change in the volume of activity. These budgets are prepared well in advance and are not important for making comparison. Whereas Flexible Budget is a budget which is intended to change in accordance with the level of activity achieved. This has been developed with the objective of changing the budget facts gradually to match to the actual output.

Based on the nature of business activity, budgets may be classified as operating and capital budgets. Operating Budgets is also called Revenue Budgets. These are budgets those that deal with the plans for routine activities, that is operations. These budgets are prepared in accordance with the forecasts/plans of routine activities such as sales, production, costs, revenues etc. on the other hand Capital Expenditure Budgets are budgets that are related to the plans aiming at creating manufacturing facilities. These budgets are very important for the large and advanced manufacturing concerns. It denotes projected expenses on the fixed assets require for the period. This budget type particularly requires a strong management control, as it could comprise large amount of expenditure that needs approval from the top-management of the organization.

Broadly speaking, budgets can be classified into two major categories. These are:

**Operating budgets:** - this type of budget includes plans for all activities that make up the normal operations of the organization. The main elements of an operating budget include sales, production, inventory, materials, labor, overheads and R & D budgets.

**Financial budgets:** - Financial budgets are used to control the financial aspects of the business. These budgets reveal the influence of the operating budgets on the firm's financial position and earnings potential. This category of a budget includes a cash budget, capital expenditures budget and balance sheet and income statement (Cohen et al, 1994).

#### **2.2.4. Budgeting Techniques**

Institute of Chartered Accountants of Nigeria (2006) identifies the following budgeting techniques:

- 1) **Flexible Budgeting Technique:** A flexible budget includes a fixed and variable costs which vary in relation to the level of activity accomplished in a period.
- 2) **Zero Based Budgeting Technique:** Zero-based budgeting technique requires each cost element to be specifically justified, as though, the budget related were being undertaken for the first time; without approval, the budget allowance is zero.
- 3) **Incremental Budgeting:** in this technique budgets is prepared using prior period's budget or actual result as a basis and add certain amounts to develop the new budget. The change typically comes in percentage term and could either be an increase or a reduction depending on many factors, primarily the organization's needs and situation.

- 4) **Activity Based Budgeting Technique:** This is a budgeting technique that is established on an activity framework and utilizing cost driver data.
- 5) **Planning, Programming, Budgeting Technique:** Here the preparation of a long-standing corporate plan that creates the objectives of organizations.
- 6) **Continuous/Rolling Budgeting Technique:** This budgeting technique involves continuously updating budgets by reviewing the actual results of the period in the budget and determining a budget.

## **2.2.5. Budgetary Process and Problems**

### **2.2.5.1. Steps in the Budgeting Process**

The budgetary process should be standardized by using budget manuals, forms, and procedures. The timetable for the budget must be kept. The budget process should also be consistent with organizational structure and consider human resources of the company. The budgeting process should consider a careful analysis of the current status as well as its past experience together with a change in relation to the external environment. There should be a budget committee that review budget estimates, revised and recommend the budget. The budgeting process to be successful, there should be strong cooperation of all stakeholders in the organization. The participants of budgeting process should be properly trained and guided and there must be a sufficient supervision (Jae K. Shim and Joel G. Siegel, 2005). According to this source, there are six steps in the budgeting process. These are: Setting objectives; Analyzing available resources; Negotiating to estimate budget components; Coordinating and reviewing components; obtaining final approval; and Distributing the approved budget.

### **2.2.5.2. Bottom-up Vs Top-down Budgetary Approaches**

Jae K. Shim and Joel G. Siegel (2005) in their book titled "Budgeting Basics and Beyond" stated three approaches of budget preparation. That is bottom-up, top down and a combination of the two. The concepts, systems, advantages and disadvantages of these approaches of budgetary processes are discussed here.

When we see the bottom-up method it begins at the departmental level based on the objectives of the segment. Each unit prepares its own budget before it is integrated into the master budget.

Advantages of a participative budget include greater accuracy of budget estimates. Managers with immediate operational responsibility for activities have a better understanding of what results can be achieved and at what costs. Also, managers cannot blame unrealistic goals as an excuse for not achieving budget expectations when they have helped to establish those goals. Despite the involvement of lower-level managers, top management still must participate in the budget process to ensure that the combined goals of the various departments are consistent with profitability objectives of the company. In effect, departmental budgets are used to determine the organizational budget. The budget is reviewed, adjusted if necessary, and approved at each higher level. Disadvantages are the time-consuming process from participative input and the fact that operating units may neglect some company objectives. Bottom-up does not allow for control of the process, and the resulting budget is likely to be unbalanced with regard to the relationship of expenses to revenue.

In the top-down approach, a central corporate staff under the chief executive officer or president determines overall company objectives and strategies, enumerates resource constraints, considers competition, prepares the budget, and makes allocations. Management considers the competitive and economic environment. Top management knows the company's objectives, strategies, resources, strengths, and weaknesses. Top-down is commonly used in long-range planning. A top-down approach is needed for a company having significant interdependence among operating units to enhance coordination. This approach may be needed when business unit managers must be given specific performance objectives due to a crisis situation and when close coordination is required between business units. It is possible that the sum of the unit budgets would not meet corporate expectations. If unit managers develop budgets independently of other units, there are inconsistencies in the assumptions used by different units. A disadvantage with this approach is that central staff may not have all the knowledge needed to prepare the budget within every segment of the organization. Managers at the operating levels are more knowledgeable and familiar with the segment's operations. Managers will not support or commit to a budget they were not involved in preparing, which will cause a motivational problem. Further, the top down approach suppresses creativity.

Taking the advantages and disadvantages of the two budgeting approaches, a combination of the bottom-up and top-down approaches may be appropriate in certain cases. Some large companies may integrate this method. Here direction is supplied from the top, and senior management

develops action plans. Each department must then determine how it will actually implement the plan, specifically looking at the resources and expenditures required. It is then reviewed to see if it achieves the desired results. If it does not, it will be kicked back until it is brought in line with the desired outcomes. In this method of budgeting the what, why, and when is specified from the top, and the how and who is specified from the bottom.

### **2.2.5.3. Problems/Weakness in Budgetary Process**

The existing literature has evidently indicated the existence of various problems and challenges that affect the quality and effectiveness of the budget and budgetary control systems.

Neely et al (2003) maintained twelve weaknesses of budget and budgetary control systems. These includes; restraining of responsiveness and acting as barriers to change, budget are rarely strategically focused and often contradictory, they add little value especially given the time required to prepare them, they concentrate on cost reduction and not value addition, they strengthen vertical command and control, they do not reflect emerging network structure that organizations are adopting, they encourage gaming and perverse behaviors, they reinforce departmental barriers rather than encourage knowledge sharing , and make people feel undervalued.

Margah (2005) also noted that the problems experienced by organizations attempting to manage their budgetary control procedures have been laid at the door of the budget, presenting a fixed target. In a dynamic and uncertain world the budget can become outdated during the budget year or even before it begins thus rendering little or no value to its intended purpose. Given the new competitive realities, there is need for management to embrace flexible and adaptable budgetary planning and control system which has the ability to quickly respond to environmental changes and complexities (Adongo and Jagongo, 2013).

Furthermore, Jae K. Shim and Joel G. Siegel (2005) also pointed as some on the key signs of budget weaknesses/problems. These include: Managerial goals are off target or unrealistic; There is management indecisiveness; the budget takes too long to prepare; Budget preparers are unfamiliar with the operations being budgeted; Budget preparers do not keep current; The budget is prepared using different methods each year; There is a lack of raw information going into the budgeting process; Lack of communication between those involved in budgeting and operating personnel; The budget is formulated without input from those who will be affected by it. This

could result in errors; Managers do not know how their budget allowances have been assigned or what the components of their charges are; the budget document is extremely long, confusing, or filled with needless information or there may be poor narrative to explain the numbers; Managers are ignoring their budgets because they appear unusable and unrealistic; Managers feel they are not getting anything out of the budget process; Changes are done to the budget too frequently; significant unfavorable variances are not investigated and corrected. Variances may also not be used in developing next period budgets; Further, a large variance between actual and budgeted figures, either positive or negative, that repeatedly occurs is an indicator of poor budgeting; and the budgeted figures may be unrealistic and being too late to correct their causes.

## **2.2.6. Budgetary Control Concepts, Process and Techniques**

### **2.2.6.1. Budgetary Control Concepts**

A budgetary control refers to the principles, procedures and practices of the organization in achieving its objectives through budgets. That is budgetary control system aids in setting the goals for the organization and combined efforts made for its successes (Scarlett, 2008).

On the other way round, Brown and Howard (2002) explained a budgetary control as a system of controlling cost that covers budget planning, coordinating the departments and establishing responsibility, comparing actual result with the budget and acting upon results to attain maximum profit.

### **2.2.6.2. Budgetary Control Process**

Budgetary control is a process of setting organizational goal and objectives and comparing actual result with the planed objectives and goals. The variation between the actual result and planed result called variance. This sets a controlling framework that help to keep the costs and expenses of an organization to the standard limit. Budget variances are noted frequently proposing the required corrective measures (Lucey, 2008).

According to the Institute of Cost and Works Accountants of India (2008), budgetary control is a means of control in which the actual results are compared with the budgeted targets so that proper action may be taken if there are any deviations between the two. Budgetary control has the following stages. The first stage is developing various budgets. The budget centers should be

defined and develop budgets for each centers accordingly. In the second stage there should be a proper system of recording the actual performance achieved. This will smooth the comparison between the budget and the actual results. The third stage of budgetary control is the comparison between the budgeted and the actual performance of budget. The purpose of such comparison is to discover the deviation between the two and provide a base for taking remedial action. Finally, taking appropriate corrective action on the basis of the comparison between the budgeted and actual results is the essence of budgeting.

### **2.2.6.3. Budgetary Control Techniques**

Budgetary Control is basically a technique where actual revenues and expenses are compared with the planned budget. It reveals the need for adjustment, if required. It also illustrates how well the managers have controlled costs and operations in the accounting period.

Henry Harvin (2020), which is a leading career and competency development organization, has identified various budgetary control techniques which are briefly explained as follows.

- 1. Variance Analysis:** Budget is prepared for each and every department with estimated figures. After this, a comparison is made between the actual and projected figures.
- 2. Responsibility Accounting:** In this technique, we create cost center, profit center and investment center. The centers are just like department and employees that will be classified on the basis of their centers. The responsibility of all employees is fixed on the basis of his target or performance. Then, their performance will be recorded manually and then, their accountability will be fixed. This technique helps to decide about the promotion or demotion of employees.
- 3. Adjustment of funds:** Here the top management takes the decision to adjust fund from one project to other project based on the actual performance. For instance, if a new project is started which needs budget and if there is extra money allocated to an already existing project, then the surplus funds can be allocated to the new one. It enables proper allocation and adjustment of funds and prevents misuse of the budgets.
- 4. Zero Based Budgeting:** This is another technique which is becoming a very popular on these days. Here, every subsequent year budget is made on zero bases. It can be possible

if and only if the projected revenue/income is equal to the predicted expenditures. That is the difference between the two estimates will be zero. If there is any surplus amount of money, it will be adjusted. This technique aids in having control over each amount of money consumed during the year.

### **2.2.7. Determinants of Effective Budget and Budgetary Control**

Different studies state different determinants of budgetary control. Budgetary control depends on a number of issues. For instance, Vander (2000) identified some of the major determinants such as availability of enough financial resources, availability of skilled personnel, and full participations of all stakeholders in the process of preparing a budget.

On the other way round Mubina Shaikh (2016), pointed out that sound forecasting, goal orientation, proper recording system, participation, top management support, flexibility, timeliness, efficient organization, proper coordination, sound administration, constant review, reward and punishment and results take time as basics of effective budgetary control system.

Moreover, Siyanbola Trimisiu Tunji (2013) has set the major conditions that are basic factors for having an effective budgetary control system. Some of the issues that were pointed out by him as the major conditions for a budgetary control system to be called effective are: An involvement and support of the top management; A clear information about long term company objectives; A realistic organizational structure with clearly defined responsibility; A genuine and full involvement of line managers in all aspect of the budget process; An appropriate accounting and information system; A regular revision of budget and targets, where necessary; and To be administered in a flexible manner.

Coming to the characteristics of a good budgeting system, different literatures identifies various points which comprise participation, comprehensiveness, and based on the established standards. Flexibility which allows for changing of circumstances and feedback which must constantly monitor performance and analysis of costs and revenues are also important characteristics of a good budgeting system (Gregory, 2005).

### **2.2.8. Budgetary Process and Organizational performance**

Budgets and budgetary processes deliver a convenient means for managers in evaluating their individual and the overall organizational performance by comparing budget with actual results. Budgetary monitoring and control helps expenditures to be kept within the planned limits and thus, assist managers to track the flow of resources accurately and consistently (Drury, 2001).

Moreover, budget and budgetary control helps as profit maximization tool for any organization through proper planning and coordination, proper control over capital and revenue expenditures and setting resources into best use (Preetabh, 2010).

Drury (2006) added that budget and budgetary control system is a strong tool for organizations that mainly assists them in the process of proper planning, effective coordination and control so as to maximize profits that competitive organizations these days can never avoid.

On the other way round, associating strategic objectives and budgeting process enables to be competitive and to increase organizational performance. Budget assists basic management functions that includes forecasting and planning; communication and coordination; motivation; evaluation and control; and decision making (John and Ngoasong, 2008).

### **2.3. Empirical Literature Review**

James N. Wainaina (2010) conducted a study on factors that lead to supplementary budgets in Kenyan banking institutions. This study applied a descriptive research design and both the primary and secondary data were collected from forty four commercial banks by using a census method. The data analysis was done by the application of SPSS version 17. The study shown that majority of Kenyan commercial banks are working based on a planned budgets. It also indicated that in case of the majority of the survived banks managers did not have the authority to change or to reallocate funds after the budget has been approved by the concerned organs. As to this research a supplementary budget for the bank comprises risks but it is necessary action to set the bank on the road to recovery after a difficult recession period. The study shows that there were about two supplementary budgets that had been submitted in each of the survived commercial banks in the previous two years and these were found to moderately significant in improving the bank operations.

The other study was done by Marcormick and Hardcastle (2011) on the title of budgetary control and performance in case of financial institutions in Europe. About 40 institutions were sampled for the purpose of assessing the role of budgetary control on performance and the data were collected for 10 years' time. Data analysis used a regression model and at the end of the study results prove a positive relationship between budgetary control and performance.

Nickson and Mears (2012), conducted their study which evaluate the role of budgetary control to improve financial performance of banks in Boston Massachusetts. They sampled five banks and collect secondary data in a period of 10 years and applied a regression model for data analysis. The results revealed that budgetary control play a significant role to enhance performance of the banks. Moreover, they did a survey on practices of budget in institutions where it was found that the committee responsible for budget and different departments were the less budgetary tools used. And budgetary participation was the big challenge in the budgetary process.

According to the study of Silva & Jayamaha (2012) an evaluation of the impact of budgetary process on organization performance was made and sees if there is a significant impact on performance in the industry. Based on the collected data from the financial statements, and using the correlation coefficients and analysis subjected that budgetary process have a positive association with organization performance in the industry. This proves that financial companies maintains all the procedures to control their budgets so as to ensure higher levels of performance and this brings a positive relationship between budgetary process and organization performance.

Furthermore, Adongo and Jogongo (2013) conducted their academic research that examined the relationship between budgetary control and financial performance in public sector in particular to the case of state corporations in Kenya. They used a descriptive research design where about fourteen corporations were selected from the total population of 138. Moreover, a purposive sampling was applied to select respondents from the chosen organizations. A structured questionnaire was utilized to collect the required data for the study. This study has confirmed the existence of a positive relationship between budgetary control system and financial performance of organizations. It underlined that the budgetary control system contributed positively for their financial performances mainly through financial objectives, proper allocation of funds and effectiveness of investment projects implemented by the organizations.

Likewise, Mwangi (2014) did a study in Kenya to examine the impact of budgetary control in financial performance of the banking industry. A descriptive research approach was used and the data was collected from 44 commercial banks using a semi-structured questionnaires. The data analysis was conducted by the application of content and descriptive analysis methods. The result of this study shows that a budgetary control system affects the performance of the sampled banks to a very great extent.

Lambe, Mary and Theresa (2015) were also conducted a research that seeks out a systematic review of budgeting and budgetary control in Government owned organizations focused on the Nigerian National petroleum Cooperation. Here a primary data were collected using a well-structured questionnaire and secondary data including annual financial reports were used as source of data to the study. As to the findings of this study, the participation of all important stakeholders in the preparation of the budget is an essential and sufficient condition for realizing effective budgeting and budgetary control practice. The study concluded that budgeting and budgetary control is a crucial tool to the success of any organization. It can help to decrease cost, increase revenue and maximize profit; it can serves as a means of attaining and coordinating plans and actions; help as a worthy means of communicating plans to all accountable organs of the organization; help to motivate the managers as well as employees at all hierarchy of the company; and it could also use as a good standard for evaluating actual performance.

Bedilu Assefa (2015), made his study in regards to Budgeting and performance in the Development Bank of Ethiopia. This study tried to evaluate budgeting and budget performance, and the key problems in the budgeting process. Primary data was collected from staffs by survey method and interview was made with planning department officials. Moreover, he used secondary data collected from documentary analysis. The results of the study disclose that the bank has well defined budget planning, review, implementations and performance evaluation approach. All units are involved in the budgeting process that is the bank applies a combination of bottom up and top down budgeting approach. The bank follows an Activity Based Budgeting technique. The study confirmed that better performance could be achieved in through budget implementation, budget review and amendments. The study point out also that there are gaps between plan and actual performance which shows the presence of problems in their budgetary processes.

Moreover, Yesuf Ahmed (2015) also made his research on the practice of budgeting and budget monitoring in case of Non-Government Organizations in Ethiopia. He has applied a descriptive research design. The result of this research boldly indicates that an effective budgeting system will greatly contribute to the accomplishment of goals and objectives set by the companies.

Furthermore, Geletaw (2017) has also done his research on the determinants of budget control in public organizations in case of Benishangul Gumzu Regional State. A descriptive research design was applied by him. The study found that about 78 percent variance for the budget control in the public sector is due to the combined measure of information and communication cost reduction, availability of capable internal audit staff, management support, budget monitoring and evaluation, organizational commitment, and budget planning processes. The study has also determined that the existence of an effective budgetary control process is very significant in terms of internal control management system, improves organizational effectiveness and efficiency, reduces information asymmetry during decision making, and ensures internal reliability of financial reporting process.

To generalize based on the empirical literature review above, the relationship between budgetary control and organizational performance has been studied by different researchers. There are limited researches that are conducted in banking sector. Moreover, majority of the study have tried to show the role or impact of budget and budgetary control processes on financial performance in particular. However, this research will emphasize to find out the practices and problems of budget and budgetary control systems as well as its impact on the overall organizational performance of Ethiopian private banking industry. Therefore, this study will intend to fill these gaps.

# **CHAPTER THREE**

## **RESEARCH METHODS**

### **3.1. Introduction**

This chapter sets out various methods that were followed by the researcher in completing the study. It consisted of the method and techniques followed during data collection, measurement and analysis. That is, most decisions about how respondents were selected and approached, and how the overall research work was completed is presented as follows.

### **3.2. Research Design**

An appropriate research design is important to any research as it will guide the process from collecting the desired data to the analysis of data. This study used a descriptive research design. The descriptive research helps to describe the practice and role of budget and budgetary control in organizational performance. The researcher used survey method in which it attempts to collect primary data from members of a target population and describes existing phenomena based on their responses about the issues raised based on the research objectives.

### **3.3. Types and Source of Data**

Primary data sources were used in order to get the necessary information for conducting this study. The data were collected from the sampled respondents from all private commercial banks in Nov. 2020. The survey was undertaken with the aid of structured questionnaires with a randomly selected staffs who are working at purposively selected working units in the private commercial banks.

### **3.4. Target Population of the Study**

The population of this study is the staffs of 16 Private commercial banks in Ethiopia that are working at various positions in Departments of Finance and Planning and Strategy. Thus, population of the study covered the Middle and Lower Level Management Team, Accountants, budget officers, Planning and Strategy experts. Based on the earlier assessment made by the researcher, the number of staff who are working in these departments is about 240.

### **3.5. Samples and Sampling Techniques**

The data for this study was gathered from a survey of a random sample of staffs working in purposively selected working units. The researcher has employed both non probability (purposive selection of departments) and probability (random selection of respondents from each department) sampling methods. Purposive or judgmental sampling was applied as it is believed to enable us to get reach information and answer our research questions properly. According to Kothari, (2004), purposive sampling is more essential to obtain a typical and representative of the whole universe. This is why the researcher decided to apply a purposive sampling method. Hence, the criteria that the researcher used to select the departments were their participation in budget preparation and more responsible for its implementation and control. Simple random sampling was applied to select respondent if the number of staffs is above the amount of assigned questionnaires. This sampling method gives an equal probability of being chosen and a selected sample is supposed to be an unbiased representative of the total population.

During this study period there were privately owned commercial banks. As this number is found to be manageable, the study includes all these private commercial banks. Thus, the questionnaires were administered for collecting information from staffs that are working in the purposively selected departments to get rich information and reliable data. The experts and management members were randomly selected from the purposively selected departments (Planning and Monitoring/Strategy and Finance Department). The employees working in these departments are believed by the researcher as they are resourceful to give adequate information so that the result will reveal the prevailing conditions regarding the selected topic area.

Due to time and resource limitation, it is difficult to incorporate and analyze the response of all staffs of the two departments. Hence it is a must to take an appropriate sample for the survey. Mark S. Philip L. and Adrian T (2009), in their book "Research methods for business students, fifth edition" calculated and recommended sample sizes for different sizes of population. Based on this recommendation, the researcher has determined the sample size to be 128. Taking into account the resemblance of the sampled staffs, resource and time limitation, a sample size of 128 is believed to be rational for this study. The distribution of representative staffs was allocated equally to each banks and departments (i.e. 8 respondents from each bank and 4 respondents from each department).

### **3.6. Questionnaire Design and Development**

Questionnaires were used to gather information from the concerned professionals and line managers from each private commercial bank. The questionnaire that was used to elicit respondents view regarding the practice and impact of budgetary control was designed or adopted following the existing theoretical and empirical literatures that were reviewed so fare.

The questionnaire was divided in to five basic parts namely respondent's demographic and socio-economic characteristics, existing practice of budget and budgetary controlsystem, effectiveness of a budget and budgetary controlsystem, major impacts of budget and budgetary control system on organizational performance, and questions regarding problems or challenges of private commercial banks related to their budget and budgetary control processes.

The questionnaire was prepared both in open ended and closed ended formats. The close ended questions mainly for those questions regarding the practice, impacts and problems of budget and budgetary control systems was designed with Likert scale questions. Mostly the Likert scale questions have five degrees namely Strongly Agree, Agree, Neutral, Disagree, Strongly Disagree that are combined in to a single composite score/variable during the data analysis process (Kothari, 2004). The researcher applied this Likert scales method in five level indicating scores like as follows: (5) strongly Agree, (4) Agree, (3) Neutral, (2) Disagree and (1) strongly Disagree. The number indicates in the question provided to feed ordinary scale measurement and to generate data suitable for quantitative analysis.

The questionnaire also included open ended questions that help respondent to put their opinion and explain the issues freely. The close-ended questions provide more structured responses to facilitate tangible recommendations, while the open-ended questions give additional information that may not be captured in the close-ended questions.

### **3.7. Data Validity and Reliability**

Conceptually, reliability is about the consistency of a measure while validity is about the accuracy of a measure. Piloting was done to test the validity the data. That is after designing the draft questionnaire pre-testing (pilot survey) was conducted in selected banks by randomly selecting a total of 10 respondents from both Finance and account and planning and strategy departments. The pre-test provide some information to make some modification in the design of

the final survey questionnaire based on the responses so as to make it understandable for respondents and to enable the researcher meet the objective of the study. Moreover, the reliability of the data was tested using the Cronbach's alpha, the results of which are presented in the next chapter of this paper, before data analysis and discussion.

### 3.8. Data Collection Method

The data were collected by surveying private banks head office staffs using a well-structured questionnaire that was personally administered. The data were collected from 128 staff of the private banks which are working in two departments namely Finance and account and Planning and Monitoring (planning and Strategy). Hence the hard copies of developed questionnaire were delivered by the researcher itself to the staff selected with simple random sampling method and collect back on the other day which was fixed in discussion with the respondents. In this study the researcher has decided to apply a self-administered questionnaire by considering its advantages that includes: it is lowest cost option; it allow participants to think more about the questions, it is perceived as more anonymous, and it is a rapid data collection technique (Cooper & Schindler, 2006).

### 3.9. Data sources and Specific Objectives

The relationship between each research specific objectives and their respective data sources are listed using a tabular form as follows.

**Table 1: List of Specific Objectives and Their Respective Data Sources**

S/No.	Specific Objective	Data sources
1	To assess budget and budgetary control practice of private commercial banks in Ethiopia.	Survey questionnaire No. 9-18
2	To evaluate the effectiveness of budgeting and budgetary control process of private commercial banks in Ethiopia.	Survey questionnaire No. 19
3	To see the major effects of budget and budgetary control system on performance of private banks in Ethiopia.	Survey questionnaire No. 20-24
4	To identify the challenges related to budgets and budgetary control system of private commercial banks in Ethiopia.	Survey questionnaire No. 25-30

Source: Researcher, 2020/21

### **3.10. Data Analysis and Interpretation Techniques**

The gathered primary data were analyzed and discussed using descriptive analysis method. Descriptive statistics such as frequency distribution tables, graphs, means and percentages were used for the data analysis. The excel spreadsheet and STATA 2014 was applied to analyze the data collected.

In Likert scale questions which have five degrees, the mean response greater than 3 will be considered as an agreement with the statement of the questionnaires and whereas the mean response less than 3 will be considered as a disagreement with the statement of the questionnaires (Boone Jr., 2012). Moreover, the standard deviation results of less than 1.00 indicates that the respondent's perception close to one another and the standard deviation greater than 1.00 indicated that the respondents perception's vary each other (Shewhart, 2004).

The results were interpreted comparing with the prior expectations and try to show how they agree or disagree with earlier research works and available literatures. Finally, the analyzed and interpreted data were presented through text, tables, figures, and charts.

## CHAPTER FOUR

### EMPIRICAL RESULTS AND DISCUSSION

#### 4.1. Introduction

To meet the objectives of the study primary data was collected and analyzed using different techniques. Thus, this chapter deals about data analysis and discussion. The results were analyzed and discussed by using descriptive statistical methods. The data analysis, interpretation and discussion of the result were presented in order of the specific objectives of the study.

#### 4.2. Response Rate

As previously stated, in the survey a total of 128 questionnaires were distributed to randomly sampled employees from the sixteen private commercial banks that are working in Finance and accounts, and Planning and Monitoring/Strategy departments. However, of all the distributed questionnaires, 5 responses were dropped because they lacked the basic required information. Moreover, 13 were not returned/collected from the respondents. As a result, a total of 110 (85.9%) questionnaires were found usable for the analysis of the study. Regarding a response rate, Kothari, (2004) has stated that 50% response rate is acceptable, and a response rate greater than 70% is very good. Thus, the response rate of 85.9% in this particular case is found to be very good.

#### 4.3. Reliability Analysis

In a Likert-scale questionnaire measuring the consistency or reliability of the questionnaire is essential. Cronbach's Alpha ( $\alpha$ ) measure of reliability scale is often used to measure such a reliability analysis. That is when using Likert-type scales it is imperative to calculate and report Cronbach's alpha coefficient for internal consistency reliability for any scales or subscales one may be using (Gliem and Gliem, 2003).

According to this source, a reliability analysis value ( $\alpha$ ) is  $> 0.9$  – Excellent,  $> 0.8$  – Good,  $> 0.7$  – Acceptable,  $> 0.6$  – Questionable,  $> 0.5$  – Poor, and  $< 0.5$  – Unacceptable. Based on Table below, the reliability analysis value for Cronbach's Alpha ( $\alpha$ ) of this study shows that 0.8561 for all scale variables. Therefore, as per the stated rules of thumb, the responses generated from all variables in this study were good (reliable) for data analysis.

**Table 2: Data Reliability Statistics**

<b>Cronbach's Alpha (Reliability Coefficient)</b>	<b>Number of Items</b>
0.8561	57

Source: Reliability statistics analysis computed by STATA.

There is a possibility that respondents from the same bank answer the same question differently. It is normal that there level of agreement on issues related to effectiveness, impact and problems of budget and budgetary control practice of their bank as the questions were asked in five degree Likert scale questions namely Strongly Agree, Agree, Neutral, Disagree, and Strongly Disagree. But respondents of the same bank is not expected to answer differently for the questions in relation to the practice of budget and budgetary control such as the time dimension, techniques and approaches of budgeting and budgetary control. Since, the data is collected in multiple choice formats, some staffs replied differently for some questions may be due to lack of information or unconsciously. In this case, the researcher takes response given by majority of the respondent to determine the position of each bank.

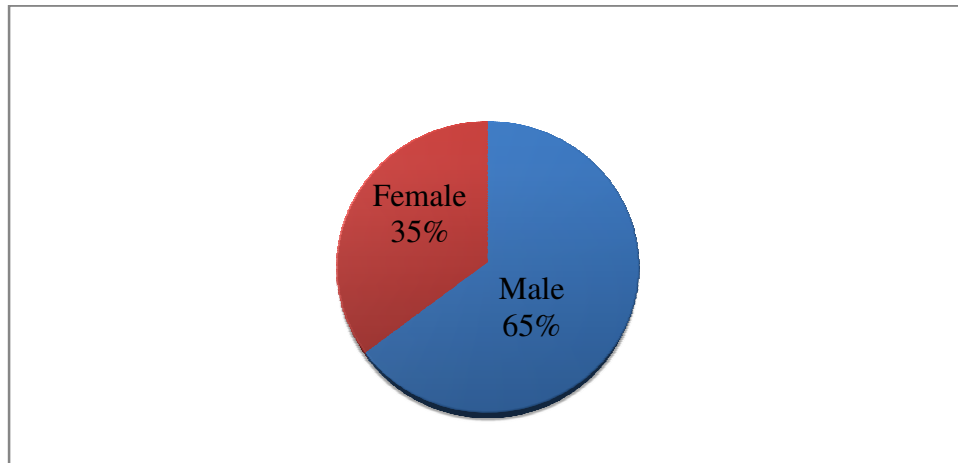
#### **4.4. Demographic Characteristics of the Respondents**

The social and demographic variables like age, sex, education level, position and experience of the respondents were asked and their responses are summarized and discussed below.

##### **4.4.1. The Gender Distribution of the Respondents**

From the total respondents, 39 (35.45%) were female, while 71 (64.55%) were males. This shows that the staffs that are being involved in budget and budgetary control process, in the banking sector, are predominantly male. The result is shown by figure 1 below.

**Figure 2: The Gender Distribution of the Respondents**

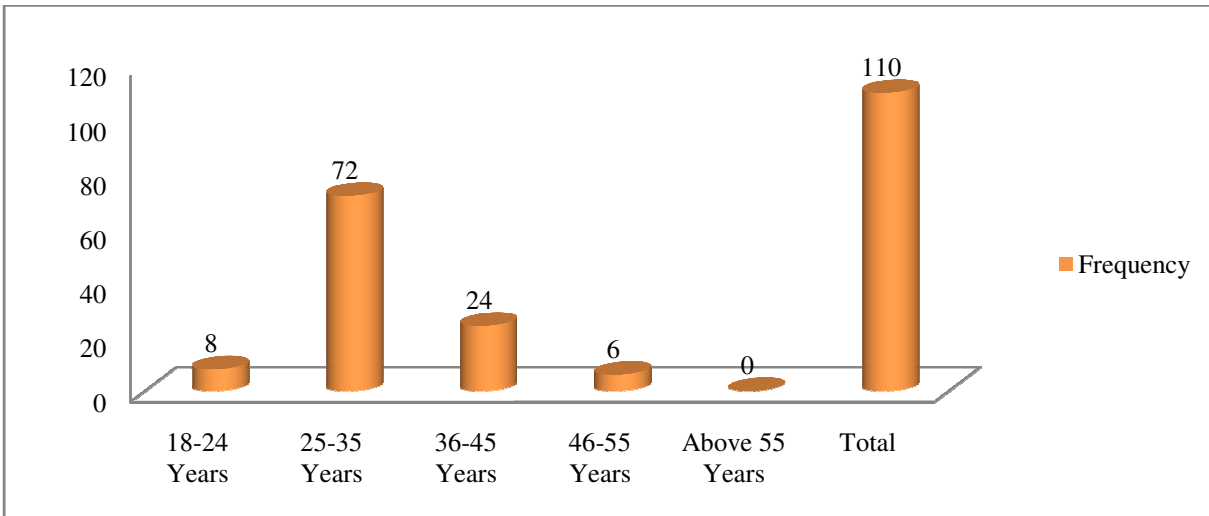


Source: Researcher, 2020/21

#### 4.4.2. The Age Categories of the Respondents

The data regarding the age category of the respondents indicate that out of the 110 valid respondents 8 (7.27%) of them fall within the age of 18-24 years whereas 72 of them representing 65.45% were between 25-35 years which is the higher age distribution of the respondents; 24 of them which represents 21.82% found in the age category of 36-45; whereas the remaining 6 (5.45%) respondents were in the age group between 46-55. This result indicates that the bulk of the man power that is engaged in the budget and budgetary control activities is in the age of between 25 to 35 years old. The detail result is illustrated in the figure below.

**Figure 3: The Distribution of the Respondents by Age Group**

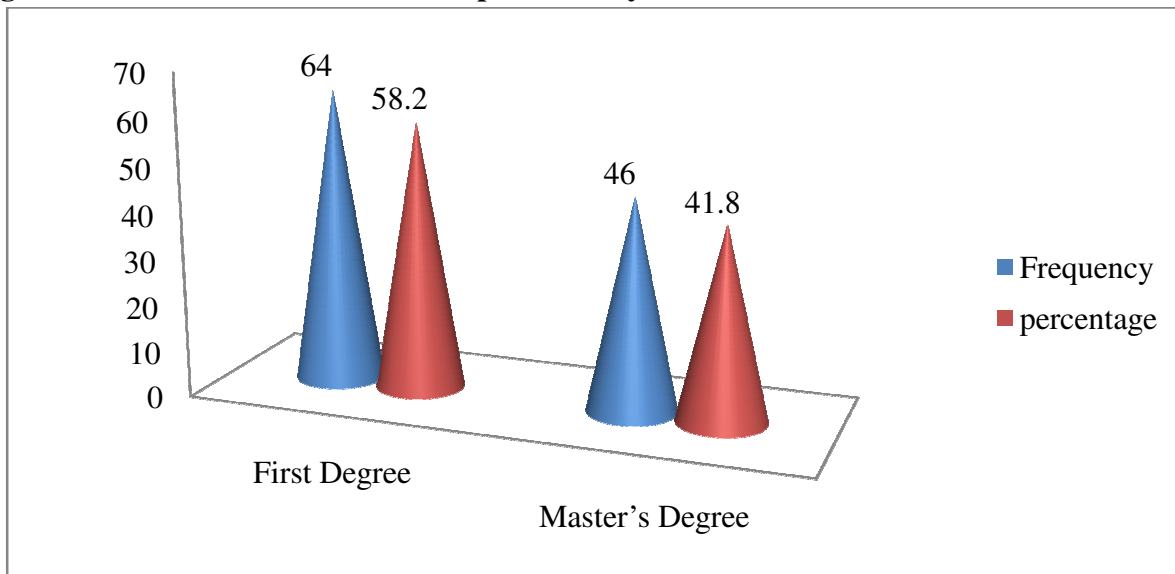


Source: Researcher, 2020/21

#### 4.4.3. Distribution of Respondents by Level of Education

The respondents were asked about their highest level of education in order to determine whether they understood the budgeting and budgetary control systems and its effect on organizational performance of their respective firm. From the findings as shown in the table here below that most of the employees were first-degree holders which represents 58.2%, whereas the remaining 34.55% of the respondents had attained postgraduate (Master's Degree) level. None of them have PhD and diploma level of education. Thus, from the finding it can be understood that all of the staffs participated in the survey are first degree and master's holders. This clearly shows that most of the employees in private banking industry were at least first degree holders at the departments responsible for budget and budgetary control process. The implication of this result is that respondents with higher academic qualification will have better understanding of the issues raised in this research than others. The survey result is illustrated in diagram here below.

**Figure 4: The Distribution of the Respondents by level of Education**



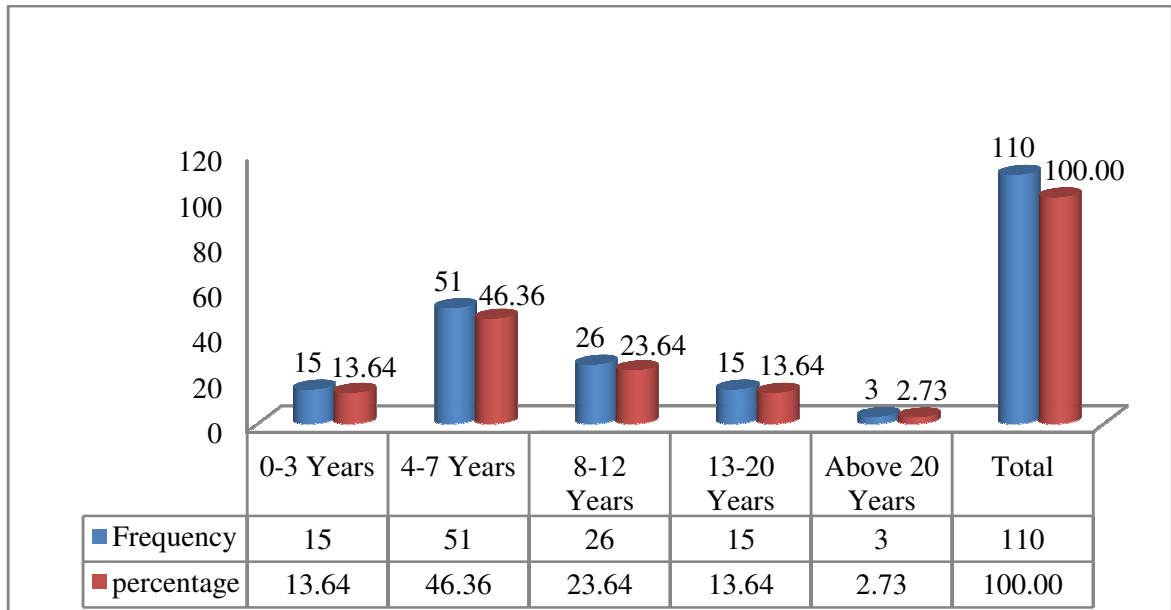
Source: Researcher, 2020/21

#### 4.4.4. Distribution of Respondents by Work Experience

The study attempts to see respondents' work experience to determine to the level of their knowledge about budgeting and control system. From the findings it can be depicted that most of the respondents (70%) have 4-12 years of experience while 13.64% of them have below 4 years, while the remaining are distributed in the range of 13-20 and above 20 years of service.

This finding indicates that most of the respondents had the accumulated experience required to effectively discharge their functions as the more the employees have experience in their respective professions the more they will have understanding of the practice of the budgeting system in a firm. The detail result is indicated in the figure below.

**Figure 5: The Distribution of the Respondents by Work Experience**



Source: Researcher, 2020/21

#### 4.4.5. Distribution of respondents by Job Position and Rank

The respondents were asked to indicate their job position and level/rank of current position and department that they are assigned. This is important to know how the respondents are much enough to give reliable information about the practice and effect of budgeting and budgetary control. The research finding shows that 30.0% of the respondents are finance officers and accountants, 32.73% are Plan and budget officers, 28.18% are Line Managers and 9.09% are Middle Level Management assignments. Therefore, from this result we can infer that all of the respondents are active participants of budgeting and budgetary control processes.

## 4.5. Budget and Budgetary Control Practices

### 4.5.1. Budgeting Practices

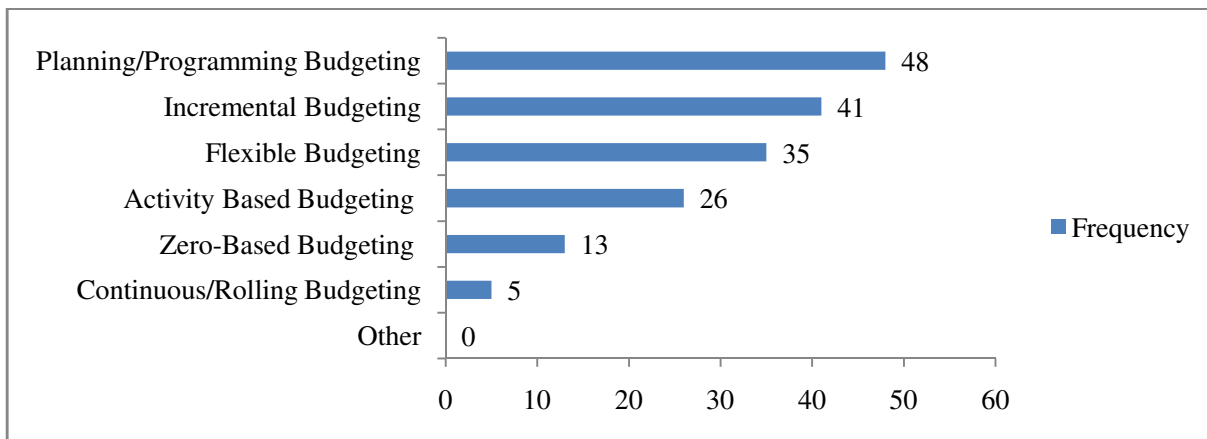
The researcher wanted to know the respondents' level of agreement on statements that related to the existence of budget in their respective bank. Thus, the investigation is started by asking the respondents "do private commercial banks prepare budgets?" and according to the result, all of the respondents were agreed that the banking sector prepares budgets for specific time and purpose.

There are various responsible units that perform their particular activities and have a critical role while drafting the overall Budget/Plan of the Bank. The budgeting process in private bank is found to be a team effort that includes: Board of Directors, Executive Directors, Departments, District Offices, Divisions, Branches, Budget Committee, Planning & Budgeting Staffs, and Finance & Account Staffs.

In many organizations a budget covers a period of one year or below. The respondents were asked about budget time span of their bank. According to the findings, the private banks of Ethiopia prepare their budget annually.

Furthermore, respondents were asked about the budgeting techniques applied in their respective bank. Planning/Programming Budgeting, Incremental Budgeting and Flexible Budgeting are the first three techniques that are mentioned by the majority of the respondents.

**Figure 6: Budgeting Techniques Applied In Private Commercial Banks**



Source: Researcher, 2020/21

When we disaggregate the above result by number of banks that apply each budgeting technique; as shown in table below, out of the 16 private commercial banks in Ethiopia, Planning/Programming Budgeting technique is applied by 11 banks; Incremental Budgeting by 10 banks, Flexible Budgeting by 4 banks, while Activity Based Budgeting by 2 banks and Zero-Based Budgeting technique is being applied by one bank. This shows that the banks are using more than one budgeting technique. The detail is indicated in the following table.

**Table 3: Budgeting Techniques Applied by Each Private Commercial Bank**

S/N	Bank Name	Budgeting Techniques that are Applied in the Bank					Continuous/ Rolling Budgeting
		Flexible Budgeting	Zero- Based Budgeting	Incremental Budgeting	Activity Based Budgeting	Planning/ Programming Budgeting	
1	Awash Bank	✓		✓		✓	
2	Abyssinia Bank			✓	✓		
3	Dashen Bank			✓		✓	
4	Wogagen Bank			✓	✓		
5	Nib Bank	✓		✓			
6	United Bank			✓		✓	
7	Cooperative Bank					✓	
8	Oromia Bank					✓	
9	Lion Bank		✓			✓	
10	Enat Bank	✓		✓		✓	
11	Abay Bank						
12	Debab Global Bank			✓		✓	
13	Birhan Bank						
14	Zemen Bank			✓		✓	
15	Buna Bank	✓		✓			
16	Addis Bank					✓	
<b>Total</b>		<b>4</b>	<b>1</b>	<b>10</b>	<b>2</b>	<b>11</b>	<b>-</b>

Source: Survey Result, 2020/21

Regarding the approaches of budget preparation literatures stated three namely bottom-up, top down and a combination of the two. Based on the survey result, it is possible to understand that the budgeting process of the majority of private commercial banks (10 out of 16) use the combination of Top-down and bottom-up approach. While the remaining six banks apply a top down budget preparations approach. From this we could infer that the planning and budgeting process in the majority of private commercial banks has a participatory nature. The detail result is stated in the table below.

**Table 4: Budgeting Approaches Applied In Private Commercial Banks**

S/N	Bank Name	Approach of budget preparation applied in the bank		
		Top Down	Bottom-Up	Combination of the two
1	AwashBank			✓
2	AbyssiniaBank	✓		
3	DashenBank	✓		
4	WogagenBank			✓
5	NibBank			✓
6	UnitedBank			✓
7	CooperativeBank			✓
8	OromiaBank	✓		
9	LionBank			✓
10	EnatBank			✓
11	AbayBank	✓		
12	Dehub GlobalBank	✓		
13	BirhanBank			✓
14	ZemenBank	✓		
15	BunaBank			✓
16	AddisBank			✓
<b>Total</b>		<b>6</b>	<b>-</b>	<b>10</b>

Source: Survey Result, 2020/21

#### 4.5.2. Budgetary Control Practices

In the theoretical literature part of this paper, it is indicated that budgetary control is the process of budget preparation, recording the performance, comparing the actual performance with the budget and taking the remedial action for the variance. This research has confirmed the presence of such kind of budgetary control practice based on the response of staffs that were participated in the study.

Regarding, the budgetary control techniques, we have understood from the literature that there are various budgetary control techniques. Based on the finding of this study, of the 16 private banks 14 of them use variance analysis method while the remaining two banks namely Awash Bank and Dehub Global Bank are applying responsibility accounting method. This implies that variance analysis is the predominant budgetary control technique applied by the private commercial banks operating in Ethiopia. This means that the actual performance is compared with budgeted target to find out deviation and to take the necessary corrective actions.

Reviewing a budget is important to better manage our spending habits, increase our savings, and make progress toward our long-term financial goals. For this reason organizations should hold a

periodic budget review meetings to analyze their actual financial performance compared with the projected budget. This is therefore; the researcher asked the respondents whether their bank conduct periodic budget review meetings. Based on their response, the study has confirmed that all the private commercial banks perform budget review meetings to assess factors that lead to budget variance and to give corrective measures.

The study further wanted to find out on how often the budgets are reviewed in the private banking sector in Ethiopia. According to the results, majority of the respondents from all private commercial banks indicated that their budget is reviewed quarterly. Here we can understand that a budget review is conducted every quarter where performance is analyzed, trends are assessed and fixed by correcting figures to suit the existing trends.

Regarding the responsibility of reviewing/evaluating budget performance at their bank, the respondents said that the Board of Directors, Executive Management Committee, Planning and Monitoring Departments, Finance and account departments, Department Heads, District and Branch Managers as well as Planning/Budgeting senior experts are responsible.

#### **4.6. Effectiveness of Budgeting & Budgetary Control System in Banking Industry**

Budget and budgetary controls has been emphasized as a viable tool for ensuring effective and efficient organizational performance. The problem that normally arises is whether the budget and budgetary control practices of the organization comply with the best practices of budgeting. Undertaking a systematic review on the effectiveness of budgeting and budgetary control system of Ethiopian private banking industry, was the second objective of this research. The table below depicts findings related to the respondents' level of agreement on statements that relate to essentials of an effective budget and budgetary control system.

**Table 5: Questions and Stata output for effectiveness of Budgeting & Budgetary Control System in Banking Industry**

No	Variable (Question)	Obs	Mean	Std. Dev.	Min	Max
1	There is a Sound Forecasting system to make precise and accurate budget estimate.	110	2.718182	1.041627	1	5
2	There is an Information System that provides data for managers so that they can make realistic budget predictions.	110	2.745455	0.961997	1	5
3	The Budget and budgetary control is directly flow from	110	3.590909	1.111206	1	5

No	Variable (Question)	Obs	Mean	Std. Dev.	Min	Max
	objectives of the bank					
4	There is a Proper Recording System and a Sound Accounting Procedures are practiced for proper recording of actual operations.	110	3.727273	1.012845	1	5
5	There is Full Participation of all stakeholders in the process of preparing a budget.	110	2.645455	1.036812	1	5
6	The bank sets budgets that are Reasonable and Achievable	110	2.772727	1.072244	1	5
7	The bank allocates Enough Financial Resources that are required to execute the planned activities.	110	2.581818	1.06126	1	5
8	There is an adequate Top Management Support and commitment for budgeting and budgetary control system.	110	2.672727	1.023657	1	5
9	Budgets are Flexible based on the actual business conditions.	110	2.690909	1.098334	1	5
10	Budget Revision is conducted where adjustments are needed	110	2.890909	1.160081	1	5
11	Sufficient time is allowed for the budget Programme to develop and reach near perfection.	110	3.481818	1.232078	1	5
12	Budget preparation usually begins and ends according to the budget schedule/calendar	110	3.218182	1.136402	1	5
13	There is an Efficient Organizational Structure like fixed responsibility centers, clear Budget Calendar, budget committee, budget manual and budget controller.	110	3.236364	1.132726	1	5
14	There is a Proper Coordination in the budget planning and preparation process.	110	2.672727	1.03258	1	5
15	There is Sound Budget Administration that is budgets are being administered efficiently by responsible executives.	110	2.663636	0.979396	1	4
16	There is a Constant Budget Review in your bank.	110	3.027273	1.160979	1	5
17	There is a constant Performance Monitoring and analysis of costs and revenues and forwarding of feedback for budget holders.	110	3.145455	1.115663	1	5
18	There is a clear policy of Reward and Punishment for good/bad performance as per the budget.	110	2.509091	0.926129	1	5
19	The budgetary control is used as an efficient tool to Control and Measure Performance.	110	3.554545	1.045623	1	5
20	There is Enough Number of Skilled and Experienced Experts (budget officers) to accomplish budget preparation and administer budgetary control.	110	2.727273	0.94732	1	5
21	Generally, there is an effective Budgeting and Budgetary Control system in your Bank.	110	2.772727	1.097613	1	5

Source: Survey Result, 2020/21

As indicated on the above table, about 21 points were presented to the respondents to evaluate the effectiveness of their budget and budgetary control practices. According to the response of the respondents, out of the 21 questions, Q3, Q4, Q11, Q12, Q13, Q16, Q17, and Q19 had a

mean response rate of greater than three. This indicates that respondent agree on the effectiveness of budget and budgetary control in terms of the budget and budgetary control is directly flow from objectives of the bank, there is a proper recording system and a sound accounting procedures are practiced for proper recording of actual operations; sufficient time is allowed for the budget Programme to develop and reach near perfection; budget preparation usually begins and ends according to the budget schedule/calendar; there is an efficient organizational structure like fixed responsibility centers, a clear budget calendar, budget committee, budget manual and budget controller; there is a constant budget review in their bank; there is a constant performance monitoring and analysis of costs and revenues and forwarding of feedback for budget holders; and the budgetary control is used as an efficient tool to control and measure performance.

However, questions other than the above ones had a means of less than three which indicates that respondents are not agree on statements which specify that there is a sound forecasting system to make precise and accurate budget estimate; there is an information system that provides data for managers so that they can make realistic budget predictions; there is full participation of all stakeholders in the process of preparing a budget; the bank sets budgets that are reasonable and achievable; the bank allocates enough financial resources that are required to execute the planned activities; there is an adequate top management support and commitment for budgeting and budgetary control system; budgets are flexible based on the actual business conditions; budget revision is conducted where adjustments are needed; there is a proper coordination in the budget planning and preparation process; there is sound budget administration that is budgets are being administered efficiently by responsible executives; there is a clear policy of reward and punishment for good/bad performance as per the budget; there is enough number of skilled and experienced experts (budget officers) to accomplish budget preparation and administer budgetary control; and finally they disagreed on the statement that refer to there is an effective budgeting and budgetary control system in their banks. Generally, the result reveals that the banks fulfill 8 out of the 21 essentials of an effective budgeting and budgetary control systems that were incorporated in this study.

As to the descriptive statics presented on the above table, the standard deviation of all question except Q2, Q15 and Q20 in this section is greater than one this implies that the respondent perception on all question of this section were far one another. The standard deviation of the

respondents on Q2, Q15 and Q20 was less than 1. This indicates that the respondent perception on these three questions was closed together.

#### 4.7. Effects of Budget & Budgetary Control System on Organizational Performance

Budgeting and Budgetary control is very important and it determines the way in which the organization can attain its financial and other goals. Thus, one of the specific objectives of conducting this study is to investigate the role of budgeting and budgetary control system within Ethiopian banking sector. Therefore, respondents were asked if budget and budgetary controls affect the financial and non-financial performance of respondents' bank. Based on the survey result, the respondents indicated that budget and budgetary control affects the financial and non-financial performances the banks.

Concerning the impact of budget and budgetary control on organizational performance, the study sought to find out the extent that the financial and non-financial performance of their bank is affected by the budgeting and control process. The feedback of the respondents is summarized and presented in the tabular form as follows.

**Table 6: Extent to Which Financial and Non-Financial Performance of Private Commercial Banks are Affected by Budget and Budgetary Control Process**

Description		Very Great Extent	Great Extent	Moderate Extent	Low Extent	Very Low Extent	Total
Extent of budget and budgetary control effect on the financial performance	Frequency	39	54	15	2	0	<b>110</b>
	Percentage	35.45%	49.09%	13.64%	1.82%	0.00%	<b>100.00%</b>
	Cumulative Percentage	35.45%	84.55%	98.18%	100.00%	100.00%	
Extent of budget and budgetary control effect on the non-financial performance	Frequency	13	42	39	10	6	<b>110</b>
	Percentage	11.82%	38.18%	35.45%	9.09%	5.45%	<b>100.00%</b>
	Cumulative Percentage	11.82%	50.00%	85.45%	94.55%	100.00%	

Source: Researcher, 2020/21

From the findings, as indicated by the value of Cumulative Percentage in the table above, out of the total of 110 respondents, respondents representing 98.18% and 85.45% agreed that budget and budgetary control greatly affects the financial and non-financial performance. This implies that, based on the response of the respondents, the study confirmed that budget and budgetary

control process could greatly affect both the financial and non-financial performance of private commercial banks in Ethiopia.

Moreover, respondents were asked that whether effective budgeting and budgetary control system can improve an organizational performance and based on the finding, all of the respondents showed their agreement that effective budgeting and budgetary control system can improve an organizational performance. An open ended question was presented to the respondents so that they shall explain some of the means in which budget and budgetary control could improve the financial and non-financial performance of their banks. Based on this they have mentioned some points. As per their response, budget and its controlling system can improve financial performance by minimizing costs, maximizing profits, increase return on assets, and enhance shareholders value or return to equity. Whereas based on the respondents view, budget and budgetary control could improve the non-financial performance by increasing employee's motivation, enhancing operational efficiency; improve customer service which in turn results in increasing customer satisfaction. Moreover, they stated that it could help them to be competitive in the industry and to improve their market share in both financial and non-financial parameters.

The study has tried to find out the major effects of budget and its controlling system on the performance of the private banking industry in Ethiopia. The following table indicates the respondent's level of agreement with statements on the possible impacts of effective budget and budgetary control on private banks' organizational performance in Ethiopia.

**Table 7: Questions and Stata output for impact of an Effective Budget & Budgetary Control System on Organizational Performance of Private Banking Industry**

No	Variable (Question)	Obs	Mean	Std. Dev.	Min	Max
1	Better Forecasting Future Events and targets	110	4.072727	1.02902	1	5
2	Foundation for Better Planning and implementation	110	4.081818	1.01486	1	5
3	Maximize Profitability	110	4.109091	0.989351	1	5
4	Better Coordination and communication	110	4.027273	0.990404	1	5
5	Basic for effective decision making	110	4.081818	1.01486	1	5
6	Assist effective control	110	3.981818	1.116858	1	5
7	Basis for performance Measurement and appraisal	110	4.018182	1.022516	1	5
8	Motivate employees to do better	110	3.672727	1.134198	1	5
9	Better Resource allocation and utilization	110	4.027273	1.104279	1	5
10	Smooth Running Of Business Enterprise	110	3.909091	1.02756	1	5

Source: Survey Result, 2020/21

As shown above, about ten possible impacts of an effective budgeting and budgetary controls were presented to the respondents so as to put their level of agreement. According to the findings displayed in the table above all alternative statements had a mean response rate of greater than three. This indicates that respondent agreed that future events can be predicted through budget and budgetary control system. Interestingly, majority of the respondents indicated that budget and budgetary control system leads to better planning and implementation which have a major role to improve an organizational efficiency. They have indicated that maximization of profitability is an important role of effective budget and budgetary control system. Moreover, the respondents believed that budget and budgetary control system would help for better coordination and communication; basis for effective decision making; assist effective control; basis for performance measurement and appraisal; motivate employees to do better; better resource allocation and utilization; and to smooth running of the businesses. All the variables listed here are important components of budget and budgetary control systems which are believed ultimately leads to improved organizational efficiency.

As to the descriptive statics presented on the above table, the standard deviation of all question except Q3 and Q4 in this section is greater than one this implies that the respondent perception on these questions were far one another. While the standard deviation of the respondents on Q3 and Q4 was less than 1. This indicates that the respondent perception on the impact of budget and budgetary control to maximize profitability and to create better coordination and communication was closed together.

#### **4.8. Problems and Challenges in Budget and Budgetary Control Process**

The fourth objective of the study was to assess the major problems observed in connection with budget and budgetary control processes of private commercial banks in Ethiopia. As to the result of the survey, there is some problems in implementation of budget and budgetary control system in the private commercial banks. The next table indicates responses of the sampled staffs in regards to problems and challenges in implementation of budget and budgetary control system.

**Table 8: Questions and Stata Output for Problems and Challenges in Budget and Budgetary Control Process in Private Banks of Ethiopia**

NO.	Variable (Question)	Obs	Mean	Std. Dev.	Min	Max
1	Budgets are time consuming and costly	110	3.409091	1.060513	1	5
2	Budget is prepared using different methods each year	110	2.809091	0.9335289	1	5
3	Budgets are usually developed based on unsupported assumptions and guesswork	110	2.781818	1.086884	1	5
4	Budgets concentrate on cost reduction and not value creation	110	3.063636	1.094417	1	5
5	Budgets lack integration with the overall strategy	110	3.054545	1.140066	1	5
6	Weak communication between those involved in budgeting and operating personnel	110	3.327273	1.08458	1	5
7	Budgets are seen as a pressure tool	110	3.127273	0.9395401	1	5
8	Inadequate management support and commitment, and indecisiveness problem	110	3.281818	1.02386	1	5
9	Budgets create departmental conflicts over resource allocation and blaming when targets are not met	110	3.045455	1.008099	1	5
10	Budget preparers are unfamiliar with the operations being budgeted	110	2.772727	1.037455	1	5
11	The budget document is excessively long, confusing, or filled with unnecessary information.	110	2.663636	1.094417	1	5
12	Managers & staffs ignore their own budget as it appear unusable and unrealistic	110	3.072727	1.089643	1	5
13	Budget variances arise due to poor forecasting	110	3.354545	1.054361	1	5
14	Budgets are reviewed and updated too infrequently	110	3.118182	1.029223	1	5
15	Lack of enough and skilled financial experts	110	3.181818	1.142842	1	5
16	Budget is prepared and controlled in labor intensive way, i.e. without any IT system support	110	3.363636	1.239468	1	5
17	Managers and experts being involved in budget and budgetary control lack the required knowledge and experience	110	3.063636	1.119283	1	5

Source: Survey Result, 2020/21

As shown in the above Table, the study revealed that respondents were in general agreed (mean value is greater than 3) that the following problems and challenges are being observed in the private banks of Ethiopia. These are:-Budgets are time consuming and costly;Budgets concentrate on cost reduction and not value creation;Budgets lack integration with the overall strategy;Weak communication between those involved in budgeting and operating personnel;Budgets are seen as a pressure tool;Inadequate management support and commitment, and indecisiveness problem;Budgets tend to create departmental conflicts over resource allocation and blaming when targets are not met;Managers and staff ignore their own budget as it appear unusable and unrealistic;Budget variances arise due to poor forecasting;Budgets are reviewed and updated too infrequently;Lack of enough and skilled financial experts;Budget is

prepared and controlled in labor intensive way, i.e. without any IT system support; and Managers and experts involved in budget and budgetary control lack the required knowledge and experience.

The respondents disagreed on statements budget is prepared using different methods each year (Mean=2.81); budgets are based on unsupported assumptions and guesswork (Mean=2.78); budget preparers are unfamiliar with the operations being budgeted (mean=2.77); and the budget document is excessively long, confusing, or filled with unnecessary information (Mean=2.66).

This result shows there are problems that should be addressed by the senior managers so as to improve their budget and budgetary control systems. The study further tried to find out the sources of the problems and challenges and the result is presented as follows.

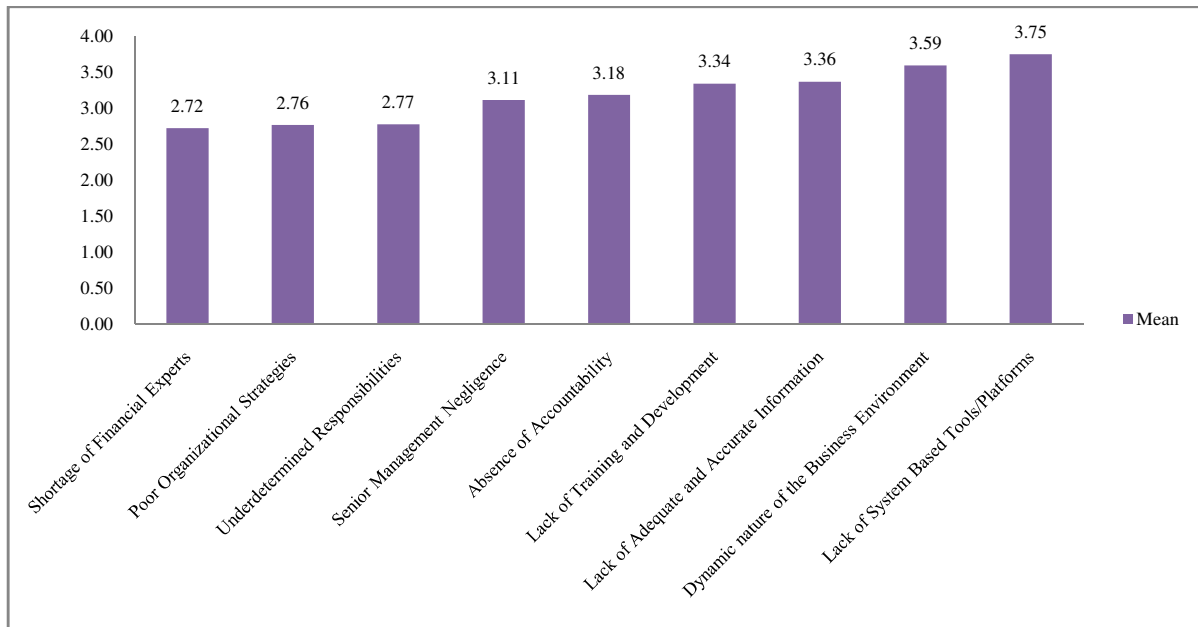
**Table 9: Questions and Stata Output for Sources of Problems/Challenges in Budget and Budgetary Control in Private Banks of Ethiopia**

No.	Variable (Question)	Obs	Mean	Std. Dev.	Min	Max
1	Senior Management Negligence	110	3.109091	1.167963	1	5
2	Shortage of Financial Experts	110	2.718182	1.050398	1	5
3	Underdetermined Responsibilities	110	2.772727	0.9735878	1	5
4	Lack of Adequate and Accurate Information	110	3.363636	1.106505	1	5
5	Poor Organizational Strategies	110	2.763636	1.099852	1	5
6	Dynamic nature of the Business Environment	110	3.590909	1.221335	1	5
7	Lack of Training and Development	110	3.336364	1.336003	1	5
8	Lack of System Based Tools/Platforms	110	3.745455	1.214865	1	5
9	Absence of Accountability	110	3.181818	1.279204	1	5

Source: Survey Result, 2020/21

It is seen from the above table that first ranked variable by respondents (Mean = 3.75) is the lack of system based tools/platforms; second ranked source is the dynamic nature of the business environment (Mean = 3.59); third ranked one is lack of adequate and accurate information (Mean = 3.36); fourth ranked variable is lack of training and development (Mean = 3.34); while the fifth one is an absence of accountability (Mean = 3.18); and the last one (Mean = 3.11) is senior management negligence.

**Figure 7: The Sources of Problems and Challenges Faced In Budget and Budgetary Control**



Source: Survey Result, 2020/21

#### **4.9. Discussion of Results**

The study reveals that all the private banks in Ethiopia prepare budgets for specific time and purpose. Regarding the budget time span of the banking sector in Ethiopia, the result of this study shows that the banking industry in Ethiopia prepares their budget annually. Regarding budgeting techniques the result of this study indicates that Planning/Programming Budgeting, Incremental Budgeting and Flexible Budgeting are the first three budgeting techniques applied in the private banks. These are some of the important budgeting techniques identified by the Institute of Chartered Accountants of Nigeria (2006).

The budgeting process of the majority of the private commercial banks uses the combination of Top-down and bottom-up approach. Jae K. Shim and Joel G. Siegel (2005) in their book titled ``Budgeting Basics and Beyond`` stated three approaches of budget preparation namely bottom-up, top down and a combination of the two. Then Taking the advantages and disadvantages of the two budgeting approaches, they recommend a combination of the bottom-up and top-down approaches as an appropriate method. This finding is also agreed with the finding of Bedilu Assefa (2015), who did his study in this area in case of Development Bank.

This study has confirmed the presence of budgetary control practice and variance analysis is the predominant budgetary control technique applied by the private banks. Variance Analysis is one of the most important budgetary control methods that were explained by Henry Harvin (2020). The result shows that all private banks perform budget review meetings to assess factors that lead to budget variance and to give corrective measures. The study result also shows that a budget review is conducted every quarter. From this aspect we can say that the budgetary control system which is being practiced in the private banks is strong.

This study has tried to systematically review the effectiveness of budgeting and budgetary control system of Ethiopian private banking industry. Based on this, about 20 different questions were asked to inquire the respondents' level of agreement on statements that relate to essentials of an effective budget and budgetary control system with regard to their practice. The result of the study indicates that respondent agree on the effectiveness of budget and budgetary control in terms of the budget and budgetary control is directly flow from objectives of the bank, there is a proper recording system and a sound accounting procedures are practiced for proper recording of actual operations; sufficient time is allowed for the budget Programme to develop and reach near perfection; budget preparation usually begins and ends according to the budget schedule/calendar; there is an efficient organizational structure like fixed responsibility centers, a clear budget calendar, budget committee, budget manual and budget controller; there is a constant budget review in their bank; there is a constant performance monitoring and analysis of costs and revenues and forwarding of feedback for budget holders; and the budgetary control is used as an efficient tool to control and measure performance.

However, respondents are not agreed on statements which specify that there is a sound forecasting system to make precise and accurate budget estimate; there is an information system that provides data for managers so that they can make realistic budget predictions; there is full participation of all stakeholders in the process of preparing a budget; the bank sets budgets that are reasonable and achievable; the bank allocates enough financial resources that are required to execute the planned activities; there is an adequate top management support and commitment for budgeting and budgetary control system; budgets are flexible based on the actual business conditions; budget revision is conducted where adjustments are needed; there is a proper coordination in the budget planning and preparation process; there is sound budget administration that is budgets are being administered efficiently by responsible executives; there

is a clear policy of reward and punishment for good/bad performance as per the budget; there is enough number of skilled and experienced experts (budget officers) to accomplish budget preparation and administer budgetary control; and generally they disagreed on the statement that refer to there is an effective budgeting and budgetary control system in their banks. In general, the result reveals that the banks fulfill only 8 out of the 21 essentials of an effective budgeting and budgetary control systems that were incorporated in this study.

There are different studies state different essentials of budget and budgetary control. Vander (2000) identified some of the major elements such as availability of enough financial resources, availability of skilled personnel, and full participations of all stakeholders in the process of preparing a budget. Mubina Shaikh (2016) also pointed out the issues revealed by this study as the essentials of an effective budgetary control system. Siyanbola Trimisiu Tunji (2013) has also indicated these points as necessary conditions for a budget and budgetary control to be effective. Thus, the finding of this study is aligned to these different literatures which identify various points as essential issues build an effective budget and budgetary control systems.

Budgeting and Budgetary control is very important and it determines the way in which the organization can attain its goals. The third specific objective of conducting this study is to investigate the role of budgeting and budgetary control system within Ethiopian banking sector. From the findings, budget and budgetary control could affect both the financial and non-financial performances. Concerning the extent that financial and non-financial performance of organization is affected by budget and budgetary control process, out of the total of 110 respondents, respondents representing 98.18% and 85.45% agreed that budget and budgetary control affects the financial and non- financial performance respectively from moderate up to very great extent level. This implies that budget and budgetary control process could greatly affect both the financial and non-financial performance of private commercial banks in Ethiopia.

Moreover, the sampled respondents indicated their agreement that effective budgeting and its control system can improve an organizational performance. The respondents agreed that future events can be predicted through budget and budgetary control system; ensure better planning and implementation; maximization of profitability; better coordination and communication; basis for effective decision making; assist effective control; basis for performance measurement and appraisal; motivate employees to do better; better resource allocation and utilization; and to

smooth the overall running of the businesses. These are important components of budget and budgetary control systems which are believed ultimately leads to improved organizational efficiency. Most of these points were identified by Agalega (2014) and Daniel Mahinda Mwangi (2014) too as the critical role of an effective budget and budgetary control system.

Finally, the study tried to assess the major problems observed in connection with budget and its control processes of private banks in Ethiopia. The sampled respondents indicated that there are problems in implementation of budget and budgetary control system in their banks. The study revealed some of the major problems and challenges that are being observed in the private banks of Ethiopia. These includes: Budgets are time consuming and costly; Budgets concentrate on cost reduction and not value creation; Budgets lack integration with the overall strategy; Weak communication between those involved in budgeting and operating personnel; Budgets are seen as a pressure tool; Inadequate management support and commitment, and indecisiveness problem; Budgets tend to create departmental conflicts over resource allocation and blaming when targets are not met; Managers and staff ignore their own budget as it appear unusable and unrealistic; Budget variances arise due to poor forecasting; The budgets are reviewed and updated too infrequently; Lack of enough and skilled financial experts; Budget is prepared and controlled in labor intensive way, i.e. without any IT system support; and Managers and experts being involved in budget and budgetary control lack the required knowledge and experience.

These shows there are problems that should be addressed by the senior managers so as to improve their budget and budgetary control systems. The study has further tried to find out the sources of the problems and challenges. These are: lack of system based tools/platforms; the dynamic nature of the business environment; lack of adequate and accurate information; lack of training and development; an absence of accountability; and senior management negligence. All the problems and their sources stated in this study were also outlined by Jae K. Shim and Joel G. Siegel (2005). The result of this study is also found to be aligned with the result of Manoharan Nair and Alireza Kaab (2017) who made a study on Budgeting and Budgetary Control System on Selected Indian Companies and find out that undetermined responsibilities, lack of financial experts, senior management negligence, organizational strategies, and inaccurate information are the major barriers in proper implementation of budget and budgetary control system.

## CHAPTER FIVE

### CONCLUSIONS AND RECOMMENDATIONS

#### 5.1. Introduction

The main purpose of this study is to examine the practice of budget and budgetary control system and its impacts on the performance of private banks in Ethiopia. To meet these objectives of the study primary data were collected and analyzed using different descriptive statistical techniques. The concluding remarks that are derived based on the specific objectives of the research and some relevant recommendations that are made on the conclusion are presented as follows.

#### 5.2. Conclusion

There are several important conclusions and recommendations to be made based on the findings of this study. But, due emphasis is given to some of the most imperative ones based on the four basic research questions that were derived from the specific objectives of the study.

##### i. Budgeting and Budgetary Control Practices

It can be concluded from the finding that there exist an established budgeting and budgetary control system in all private commercial banks. The study reveals that all the private banks in Ethiopia prepare their budget annually. Planning/Programming Budgeting, Incremental Budgeting and Flexible Budgeting are the major budgeting techniques applied in these private banks. Majority of the private commercial banks use the combination of Top-down and bottom-up approaches of budgeting process. Variance Analysis is the predominant budgetary control technique applied by the private commercial banks operating in Ethiopia. The private commercial banks perform budget review meetings on every quarter to assess factors that lead to budget variance and to give corrective measures.

##### ii. Effectiveness of Budgeting & Budgetary Control System

It is evident from the analysis that the budget and budgetary control of the private banks complies with some of the best standards. that is, the budget and budgetary control is directly flow from objectives of the bank, there is a proper recording system and a sound accounting procedures are practiced for proper recording of actual operations; sufficient time is allowed for the budget Programme to develop and reach near perfection; budget preparation usually begins

and ends according to the budget schedule/calendar; there is an efficient organizational structure like fixed responsibility centers, a clear budget calendar, budget committee, budget manual and budget controller; there is a constant budget review in their bank; there is a constant performance monitoring and analysis of costs and revenues and forwarding of feedback for budget holders; and the budgetary control is used as an efficient tool to control and measure performance.

However, the budget and budgetary control did not fully comply with the best standards. Based on the result of the study it is possible to conclude that there is no sound forecasting system to make precise and accurate budget estimate; there is no information system that provides data for managers so that they can make realistic budget predictions; there is no full participation of all stakeholders in the process of preparing a budget; the banks do not set budgets that are reasonable and achievable; the bank did not allocate enough financial resources that are required to execute the planned activities; there is no adequate top management support and commitment for budgeting and budgetary control system; budgets are not flexible based on the actual business conditions budget revision is conducted where adjustments are needed; there is no proper coordination in the budget planning and preparation process; there is no sound budget administration that is budgets are not being administered efficiently by responsible executives; there is no clear policy of reward and punishment for good/bad performance as per the budget; and there is no enough number of skilled and experienced experts (budget officers) to accomplish budget preparation and administer budgetary control. In general, the banks fulfill only 8 out of the 21 essentials of an effective budgeting and budgetary control systems that were incorporated in this study. These shows the banks did not comply with the major conditions which are necessary to be in place for a budget and budgetary control to be effective. Therefore, we can conclude that private commercial banks did not have an effective budget and budgetary control systems.

### **iii. Effects of Effective Budget & Budgetary Control System**

Budgeting and Budgetary control is extremely important and it determines the way during which the organization can attain its financial and other goals. From the findings of the analyzed data, it is possible to conclude that budget and budgetary control process could greatly affect both the financial and non-financial performance of private commercial banks in Ethiopia. An effective budgeting and budgetary control system can improve an organizational performance. The future

events can be predicted through budget and budgetary control system; ensure better planning and implementation; maximization of profitability; better coordination and communication; basis for effective decision making; assist effective control; basis for performance measurement and appraisal; motivate employees to do better; better resource allocation and utilization; and help to smooth the overall running of the businesses. These variables are important role of budget and budgetary control systems which are believed ultimately leads to an improved organizational performance.

#### **iv. Problems and Challenges in Budget and Budgetary Control Process**

The study again revealed that there are problems/challenges in implementation of budget and budgetary control system in the private commercial banks. These includes: budgets are time consuming and costly; budgets concentrate on cost reduction and not value creation; budgets lack integration with the overall strategy; weak communication between those involved in budgeting and operating personnel; budgets are seen as a pressure tool; inadequate management support and commitment, and indecisiveness problem; budgets tend to create departmental conflicts over resource allocation and blaming when targets are not met; managers and staff ignore their budget as it appear unusable and unrealistic; budget variances arise due to poor forecasting; the budgets were reviewed and updated too infrequently; lack of enough and skilled financial experts; budget is prepared and controlled in labor intensive way, i.e. without any IT system support; and managers and experts being involved in budget and budgetary control lack the required knowledge and experience. The sources of these problems and challenges are: lack of system based tools/platforms; the dynamic nature of the business environment; lack of adequate and accurate information; lack of training and development; an absence of accountability; and senior management negligence.

Generally, the result of the study shows there are problems that should be addressed by the senior managers so as to improve their budget and budgetary control systems. Thus, the banks need to take appropriate measures in order to reverse the existing problems and challenges. The possible solutions are highlighted in the following sub-section.

### **5.3. Recommendations**

The study has confirmed that an effective budget and budgetary control is basic tool to improve the financial and non-financial performance of the bank. Thus, more emphasis must be paid to strengthen budgeting and budgetary control system for a robust organizational performance.

This study recommends that the banks should improve their budget and budgetary control system in order to be fully benefited from it to improve their overall organizational performance. The need to follow a sound forecasting system to make precise and accurate budget estimate; employ the use of information technology in their budget development and controlling processes; ensure involvement of all staff and concerned stakeholders in the budget preparation processes; set budgets that are realistic, reasonable and achievable; integrate budgets with the overall strategy and objectives; ensure an adequate top management support and commitment for budgeting and budgetary control system; ensure flexibility in the budget; strengthen budget review which is being conducted quarterly by the banks and conduct budget revision where adjustments are needed; ensure proper communication and coordination in the budgeting processes so as to meet target and to eliminate unnecessary variances; create a clear policy of reward and punishment for good/bad performance as per the budget target; assign well experienced and knowledgeable experts on budget and planning areas; build a strong monitoring and evaluation system, and develop well-functioning accountability framework in their respective banks.

The banks should also endeavor to organize continuous capacity development and awareness creation training sessions for staff regarding the use, concepts and techniques of budget and budgetary control systems. This could be also conducted through seminars, conferences and workshops to improve and enhance the overall organizational performance of the banks.

### **5.4. Limitations of the Study and Further areas of study**

Every research has limitations and so does this particular one. The first limitation was linked with the difficulty to get information from the respondents. As a common thing associated with surveys some people feel uncomfortable to give information to researchers. The researcher tried its best to get the required data by assuring respondents that the research was only for academic purpose. The other limitation of the study was difficulty of getting secondary data that could supplement findings from the primary data. This limitation was emanated from the fact that information from the banking industry is secured through strict confidential policies. Therefore

accessing fully some of the crucial data by way of questionnaires was quite a difficult task. Budgeting and budgetary control is a broader concept so that this research could not fully cover each and every aspect. The research was carried with limited time and budget so as to be able to fulfill the purpose for which it was carried out. Due to such and other limitations, this study could not exhaust all issues of budget and budgetary control. I have seen that there are also different important issues which could add value for the organizations if they are properly investigated by other researchers. Based on this the researcher want to recommend further studies to be undertaken in this area. For instance:

- ❖ The effect of budget and budgetary control on performance in different service and industrial sectors including government owned banks.
- ❖ The strategies of effective and efficient budget and budgetary control system
- ❖ The role of Information Technology to improve budget and budgetary control systems

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# Appendixes

**Addis Ababa University**  
**Faculty of Business and Economics**  
**Department of Accounting and Finance**

**Questionnaire for a Study on Examining the Practice of Budget and Budgetary control and Its Impact on Organizational Performance: Case of Private Banking Industry in Ethiopia.**

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Questionnaire No/code \_\_\_\_\_

Date of interview: date \_\_\_\_\_ month \_\_\_\_\_ year \_\_\_\_\_

### ***Introduction for the Respondent***

*This questionnaire is prepared as an instrument to conduct an academic research for the fulfillment of MSc Degree in Addis Ababa University Faculty of Business and Economics Department of Accounting and Finance. The study is intended to examine the Practice of Budget and Budgetary control and Its Impact on Organizational Performance in Case of Private Banking Industry in Ethiopia. To attain this purpose, your honest and genuine participation by responding to the questions prepared is very important and highly appreciated. The researcher, in this regard, assures you that all the information you provide will be confidential & it is to be used only for research purpose.*

***Thank you in advance for your cooperation!!***

### ***Instructions:***

- Writing your name is not necessary;
- For alternative choices, use a tick mark (√) for your choice in the box provided.
- Check only one box for each questions unless you are asked to tick more than one.

### **Part I: Background Information**

1. Gender: Male  Female .
2. Age: 18-24  25-35  36-45  46-55  Above 55
3. Level of Education: Diploma  First Degree  Master's Degree  PhD
4. Your Field of Education: Accounting  Management  Economics  Others : If others , please specify \_\_\_\_\_
5. The Bank You are working in: \_\_\_\_\_
6. Department that you are currently working: ----- No. of staffs in your department-----
7. Job Position: -----Rank: ----- (i.e., Junior, Officer, Senior, Principal, Top Management, Middle Management, Line Management, etc.)

8. Year of experience: 0-3 years  4-7 years  8-12 years  13-20 years  > 20 years

### **Part I: Budget and Budgetary Control Practices**

9. Does your bank prepare budgets? Yes  No
10. In your bank, which Department is more responsible to lead, coordinate and administer the budget and budgetary control practices?
- a) Finance and Accounts
  - b) Planning and Monitoring/Strategy
  - c) Both Departments
  - d) Other : If others , please specify\_\_\_\_\_
11. What time dimensions does your overall organization budget cover? You can tick on more than one choice.
- a) < 1 year
  - b) One year
  - c) 5 years
  - d) > 5 years
  - e) Other : If others , please specify\_\_\_\_\_
12. Based on your experience, which of the following budgeting techniques is applied in your bank? You can tick on more than one choice.
- a) Flexible Budgeting
  - b) Zero-BasedBudgeting
  - c) Incremental Budgeting
  - d) Activity Based Budgeting
  - e) Planning/Programming Budgeting
  - f) Continuous/Rolling Budgeting
  - g) Other : If others , please specify\_\_\_\_\_
13. Based on your experience, which of the following approaches of budget preparation is commonly applied in your bank?
- a) Bottom-Up
  - b) Top Down
  - c) Combination of the Two

d) Other : If others , please specify \_\_\_\_\_

14. Do you have budgetary control systems in your bank? Yes  No

15. If your answer for the above question is 'Yes', which of the following budgetary control techniques is applied in your bank?

a) Variance Analysis

b) Responsibility Accounting

c) Adjustment of Funds

d) Zero Based Budgeting

e) Other : If others , please specify \_\_\_\_\_

16. Does your bank conduct periodic budget review meetings to assess factors that lead to budget variance and to give corrective measures?

Yes  No

17. If your answer for the above question is 'Yes', how often is budget reviewed in your bank?

a) Monthly

b) Quarterly

c) Semi-Annually

d) Annually

e) Other : If others , please specify \_\_\_\_\_

18. Who is responsible for reviewing/evaluating budget performance at your bank?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Part II: Effectiveness of Budgeting and Budgetary Control Process in Banking Industry.**

19. Please respond to the following statements by indicating the extent to which you agree or disagree with the activities indicated below. (5) Strongly Agree, (4) Agree, (3) Neutral, (2) Disagree and (1) Strongly Disagree. Tick on your choice for each question.

S/No	Effectiveness of Budgeting and Budgetary Control Process	Measurement Scales				
		1	2	3	4	5
1	There is a <b>Sound Forecasting system</b> to make precise and accurate budget estimate.					
2	There is an <b>Information System</b> that provides data for managers so that they can make realistic budget predictions.					
3	The Budget and budgetary control is directly flow from					

S/No	Effectiveness of Budgeting and Budgetary Control Process	Measurement Scales				
		1	2	3	4	5
	<b>objectives</b> of the bank					
4	There is a <b>Proper Recording System and a Sound Accounting Procedures</b> are practiced for proper recording of actual operations.					
5	There is <b>Full Participation</b> of all stakeholders in the process of preparing a budget.					
6	The bank sets budgets that are <b>Reasonable and Achievable</b>					
7	The bank allocates <b>Enough Financial Resources</b> that are required to execute the planned activities.					
8	There is an adequate <b>Top Management Support and commitment</b> for budgeting and budgetary control system.					
9	Budgets are <b>Flexible</b> based on the actual business conditions.					
10	<b>Budget Revision</b> is conducted where adjustments are needed					
11	Sufficient time is allowed for the budget Programme to develop and reach near perfection.					
12	Budget preparation usually begins and ends according to the budget schedule/calendar					
13	There is an <b>Efficient Organizational Structure</b> like fixed responsibility centers, budget committee, budget calendar, budget manual and budget controller.					
14	There is a <b>Proper Coordination</b> in the budget planning and preparation process.					
15	There is <b>Sound Budget Administration</b> that is budgets are being administered efficiently by responsible executives.					
16	There is a <b>Constant Budget Review</b> in your bank.					
17	There is a constant <b>Performance Monitoring</b> and analysis of costs and revenues and forwarding of <b>feedback</b> for budget holders.					
18	There is a clear policy of <b>Reward and Punishment</b> for good/bad performance as per the budget.					
19	The budgetary control is used as an efficient tool to <b>Control and Measure Performance</b> .					
20	There is <b>Enough Number of Skilled and Experienced Experts</b> (budget officers) to accomplish budget preparation and administer budgetary control.					
21	Generally, there is an effective Budgeting and Budgetary Control system in your Bank.					

### Part III: Impact of Budget and Budgetary Control Systems on Organizational Performance

20. Does budget and budgetary control affect the financial performance of your bank? Yes  No

If yes explain how?

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21. Does budget and budgetary control affect the non-financial performance of your bank? Yes  No

If yes explain how?

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22. To what extent is financial and non-financial performance of your bank are affected by budget and budgetary control process? Please Tick on your choice for each category.

Description	Very Great Extent (5)	Great Extent (4)	Moderate Extent(3)	Low Extent (2)	Very Low Extent (1)
Extent of budget and budgetary control effect on the financial performance					
Extent of budget and budgetary control effect on the non-financial performance					

23. Can effective budgeting and budgetary control system improve an organizational performance? Yes  No

24. If your answer for the above question is ‘Yes’; please respond to the following statements by indicating the extent to which you agree or disagree with the activities indicated below regarding how performance can be improved through an effective budgeting and budgetary control. (5) Strongly Agree, (4) Agree, (3) Neutral, (2) Disagree and (1) Strongly Disagree. Tick on your choice for each question.

S/No	Impact of budgeting and budgetary control	Measurement Scales				
		1	2	3	4	5
1	Better Forecasting Future Events and targets					
2	Foundation for Better Planning and implementation					
3	Maximize Profitability					
4	Better Coordination and communication					
5	Basic for effective decision making					
6	Assist effective control					
7	Basis for performance Measurement and appraisal					
8	Motivate employees to do better					
9	Better Resource allocation and utilization					
10	Smooth Running Of Business Enterprise					
<i>If other, please list out them here below.</i>						

**Part IV: Problems and Challenges in Budget and Budgetary Control Process**

25. Are there problems or challenges facing your budgeting and budgetary control practices?

Yes  No

26. If your answer for the above question is ‘Yes’; please indicate your level of agreement/disagreement to the **Problems/Challenges** you face with Budgeting and Budgetary Control Practices. (5) Strongly Agree, (4) Agree, (3) Neutral, (2) Disagree and (1) Strongly Disagree. Tick on your choice for each question.

S/No	Problems/Challenges	Measurement Scales				
		1	2	3	4	5
1	Budgets are time consuming and costly					
2	Budget is prepared using different methods each year.					
3	Budgets are usually developed based on unsupported assumptions and guesswork					
4	Budgets concentrate on cost reduction and not value creation					
5	Budgets lack integration with the overall strategy					
6	Weak communication between those involved in budgeting and operating personnel.					
7	Budgets are seen as a pressure tool					
8	Inadequate management support and commitment, and indecisiveness problem.					
9	Budgets tend to create departmental conflicts over resource allocation and blaming when targets are not met					
10	Budget preparers are unfamiliar with the operations being budgeted					
11	The budget document is excessively long, confusing, or filled with unnecessary information.					
12	Managers and staff ignore their own budget as it appear unusable and unrealistic					
13	Budget variances arise due to poor forecasting					
14	Budgets are reviewed and updated too infrequently					
15	Lack of enough and skilled financial experts					
16	Budget is prepared and controlled in labor intensive way, i.e. without any IT system support					
17	Managers and experts being involved in budget and budgetary control lack the required knowledge and experience					
<i>If other, please list out them here below.</i>						

S/No	Problems/Challenges	Measurement Scales				
		1	2	3	4	5

27. Based on your response for the above question, please indicate your level of agreement/disagreement to **the main sources of the Problems/Challenges** you face with Budgeting and Budgetary Control Practices. (5) Strongly Agree, (4) Agree, (3) Neutral, (2) Disagree and (1) Strongly Disagree. Tick on your choice for each question.

S/No	Main Sources of Problems/Challenges	Measurement Scales				
		1	2	3	4	5
1	Senior Management Negligence					
2	Shortage of Financial Experts					
3	Underdetermined Responsibilities					
4	Lack of Adequate and Accurate Information					
5	Poor Organizational Strategies					
6	Dynamic nature of the Business Environment					
7	Lack of Training and Development					
8	Lack of System Based Tools/Platforms					
9	Absence of Accountability					
	<i>If other, please list out them here below.</i>					

28. Based on your opinion, can the above problems/challenges of budgeting and budgetary control be addressed? Yes  No

29. What solutions/recommendations would you like to provide in order to address the problems and to improve the budgeting and budgetary control practices/systems of commercial banks?

- a. ....
- b. ....
- c. ....
- d. ....
- e. ....
- f. ....

30. If you have any additional suggestion or comment, please give me!

.....  
.....  
.....

*Thank you very much!!*