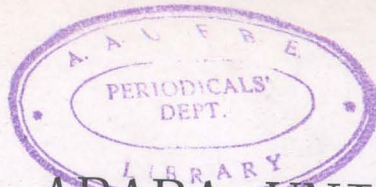
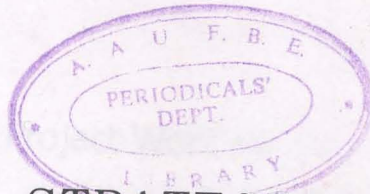


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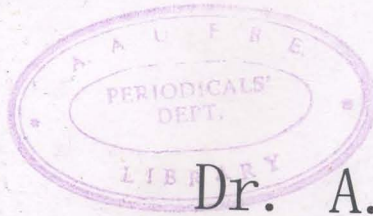


ADDIS ABABA UNIVERSITY
FACULTY OF BUSINESS & ECONOMICS
Masters of Business Administration



EFFECTING STRATEGIC CHANGE
The Case of Commercial Bank of Ethiopia

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Addis Ababa

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Project Work on

Effecting Strategic Change
The Case of Commercial Bank of Ethiopia

In Partial Fulfillment of the Requirements of the Degree of Master of
Business Administration

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Effecting Strategic Change: the Case of Commercial Bank of Ethiopia

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ABSTRACT

The Commercial Bank of Ethiopia has been taking various change initiatives in the past. Despite the fact, there are no much visible successes in the eyes of outsiders. The objective of the project thus was to see the basic strategic change activities of the bank. Mainly, what specific strategic change measures have been taken, and how they were effectuated are the issues. This is measured by major changes in various operational and functional areas of the bank - such changes as change in strategic planning process, product pricing, market segmentation, technological change, and other major changes in functional areas are considered. These parameters are taken from two change proposals that the bank has implemented in the last ten years.

To this end, data was taken from various sources. Recommendations of comprehensive audit project, strategic plans, annual performance reports and evaluations are among the major ones used to have data for the purpose. It has been further backed by interviewing of executives and other key staff in relation to implementation. The data has been presented in comparative way. The intended change, the bank's initiative to implement, the level of attainment as reported has been put in parallel in a tabular form and modular approach is used.

The analysis of facts showed that the bank has made progress in certain areas but much more is left. Unaccomplished tasks are critical and strategic; and prove it has failed to sufficiently prioritize the intentions; and suffered from management capacity to do so. Such areas like IT, management capacity

building, slow decision process, and critical factors of intended change in functional areas has not been acted upon.

Based on the findings, to focus in prioritizing, to enhancing change in IT, to refocus on the implementation process, to improve the decision process, to ensuring sustainability of changes, to build management capabilities through training and practical exposure elsewhere, to monitor and get feedback on implementation, to act on major change in HRM areas, are the main proposals forwarded for sound effectuation of strategic change.

1. INTRODUCTION

1.1. Background

Commercial Bank of Ethiopia is one of the oldest and biggest institutions of the country, as well as one among the largest institution in Africa. Its formation goes back to early 1940's. It was founded on to 26 August 1942 CBE's Forum (2003). When the Ethiopian Government returned to power, right after the Italian aggression ended, it has promulgated the founding of State Bank of Ethiopia. However it was chartered by decree on 30 November 1943. Even though State Bank of Ethiopia acted both as Central Bank and Commercial Bank, many have accepted that this is the point where the Bank was formed.

According to CBE's forum, the year 1963 was a notable point of departure in the history of the Bank. On July 23, government issued a proclamation that separated the functions of Central Bank and Commercial Bank; and thus it split State Bank of Ethiopia in to two sisterly institutions. National Bank of Ethiopia had taken the regulatory role; and CBE vouched for Commercial Banking service; where the current CBE is anchored in. From this point on, the Bank has embarked on its commercial banking activities as a state owned institution.

Currently the Bank is the leading bank of the nation in many respects. Despite a number of private banks has emerged, it is still enjoying about 75

and 64 percent market shares in deposit and credit respectively¹. It is still number one employer in the industry and the nation at large. It has 171 branches through out the nation; it operates with large number of correspondent banks; as at June 30, 2004, its overall staff strength is 7,682, CBE annual report (2004).

During its life of over six-decade, the Bank has undergone various changes and reforms. These have largely been resulted from external factors, than a business goal. As a state owned business, it has been, and is being highly affected by political factors.

In that view, the Bank has carried out two basic changes; which Romanelli and Tushman (1994) termed it as "revolutionary change". The first of this is a change resulted from the 1974 revolution when a new Government came to power. The command economy it adopted has switched the banking business from competitive to mono banking, CBE forum (2003). All competing banks were nationalized and were merged with CBE. Then it has been put under the guidance of NBE which took the essential decision making power. Its customer base also was changed; the government became the principal borrower of the Bank. Thus this was the point where the infant competitive dynamism in banking came to an end.

For the same reason; and the shift in the economic milieu, the Bank has switched or turned to market driven business since 1991. After the demise of the Marxist system CBE has been re-organized as a public enterprise under proclamation No.202/96. Also, the economic policies have been switched from

¹ An interview not with AVP-Marketing

command economy to market driven economy; and strained the Bank to introduce a radical change in all aspects. Thus in the last decade it has taken various initiatives to bring about change.

Mainly, after the Banking Business proclamation No. 84/1994, the operational dynamism of the industry has changed drastically. This has given impetus to financial sector reform and gave rise to emergence of private banks. In view of that, the Bank has been forced to adjust it self; and to make a change in its mission, vision and values or a strategic change; which Gersik (1991), Romanelli and Tushman (1994), and others termed it as a "punctuated equilibrium". As the result, the Bank has put a number of change initiatives in place. Mention could be made of two basic studies that have been conducted in the last decade. First the Bank has taken initiatives and conducted a study titled "Strategy to Enhance the Competitive Capability of the CBE"². It has done the study by forming a number of task forces (TAF); and it has opted to implement the recommendations thereof. Second, the Bank has introduced a Comprehensive Audit Project (CAP) that has been conducted by external consulting firm Earnest & Young.

These two change activities could be seen as the Bank's effort to bring about basic change in line with the effort to align its strategy to a market led economic atmosphere.

In spite of such efforts, it seems its implementation has been daunting; and has not given enough impetus to enable the achievement of the intended goals. The review of documents, reports and words of mouth of its customers suggest that

² Report by the internal task force 1996, unpublished

the changes intended to be in place doesn't appear to have been achieved. That is; this disparity between the strategic changes intent of the bank and the actual practically observed facts, which attracted the attention of this project.

1.1. Definitions

Strategic Change: according to Romanelli and Tushman (1994), strategic change takes place whenever, companies introduce or abandon either major new line of products; or entering or abandoning of important market segment. Thus Substantial change in strategy occurs whenever:

- ⇒ A company enters or exits new product line,
- ⇒ A company shifts from its basic market orientation,
- ⇒ Change in market breadth and market aggressiveness; breadth measured by number of segments in which the company operates; aggressiveness measured by a number of distinct product lines offered.

As applied here, then, Strategic Change refers to changes in basic activity areas of the Bank i.e. change in Credit Management, Financial and Accounting System, Internal Control System, Information Technology (IT), Human Resource Management (HRM), Branch Network, and Management Competencies.

The following specific variables are used in this study to measure the strategic change process in the CBE.

- Change in strategic planning process,
- New product development and marketing,
- Market segmentation,

- Product pricing,
- Major change in credit delivery and risk assessment system,
- Policy and procedure development and its alignment with the Bank's strategic direction,
- Change in technology,
- Major change in MIS system,
- Basic change in IT direction and strategy,
- Change in performance measurement system
- Change in HRM system.

These variables are taken from two commissioned studies that have been carried out in the past.

1.2. Statement of the Problem

The purpose of this study is to identify the basic elements of strategic change in the Commercial Bank of Ethiopia; and its level of attainment. It will address the status of effecting of the change i.e. it is intended to see to what extent strategic change has been effectuated in the Bank. In addition it will address the factors helped to or hindered the success of the intended strategic change.

1.3. Objective of the Study

The objective of the study is to assess the level of attainment of the goals of strategic change; that has been applied subsequent to the proposal of its

consulting firm – Earnest & Young. Of course it has been initiated as a fulfillment of academic requirement.

1.4. *Relevance of the Study*

This study will benefit the Bank by pinpointing the area of weakness of change effecting. It will serve as an input for designing future strategic change. And may serve as a launch pad for future deep research in the topic i.e. it may serve as a starting point for future studies in the Bank or in academic arena.

1.5. *Scope and Limitation*

The scope of this project is limited to cover strategic aspect of the various modular changes of the Bank. Its focus is on the execution of the change. Thus it has not gone into or has not evaluated the process of formulation of the intend strategy. Rather, it has dealt with how the Bank has put in place what it has drawn as a strategy for its success; without comment on the process of its drawing. Moreover, this project is limited to strategic aspect for limited resource and for being time bound. So it had not included the view of employee at large.

1.6. *Methodology*

1.6.1. *Data Collection*

The facts needed for this purpose has come from two sources; using primary and secondary data.

Mainly the strategic change parameters are taken from the studies made by external consultants of the Bank – Earnest & Young. In essence those data, which served as a benchmark for the change efforts, are extracted from afore cited study. The other part of data has been summed up from the strategic plan - which has been drawn in relation to the recommendation; annual reports; annual plan-performance comparisons; and other relevant documents that have been made by the Bank. This has been used to see the level of effectuation of the strategic change targets.

To supplement the data analysis with primary data, interview has been carried out with top management members; including the Vice Presidents of the Bank. The attendants have been selected on the basis of their capacity to affect the implementation of the modular recommendations of the CAP. It covers all operational areas of the Bank; and thus the department heads; where respective modules of change taking place; are included. Also, staffs other than heads, which are in service in implementation process, are made part. For instance the Project Implementation and Control office head has been included in the interview.

The interview questions are set in such a way that can help to focus on the areas of change in strategies. Data on the level of execution is drawn from the secondary sources. So, in the interview, special attention has been paid to the factors that helped or hindered the realization of the change attempt. The key employees who have direct contact with the change effecting process, such as PIO, are included in the interview for get information on the performance modes followed by the Bank.

1.6.2. Data Analysis and Measurement

The facts obtained from the above sources have been analyzed as follows. Comparative analysis is done on the data that has been collected from documents. That is the strategic target; as have been identified and recommended by the commissioned studies; are compared with the strategic plan of the Bank for the relevant period. This is designed so to enable us to see how much the change elements have been entrenched in the execution plan. In addition, the data from reports are contrasted against the plans to see the gap between the planned change and its actual attainment.

The presentation and analysis of the data is classified in two sections. The first part deals with the recommendations of the TAF on "Strategy to Enhance the Competitive Capability of the CBE"³. The basic data is summarized in a tabular form and is annexed. And then its review has been presented in the first section of chapter three. The aim here is to evaluate the implementation process of the Bank; on change matters. Hence, it is to lay down the base for the detailed consideration of the other report.

Much detailed analysis is not done on this study for two reasons. First it was not fully executed because the Bank commissioned a more comprehensive study, which has broken up its completion. Second basically it is logical to take on the recent study that the change that actually taking place is based on. In view of that more weight has to be placed on the latter. Thus only a brief highlights or summary of the study is included in the data analysis section.

³ Report by the internal task force 1996, unpublished

The next part of the data is based on the recommendations of the CAP. Much detailed coverage is given to this one because the Bank's focus in this regard has been found on it, logically, and it is the recent i.e. the Bank has taken it as a roadmap. Not only that, it also has evaluated the level of execution of the former. Thus the first one has been incorporated in the data as groundwork for the more detailed work on the later.

The presentation of the data in both sections has followed the same form presented in the studies. This is so, the proposals, the strategic plan and performance reports as well have lent themselves to the modular presentations – which are based on functional departments. So the same logical flow is adopted here too.

Emphasis has been placed on the implementation strategies used to get the change done. This in turn has enabled to identify the pathway taken by the Bank in due process. And it has been evaluated based on the concepts in the literature. In general the annual report; on plan-performance comparison; and the interview data are the basic source of evaluation of the level of performance on each section. And so, findings and recommendations have been drawn based on the strength of the analysis.

2. REVIEW OF RELATED LITERATURE

Organization change has become a concern of most management literature since long. For instance, Beckhard (1969) has said, "Management today operates in a very different environment than ever before, first the general environment is highly dynamic. The Sixties may well be described as the decade of the explosion". This statement suggest that organizations and management literature has give due attention to the changing environment and its impact on the performance of organizations. So, various scholars in the field have discussed so many aspects of organization change. What are the driving forces to organization change? What types of change have to occur in a given organization? How change should be implemented? And so on are the types of questions frequently raised.

This section of the project then has focused on the works that discuss implementing of strategic change; and focused on to see how they have gagged the success of effecting of such changes.

2.1. *Organizational Change Paradigms*

Mc Adam (2003) argues that within the worlds of academia and praxis there is a considerable body of unanimity with regard to need for large-scale change. Questions about change have commanded the attention of organization intellectuals for many years.

By tradition, it was assumed that organizational systems develop and change through gradual and incremental changes. Gersick (1991) argues that the concept of incremental, cumulative change has become pervasive. Darwinian

gradualism has been challenged since 1972 where natural historians Niles Eldredge and Stephen Gould introduced the concept of "Punctuated Equilibrium"⁴.

The punctuated equilibrium model was first developed by Tushman & Romanelli (1985). It assumes that organization progress through convergent periods of punctuated by reorientations, which demark and act bearing for the next convergent period. Convergent periods here are relatively long time spans of incremental change and adaptation, whereas reorientations are relatively short periods of radical discontinuous change Beugelsdijk et al (2002).

Gersick (1991) in his work has aimed at explicating the punctuated equilibrium; and its applicability in organizational studies. He juxtaposed six models of change in different fields i.e. explored the paradigm as reflected in those theories. He also identified shared constructs; and found that each theory he examined has centers on the same paradigm, or basic gestalt, of evolution; "relatively long period of stability (equilibrium), punctuated by compact periods of qualitative, metaphoric change (revolution). These two modes are explained by construct 'deep structure.

Deep structure Gersick (1991) is what persists and limits change during equilibrium period; and it is what disassembles, reconfigures and enforces wholesale transformation during revolutionary punctuation. Thus he has identified three main components of punctuation equilibrium model: deep structure, equilibrium period, and revolutionary period Gersick (1991), defined each as follows.

Deep Structure: here is defined as set of fundamental choices as system has made the basic parts in to which its units will be organized; and basic activity

⁴ Gersick G. Revolutionary change theories: A multi lens exploration of the punctuated equilibrium paradigm, academy of management review 1991, V-16 N-36

patterns that will maintain its existence: it is highly stable for two reasons; according to Gersick:

1. The trails of choices made by a system rules many options out,
2. The activity patterns of a system's deep structure reinforces the system as a whole through mutual feedback loops,

Equilibrium Period: within equilibrium period, the system's basic organization and activity patterns stay the same. Systems in equilibrium also make incremental adjustments to compensate for internal or external perturbations without changing their deep structure.

Gersick (1991) metaphorically explains the difference between incremental change of equilibrium period and revolutionary change to be like the difference between "changing the game of basketball by moving the hoops higher and changing it by taking the hoops away". Systems do not shift from one kind of game to another through incremental steps; such transformation occurs through wholesale upheaval.

The first kind of change leaves the game's deep structure intact while the second dismantles it, Gersick (1991) Romanelli and Tushman (1994). The emphasis of this model is that incremental change would not alter the whole because deep structure is intact; it generates a strong inertia to prevent the system.

The basic argument of the proponents of this model centers on the fact that; first the deep structure must be dismantled, temporarily disorganized. Next; a subset of the old system, along with some new pieces, can be put back together into a new configuration, which operates according to the new set of rules.

According to this paradigm, when basic premises change, all the premises contingent on them are affected. Once a basis for a new deep structure is found, revolutionary period also will close rapidly. Gersick (1991) gives to basic sources of disruption:

1. Internal change that pulls parts and actions out of alignment with each other and the environment,
2. Environmental changes that treatment the systems ability to obtain resource,

To test empirically the punctuated equilibrium theories a number of researches had been carried out Romanelli and Tushman (1994) and results have supported the idea that fundamental transformations occur according to patterns predicted by the model. Tushman et al (1986) was cited by Romanelli & Tushman to have studied four organizations and found that a progression of equilibrium periods during which organizational system, structure, and strategies were consistently reinforced toward increasing coherence with the organizations basic mission. The equilibrium periods were punctuated by very brief periods of intense and pervasive change, culminating in the formulation of new missions and initiation of new equilibrium period.

Romanelli & Tushman (1994) tested the fundamental assumption of the theory regarding the frequency with which organizations undergo fundamental transformations; according to patterns predicted by the punctuated equilibrium model. To test those assumptions of the theory, they studied the life history of 25 microcomputer producer companies by gathering data from various sources. They have measured organizational transformation using five domains of

organizational activities, Tushman & Romanelli (1985);⁵ organizational culture, strategy, structure, power distribution, and control system. These are parameters taken as being important to organizational survival and central to organizational activities. They constitute firms strategic orientation. Both qualitative and quantitative data has been used in the analysis.

In this study strategy change was taken by two measures.

1. Whenever the companies introduce or abandon either major new line of minicomputers or non-minicomputers product line such as software, peripherals etc.
2. If company entered or abandoned an important market segment, shifting.

Using descriptive statistics they analyzed the data. Romanelli & Tushman (1994; 1157-8) identified and measured organizational transformation. Their findings show that:

- 1) Regardless of differences in the base rates of substantive change, organizations tend to accomplish fundamental organizational transformations according to patterns predicted by punctuated equilibrium model,
- 2) Small organizational changes do not accumulate to produce non-revolutionary transformation. Thus fundamentals organizational transformations tend to occur in short discontinuous bursts,
- 3) Major changes in environmental conditions and succession of a CEO significantly and positively influence revolutionary transformations.

⁵ As cited by Romanelli & Tushman, organizational Transformation as punctuated equilibrium, an empirical test, and academy of management journal, 1994, Vol. 37, No. 5 p. 1147.

Based on their findings Romanelli & Tushman (1994) has given empirical support to punctuated equilibrium theory by concluding; Revolutionary transformation is most common mode of fundamental transformation. Thus we can see that the punctuated equilibrium model has gained much support from scholars and practitioner alike.

Beugilsdijk et al (2002) argue that radical change leads to a strategic reorientation. They have cited Tushman & Romanelli (1985) to have identified two basic forces that lead to radical change:

1. Sustained low performance resulting from a lack of consistency among activities in the activity domain regardless of appropriateness of the overall strategic orientation,
2. Major change in competitive, technological, social and legal conditions of the environment that make the current strategic orientation, regardless of its initial success, no longer effective.

As opposed to the punctuated equilibrium model, which suggests dichotomous distinction between radical and incremental change, Dumpy and state (1990, P. 72) classify change in to four types⁶:

1. Fine Tuning: where change is an ongoing process characterized by the fine-tuning of the fit or mater between the organizations strategies, structure, people and process,
2. Incremental Adjustment: defined as a stage of incremental adjustment to changing environment,

⁶Beugilsdijk S., Slangin A. and Harpen M: shapes of organization change: the case of Heineken Inc, Journal of Organizational change Management V 15 No. 3, 2202.

3. Modular Transformation: major re-orientation of one or more departments or divisions characterize this change.
4. Corporate Transformation: change is corporate wide and implies radical shifts in strategy and revolutionary change throughout the whole organization.

The first two types of change coincide with the concept of incremental change and the latter two with radical change of punctuated equilibrium model.

Beugilsdijk et al (2002) has conducted a case study of Heineken Inc. a brewing company. They addressed two basic issues in relation to organizational change the order in which organizational change takes place (between incremental and radical changes) and the role of an organization's top and middle management in these matters. After analyzing their case company's radical change process in its distribution network, they have concluded the following:

- a. Change can take place in different ways depending upon the initial type of organizational change (radical or incremental);
 - ◆ An observed, unexpected, important challenge (either an opportunity or a threat) results in an organizational change process that consists of initial radical change succeeded by incremental change,
 - ◆ Top management reacts proactively in case of such challenge and leaves the actual implementation and fine tuning of radical change to middle management,
- b. Long period of incremental change, caused by inertia due to long CEO tenure and the appointment of a new CEO who was considered to be an insider eventually followed by radical change caused by the appointment of an outside CEO, who had no affection the company.

The key factors that drive or determine the second form of change, Beugilsdijk et al (2002) are:

1. Structural inertia initially results in incremental change until structural underperformance eventually leads to radical change,
2. Structural inertia seems to be caused by long CEO tenure, which leads to a lower degree of effectuation of proposed necessary changes by middle management,
3. Middle management is more likely to resign after the appointment of a new CEO when the CEO is considered to be an outsider initiating radical change,
4. New CEO may be less likely to agree upon the changes proposed by middle management when the retired CEO continues to fulfill an influential role within the organization.

Gersick (1991) also asks what triggers revolutionary periods? And he answers: (1) The attraction of newcomers to crisis situations, and (2) Systems arrival at temporal milestones.

2.2. Strategic Change Implementation Framework

Recent studies in the strategic management field indicated that there is a lack of knowledge on strategy implementation (Okumus, 2001). Research project has been undertaken by Okumus with the aim investigate the implementation process of strategic decisions. He reviewed the existing frameworks and forwarded a new model.

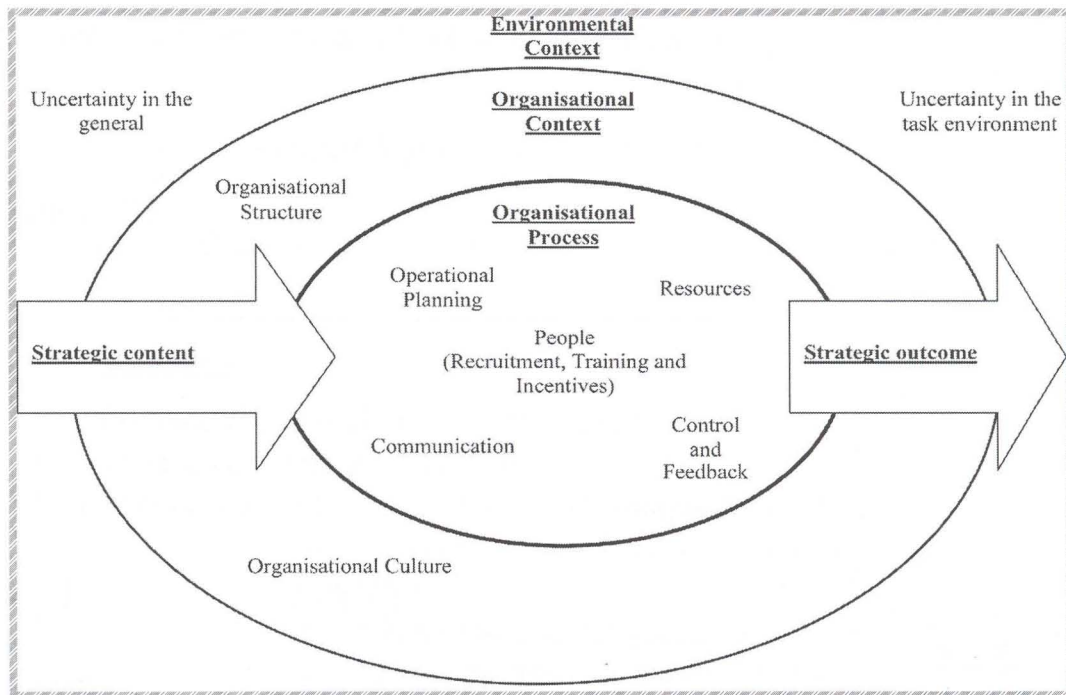
Starting in the early 1980's several change implementation frameworks have been developed which are largely conceptual and/or descriptive (Okumus, 2001). He reviewed various frameworks, both conceptual and empirical, in strategic management and international management. He has identified ten key implementation variables viz: Strategy formulation, Environmental uncertainty, Organizational structure, Culture, Operational planning, Communication, Resource allocation, People, Control, and Outcome.

These variables are grouped into categories such as "content", "context", "process", and outcome (based on work of Pettigrew (1995)), on strategic change.

Analyzing previous research works Okumus (2001) defined these categories as follows:

1. **Strategic content:** the overall strategic direction of the company; and the need to design new initiatives,
2. **Strategic context:** strategies are initiated and implemented in a strategic context and the variable support and influence the implementation process; but they are less controllable than the process variable,
3. **Operational process:** these variables are seen as those, which are primarily involved in the implementation process and these are controllable,
4. **Outcome variables:** expected results of initiated strategy.

Figure 1: Strategic Implementation Framework and Key Variables



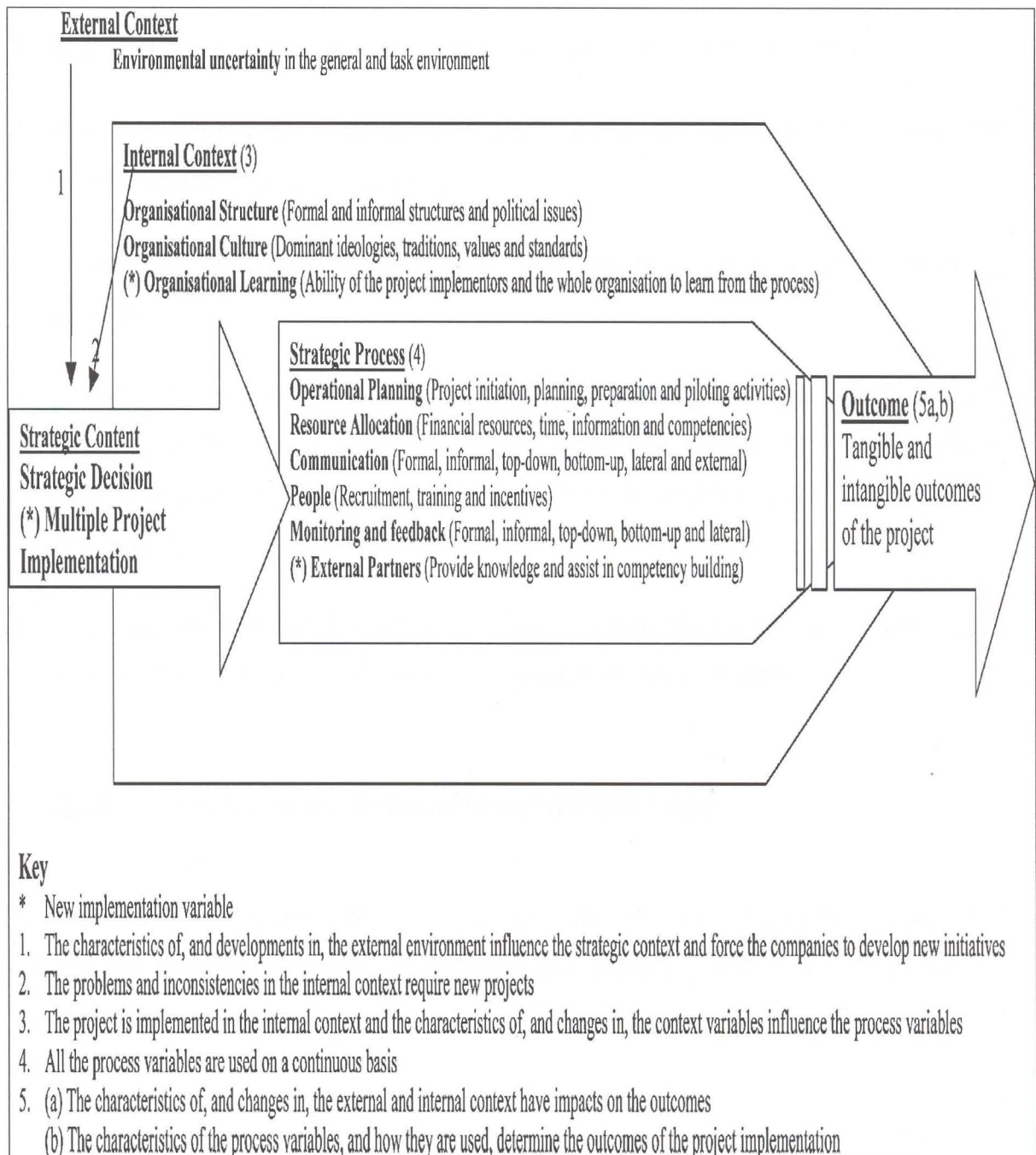
Source: International Journal of Contemporary Hospitality Management V. 13 no. 7 p-327

Okumus tested these models using a case study approach conducting a qualitative research on international hotel groups. His findings showed that:

1. Variables identified in literature were found to be crucial in implementation process,
2. Characteristics of and changes in, the strategic context variables had an important impact on the use and effectiveness of the process variables. It was evident that the internal context had important impacts on the implementation process,
3. Three new implementation variables have been identified in the research viz multiple project implementation, organizational learning and external partners.

Then based on these findings Okumus (2001) has reconstructed the implementation variables as shown in Figure-2 below.

Figure 2: Strategic Implementation Framework and Key Variables



Source: *International Journal of Contemporary Hospitality Management* V. 13 no. 7, 2001

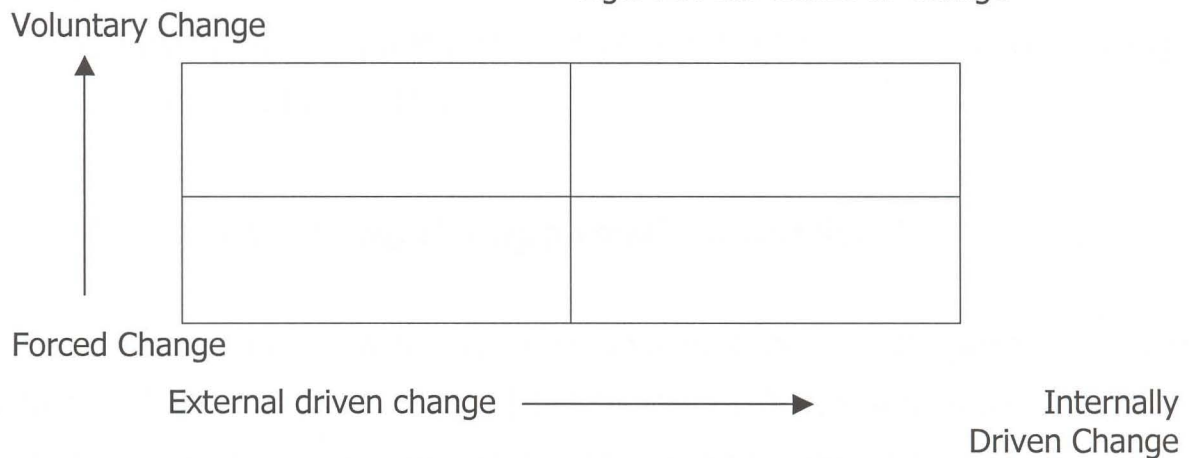
Based on his new framework above Okumus (2001) concluded that:

1. The variables identified through literature review play important roles in designing and implementing strategies,
2. The new implementation framework included three new variables,
3. It is the combination of all variable working together which makes the transformation process possible,
4. Process variable are primarily used in a synergetic manner in an ongoing process,
5. Internal context plays a key role in implementing strategic decision and focusing on the implementation process alone and ignoring the wider context does not provide a clear and holistic picture of implementation process and challenges,
6. Managers should consider the importance of internal context of organizations in order to create and maintain a receptive context to change

2.3. Drivers of Organizational Change

Change can come from within or from outside. Hooper and Potter (2001) has related the drivers of change as external and internal; and it has to be shown whether it is implemented voluntary or forced and expressed them in matrix form

Figure 3: the scales of change



Source: Hooper A. and Potter J., *Intelligent leadership*, Random House (Pty) Ltd., 2000 p 24

From this relationship, Hooper and Potter identified five basic drivers of change.

- 1) People
- 2) Information
- 3) An increased ability to communicate
- 4) Technology
- 5) Global competition

They further elaborated that the key to create a passion for a change throughout the organization is through intelligent leadership. Leadership is no longer about command and control and forcing people to conform. It is about winning hearts and minds through effective persuasive leadership using relationship and rapport skill, and also seeing the situation from other people's viewpoints.

Dealing with the key drives of change and associated human response is a matter of persuasion. To achieve these, Jay Conger⁷ has given for signpost of gaining credibility:

- 1) Gaining credibility
- 2) Establishing the common ground

⁷ As cited by Hooper and Potter

- 3) Presenting evidence
- 4) Gaining sound understanding of emotional framework in which a change program is taking place.

2.4. *Managing Change Implementation*

Change is inherent in contemporary organizations and its management is critical to organizational success. Mukherji and Mukherji (1998) looked into change at its various dimensions and developed ideas by which organizations can develop, restructure and adopt change. Guemaraes and Armstrong (1998) in their part argue that success in implementing the required change is far from assured, with many organizations reporting very disappointing results, given the cost and turmoil caused by the change. Implementation is the challenge that comes at the end of all new methods for improving organizations performance, Revenaugh (1994). Advocates of various forms of organizational change do not provide satisfactory answer when questioned about the success of implementation. For example Hammer and Stanton (1993) cited BPR as a radical rethinking of an organization and its cross-functional, end-to-end process. But despite the excitement over BPR, Belmonte et al (1993) has reported that the rate of failure for reengineered projects is over fifty percent.⁸

Zeffane (1996) has examined strategic change in contemporary organizations and outlined the main components of and barriers to change. He also identified alternative strategies of and identified five broad categories representing the open systems approach⁹ and termed them "salient components of change":

- ⇒ The setting,
- ⇒ The organization,

⁸ As cited By Revenaugh D.L., Implementing Major Organizational Change: Can We Really Do It? TQM Magazine V 6 N 6, 1994

⁹ Adopted From Lloyed B. Tompenaars F., Culture And Change, Conflict Or Consensus? Leadership And Organizational Development Journal, 14, 6, 1993

- ⇒ The manager,
- ⇒ The group the result,

The core dimension which fall in the middle are

- a. Culture
- b. Assumption
- c. Mindset or psyches

After reviewing the above components of strategic change through literature, he had proposed that:

- 1) Effective strategic change requires the replacement of self-centered (authoritarian) change with change designed and instruments effectively managed by teams and expert change facilitators,
- 2) These designs should enable subordinates to become proactive participants who exercise true responsibilities, motivations, and commitment in change process,
- 3) Employees must play major part in decision making because detailed knowledge resides with those closest to work and it must be used to help run the organization.

Zeffane (1996) suggest that:

- 1) Weaknesses of the current models of change are inherent in the very design and implementation of the methods and proposed adjustments in those methods or system do not necessarily alleviate those weaknesses,
- 2) Strategic change should provide sound alternatives to both authority driven and participant oriented changes, seeking to avoid the weaknesses of both the role of authority (hierarchy) and the excessive reliance on participants in instigating and implementing positive changes,

- 3) Preserve the strength of the two approaches, the role of leaders in providing directions and proactive involvement of participants being responsible for carrying out change,
- 4) Change approaches must rely on teamwork rather than individual group work,
- 5) Give sufficient recognition to the principles of synergy, the concept that under certain conditions the whole can be more than the sum of its parts.

Revenaugh (1994) in his part reviewed the work of various authors who realized implementation failure of BPR. For example he sighted Davenport (1993) to have recommended a five-step framework: develop processes for innovation; identifying change levers; and design and proto-type new system. Of these, Revenaugh found two of them assessing strategic relevance and qualifying the culture to be more important in implementation of major business changes of all types.

He used two well-established models, strategic grid and corporate tribe models, to show the impact of those variables and the difficulty of implementing organizational change successfully. Based on his work and analysis of previous researches, he concluded that:

- ⇒ It is clear that BPR as well as many other organizational changes or improvement techniques has a high failure rate,
- ⇒ It is also clear that corporate culture is a key variable in implementing any major business change affects implementation difficulty and success.

Different authors have given diverse reasons and processes for the development of change. Taylor and Singer (1983) have identified four stages of process:

- 1) Developing concern and learning about the situation,
- 2) Diagnosing and acknowledging the problem,
- 3) Taking action,
- 4) Stabilizing.

They described the natural process of change to be one, which operates successfully in those companies, which can respond rapidly and efficiently to environmental change. Changing an established organization in response to external pressure is not an easy task. There must be sufficient concern in the organization that there is something wrong, and sufficient time must be set aside to think and get away from day-to-day concerns. The key requirements of such process Taylor and Singer (1983), includes:

- 1) Presence in top management of someone who is prepared to examine in detail the problems involved in effecting major change and exploring the steps in effecting major change and exploring the steps, which need to be taken if changes are to achieve acceptable results.
- 2) It must be a person who on one hand appreciates the relevance of new knowledge and up to date ideas and beliefs in effecting the transition and on the other hand the power to initiate and progress appropriate program of educating and learning to achieve this end
- 3) He must possess both the wish and the will to initiate and progress any change and must be prepared to be relentless in their pursuit
- 4) Must be prepared to become the driving force believed the change process

- 5) Managers have to learn a great deal about the changes required
- 6) The company will also need the ability to respond to what it has learned to adopt itself to meet the needs of changing environment

Trader-Leigh II (2002) in his part identified the following points as critical.

- 1) the ability of leaders and managers to define and communicate the tangible and measurable deliverable: objectives of a change project from the start (the *what* aspect of the initiative),
- 2) To design a set of tasks to enable the necessary input of competence, expertise and participation for the accomplishment of those objectives (the *how* aspect of the project), with the additional effort in facilitating the systems view and strategic congruence (the *why* aspect of the change project).
- 3) The dynamics of behavior associated with the implementation of organizational change projects has been captured in the notions of hindered learning and organizational resistance.

2.5. Change Agent

One of the mechanisms for achieving successful change implementation is the use of change agent. Backhard (1969), Taylor and Singer (1983) argue that combination of an executive who wields real power, an internal change agent who is respected and external catalyst that understands his role, is a combination, which is almost irresistible in creating the environment in which effective change can take place. Their roles, according to them, are complementary but each has a unique contribution.

- 1) The key executive to stimulate action and to invest that action with credibility,
- 2) Internal change agent to provide the drive and organizational flair which translate the key executive's stimulus into effective operation,
- 3) The external change agent to bring a wide view to the process, capable of raising sensitive issues, but aware that only the organization's executives are capable of supplying the answers.

The major role of a change agent is to stimulate learning within the organization but he should have the respect of his colleagues. Change agents need to possess a number of key skills. Taylor and Singer have listed ten of such skills as to:

- 1) Identify and to isolate problems
- 2) Discriminate between fact and fiction
- 3) Systematize data
- 4) Listen
- 5) Ask the right question at right time
- 6) Summarize discussion
- 7) Remain silent
- 8) Make verbal presentation
- 9) Help individuals and groups to acquire confidence

Pettigrew and Whipp (1992) have identified five interrelated managing aspects of strategic and operational change. The factors are:

- 1) Environmental assessment
- 2) Leading the change
- 3) Linking strategic and operational change

- 4) Human resource as asset and liabilities
- 5) Coherence in the management of change

These factors were derived from their study, a longitudinal research, which investigated the process of assessment formulation and implementation of strategic and operational changes in four mature industries and service sectors in UK: automobile manufacturing, book publishing, merchant-banking and life insurance companies. The aim of the research was two fold, to discover:

- 1) Why firms operating in the same industry and markets should produce different performance across time, and
- 2) What had been the combination of the way they managed strategic change.

The main conclusions of their findings were:

- 1) The common pattern, mentioned above, emerged from the key features of managing strategic and operational change among the firms,
- 2) There is an observable difference in the way the higher performing firms manage change from their counter parts over time.

2.6. *Resistance to Change*

One of the fundamental elements in change management is the handling of resistance to change. It is the root cause for many problems in the process of change implementation and thus deserves adequate planning for solving it.

Almost is hard to find a research work, which does not mention the need to mitigate resistance to change. Thus all put resistance to change at the center of change implementation problems. However the recent trend indicates that, if adequately handled, resistance plays a constructive role (Waddell D., Sohal A., 1998)

In general, organizational change is an evitable problem or fact, with no 'scapegoat', given the prevailing turbulent environment. It may be triggered by internal or external forces and may be incremental or radical. Most authors agree that it calls for proper management for that failure has a consequential effect of disastrous end. Thus it must be planned and has to be managed at the top level if it has to be effective. Communication and leadership skills are the tools to overcome resistance from various sources.

3. CHANGE IN COMMERCIAL BANK OF ETHIOPIA

(KEY IMPLEMENTATION ISSUES)

3.1. Introduction

In the literature review section (Chapter 2), we have discussed various issues related to effective strategic and other organizational changes. In this chapter the focus will be on those variables related to change in CBE.

A documentary review is carried out to see how several change attempts of the bank that have strategic implications and they have been executed. The information in this section has been gathered from several documents that have been generated internally. The basic ones include:

- 1) Synthesis of task forces' reports on "Strategy to Enhance the Competitive Capability of the CBE" that has been produced and implemented since the year 1997,
- 2) The "Comprehensive Audit Project (CAP) report for CBE" of the Earnest & Young in April 2000.

These are the two main documents at which this project's work is to base its emphasis on the strategic change intentions of the bank. Then the changes intended as summarized from these reports are compared against information gathered from periodic reports or annual performance comparison form.

The first part of this chapter is based on the TAF'S report and its suggestions. It is compared against three years performance reports of fiscal years 1997/98 to 1999/00. However its implementation has been disrupted as the result of new

initiative of the Bank or the work of the Comprehensive Audit Project - carried out by the Earnest & Young consulting firm. In this section emphasis is given to the level of incorporation of the recommendations in the annual action plan and reports on the implementation of the plan accordingly.

The second section presents the summary of recommendations of the second study against three years strategic plan of implementation that has been drawn for fiscal years 2002/03 to 2004/05; and the related annual plan-performance comparison report. In addition, interview findings have been built-in in the analysis section that has been tabulated in the form of comparison of data from all afore cite sources.

3.2. Change Efforts and Implementation Status:

(Based on the TAF Report)

This section presents the summary of recommendations of the TAF and its level of effectuation as has been reported in annual performance reports. The specific recommendations and the related implementation status have been summed up in a tabular form and are presented in annex No 2.

Analysis of the information contained is presented here. The report has been set in a modular form and thus the analysis follows the same fashion. In this section focus is placed on only those aspects that have strategic implications.

3.2.1. Marketing and product development

- 1) *It recommended introducing R&D budget system; to study the bank's services; to develop new product based on research findings; and to introduce card-banking systems like ATM, POS, and Smart card.*

However, during the reporting periods the only item that has been reported to be in implementation process was the ATM project. The reports indicated a feasibility study on new product development had been carried out and was presented for approval. But no progress thereafter has been reported.

- 2) *The second basic recommendation was to introduce a competitive pricing system.*

In this respect too, studies has been conducted but no implementation has been reported in the annual reports for the three years

- 3) *Market segmentation: under this part the main issues were, to segment the market based on broad categories and to price products and services accordingly.*

In this regard attempts have been made to provide a separate corporate customer service. On the other hand, no continuity has been reported. But study was carried out to provide a differentiated interest rate but no report on implementation was found.

- 4) *Market orientation and customer services: to formulate marketing philosophy; to establish quality standards; to introduce corporate market driven promotional goals; were the main elements in this recommendations.*

The implementation side shows no significant move in these issues. Rather it was limited to survey studies and routine ads. Thus no visible effecting effort is seen.

- 5) *Organizationally, it was intended to bring all marketing functions under one organ.*

This part of the recommendation has been implemented by putting, the earlier scattered marketing tasks, under the department of marketing and corporate planning. It also was to be headed by of AVP.

3.2.2. Credit and risk management

With the main objective of improving quality of credit and healthy asset growth, it was recommended

- 1) *To slowdown asset expansion pace until capacity coups up, to set credit ceilings to lending units, to limit lending discretions, are the main ones.*

The implementation report during these periods shows that the bank has focused on improving the quality of loans. To this end, NPL resolution attempts have taken the lion's share of activities. STF was formed, foreclosure law was enforced, and lending discretions were tightened. Thus the implementation reports corroborate the recommendations.

- 2) *In the attempt of balancing credit risk exposure it was recommended to introduce comprehensive credit information system; to improve appraisal capacity; to introduce quarterly provisioning system; to have freehand on write off; to contract out NPL collection; to expand credit products; to improve collateral appraisal; to develop guidelines for workout and foreclosure.*

These recommendations are novel in nature and, had been properly executed, could have made a difference in the business of the Bank. In the implementation aspects, however, it is reported that new credit information system has been put in place. And different attempts to improved credit process including assignment and training of staff has been reported. Still, in the issues such as writing-off, contracting out collections, no significant progresses have been accounted for.

3) Developing policy and procedures: the report has included recommendations to improve credit and risk organization; develop policy and procedure manuals to design a new system.

It has been accounted that the Bank has drafted a credit policy and procedure manual; set risk based customer classification criteria; prepared write-off policy and procedure manual. Thus this part of the recommendation has been relatively acted upon or implemented.

3.2.3. Banking operation

In this section the TAF with the general objective of improving quality of service: providing technology-driven service; and with the goal to reduce customer-waiting time, a number of actions were forwarded:

To introduce ISO 9001 service quality standard; to streamline the process; and to integrate operation with IT are general recommendations. The following specific suggestions were forwarded: to relieve branch managers from the daily routine, to revise operational regulation like minimum balance for non interest bearing inactive accounts, streamline various processes, (like two-men signatory system, pre-audit system, identification and review and control system), extend working hours, improve working conditions and facilities.

The implementation review shows various actions were planned but not realized. These include, to rollout-reengineered systems, to develop operational manual, and to extend service hours, to provide foreign banking at all branches. But all had gone at their study level. So no success has been done. On the other hand, the customary activities like training, customer suggestions processing, "24 hour L/C" opening system, have been employed. Yet, all these activities do not reflect the basic issues sighted above.

3.2.4. Accounting and financial management

The overall objective is said to improve profitability, liquidity and capital adequacy ratio. The TAF has recommended:

- 1) *Budgeting and internal reporting: to introduce strong budgeting system; to make environmental assessment of strategic indicators; to establish management commitment to budgeting system; and to improve the budget feedback system.* This recommendation has been implemented to the level of drafting the budgetary process only. And finally it is reported has been decided to be outsourced.

- 2) *Financial management: to centralize treasury activities; to control non-interest bearing accounts; to control cash foreign currency holding and its delivery based on cost-benefit; to remove barriers to credit; to look for new investment opportunities; to improve capital adequacy by plough back of profits; to use available market for liquidity mismatch are the main ones.*

The annual reports indicate that no significant development is made in these areas too. No report has been filed in introducing the above-sited recommendation on the financial management.

- 3) *External reporting: to allow cost centers to have own fixed assets register; to replace fund flow statement by cash flow statement; to evaluate performance by line of service and products; and to improve external reporting system in general are the main elements.*

Then again no issues have been in the annual reports in this regard.

3.2.5. Human resource management

The aim here is: to make CBE the best employers in the industry; to have qualified workforce; and to have a motivated staff; and to favorable labor relation. Additional goal of, to improved quality of work life, to recruit and select the best candidates, competitive pay, and to maintain healthy relationship are the ones to be fostered upon.

The specific issues recommended include, to develop new personnel policy and procedure, to change HR profile, to link manpower planning with strategic planning, to improve training and development process, to introduce new salaries scale and performance-based rewards, to improve working conditions, to change the culture of work value, to encourage delegation, bring flexibility and adaptability to change, to improve participation, to foster open communication, punctuality honest, integrity, teamwork etc. are the specific issues to be addressed.

In the implementation side the data collected show that training on marketing tasks and customer service has been conducted many times; policy manuals and job descriptions were drafted, *but not implemented*; various recruitments has been made based on a five year HR strategy; gap analysis, survey on staff turnover is conducted; office facilities have been improved; labor negotiations were underway during the reporting periods. Thus we can see there had been partial implementation of the proposal.

3.2.6. Management Information System

The broad objectives here are efficient service delivery, leadership in IT and to have the best bank having human resource to process technology-based information system. It has set a goal of introducing fully automated on-line real-time banking service; establish databank and maintain skilled personnel. Thus the following has to be performed.

- 1) Automate customer related operation, enter into SWIFT, and set up IT department and define MIS; introduce both of-the-shelf and in-house developed software to back-office operations (computerize employee information, establish comprehensive credit database, use project management etc); computerize support functions; are the main recommendations.*

As to the implementation, it is limited to IT organization, resolving short term problems like Y-2k programs, develop project plan for major IT project, semi automation based on stand-alone PC all city branches and rollout same to outlying branches ate the areas where partial implementation has been achieved.

2) *To finalize the major IT project; to rollout the reengineered online system; to introduce card banking; to avail processing machine for smart cards; to establish database in various functional areas were recommended*

These areas, though important for the change implementation of other areas, have been planned but action was lacking.

To summing-up, though there were sound recommendations, their full implementations had not been made possible. Those parts that have strategic reference in each module had not been realized. In marketing and product development, segmentation, competitive pricing and card banking have not almost been implemented. It is true for IT recommendations too.

Somewhat a better performance has been recorded in the areas of credit and risk management. Here too, some very critical elements are not implemented.

3.3. **Key Issues of Strategic Change & Status of Execution:** (Based on Comprehensive Audit Project Report)

This section of the chapter presents the data that has been gathered from the documentary review activities. The starting point for the section is the recommendation of the consulting firm Earnest & Young. The content is summarized for each module as follows:

1. Summary of the recommendations for change in the form of target model has been incorporated in the first column of each module.
2. The second column contains strategic initiatives of the Bank in relation to the recommended change elements. This is taken from the strategic plan of the Bank for the fiscal years 2002/03 to 2004/05.

3. Column three represents information gathered from annual reports, plan-performance comparison reports of the Bank covering five years period from the 2000/01 to 2004/05 fiscal years. Interviewee responses also are included in the synthesis of the reports and in the remark column. The content

3.3.1. Credit Management

CHANGES RECOMMENDED By Earnest &Young	STRATEGIC INITIATIVES	THE LEVEL OF EXECUTION OF In Last Three Years¹⁰	REMARKS
Descriptive Policy & procedure has to be introduced and control its implementation Techniques for credit risk assessment;	Define and put in place the credit risk strategy; Review credit policy an procedures in light with credit-risk strategy;	Credit risk strategy has been developed; credit policy and procedure (CPP) manual & credit procedure and guideline manuals (CPGM) have been revised and introduced for implementation in 2002/03 fiscal year which again has been redesigned and redefined	Credit policy and procedure manuals had been revised three times in five years. It shows the poor development process
Control checks to ensure adherence to policy and procedure need to be developed and implemented;	Introduce comprehensive risk management system;	Credit risk management system has been developed and is made part and parcel of credit policy and procedure in 2002/03 and credit underwriting, loan booking, loan monitoring and loan collection are implemented. NPL management procedure is underway, and write-off manual has been revised and approved	Considerable progresses have been made in this regard during the last two years following the introduction of the consultancy service. The information gathered through interview corroborate the situation
Techniques need to be developed to effectively assess the credit risk of borrowers	Introduce credit risk rating system	Credit risk rating system is incorporated in CPP. But the implementation is limited to credits over five million and to pilot Branches. Rolling out was planned in the current fiscal year. However, it is not done	The rating system is at a pilot level. The effective rollout is still to come. Nonetheless, implementation of the issue is on the

¹⁰ Summarized form, Commercial Bank of Ethiopia, annual plan-performance reports of years 2000/01 to 2004/05 third quarter (including years prior to acquiring consultancy service) & interview responses

			way.
	Design system for risk based pricing of credit products	Risk based pricing methods has been developed at preliminary level on cost of fund, risk premium; credit spread pricing and borrower classification in 2002/03. But consultants developed new guideline on the matter in 2003/04. However, no continuation has been reported on current report	There has been attempts to measure profit
	Introduce customer relation function	Customer relationship function has been developed and corporate relationship managers have been recruited as per the recommendation of consultants	
Reliable credit information has to be acquired to form the basis for performing credit analysis to assess the borrowers credit risk	Establish comprehensive and integrated database for credit function,	Integrated credit information system has been developed and nationwide credit database has been established since 2004	it is now in use
Rigorous monitoring and loan collection techniques to collect outstanding balances need to be performed	Implement vigorous NPL resolution and balance sheet cleansing strategy; design and implement rigorous monitoring strategy develop strategy that shortens credit processing time	Rigorous NPL resolution and balance sheet cleansing mechanisms has been devised: claims of 381 million are converted into government bonds, 115 million LIR has been written off in 2002/03. A four-year action plan has been drawn in year 2003/04. But no carry-over is reported in current year's report.	the level of NPL is reported to have been reduced to 29% as per the Financial restructuring plan
		Extending the strategy, negotiation has been planned in NPL resolution for Coffee Export Enterprises loans and to write-off loans of ex-Branche's in Eritrea and is attained. Monitoring Officers have been assigned to each corporate customer for review. Recently the monitoring	

		function has been restructured to fall under control function	
		Write off execution has been enhanced in the year 2004/05 and as per the new write-off policy Branches and districts started writing off of loans. In same year, to outsource NPL and ALD collection, data collection is underway	
	Develop credit culture in client	Creating credit culture in customers has been stipulated in the strategy but no practical execution story is reported	
Accountability & responsibility in lending and loan collection activities need to be establish; identifiable and measurable goal need to be in place for all staff including incentives to achieve; staff skills and training requires appropriate development Empowerment of staff within the lending function need to be developed	Introduce sense of responsibility and accountability. Design strategy to gain new business in credit function Ensure efficient credit analysis and approval procedures, and timely identification of sick loans, method of calculating loan provision	In year 2002/03 various courses have been given to credit staff to enhance loan processing capability and to shortening credit processing time. Standard credit delivery time has been incorporated in the CPMG. However its actual implementation status has not been reported	the newly approved CPMG is being implemented and the level of improvement is to be seen yet
	Develop internal audit procedure	Introduce system to insure accountability and responsibility to various participants.	Yet no report showing execution has been recorded
Target model organizational stricture is recommended and emphasis need to be placed on segregation of duties in key areas	Re-align organization structure with corporate strategy; establish comprehensive and integrated database for credit function,	The credit main department has been reorganized to align it with changing strategy of the bank and it has been incorporated in the credit BPR which has been approved very recently	credit processing, approval and assessment has been separated

within credit at the appropriate level			
Credit maintenance and review, Collateral Analysis, Workout and Foreclosure has to be given due attention	Draw NPL management policy, identify non-recoverable NPL design and to implement balance sheet cleansing	Collateral and security system has been embedded in the CPP and CPGM in 2003/04. A study to outsource property estimation is underway	The new structure has taken account of restructuring collateral evaluation process
	Introduce process and procedures necessary to timely identify sick loans	To timely identify sick loans, credit risk rating has been embedded in the policy and procedure, but no report on implementation	
	Design appropriate methods for the calculation of loan-loss provision and write-offs, based on NBE's directive, and ensure the implementation thereof	Appropriate method and format has been designed to simplify the calculation of provision per NBE directive and amendment has been made to write-off policy and procedure manual	
Fully reliable and integrated borrower credit database need to be developed; with functionality to support credit control		In technological support, to establish integrated database, new credit information database has been established	Database is formed and is connected to NBE. now borrower information is easily accessible

Credit and Risk Management Module Analysis

The implementation efforts in credit function could be grouped in to three categories. In first place there are certain activities that have taken place as per the recommendations. This includes:

- Development of policy and procedure manuals,
- Establishment of comprehensive database,
- Developing a strategy to reduce NPL level,

- Streamlining credit sanctioning process,
- Realignment of the organizational structure.

These are the areas where the bank has made significant move. These facts are evident from the documents reviewed and interviewees attended. There are considerable activities in the credit processing as the result of recent actions in the organizational realignment. Attempts are made to separate approval and review; corporate customers are identified; Relationship Management system has been introduced; independent assessment system is being set up; though at a pilot level, risk rating system has been sent down to the front line; and a credit audit function is being incorporated in internal control area. But, all these are not without problem.

Primarily, much of the implementations are at their early stage; and it will be premature to say that they are fully implemented. This is because the level of achievement is not yet tested. Secondly, in the areas like policy drawing, a number of revisions have been seen. This indicates that there is lack of adept actions in the original process. Almost in all areas, the documents that have been generated before the coming of consultants have been re-touched.

In the second category we can see there are some activities that are not strongly emphasized by the study, but the Bank has put much more emphasis on. Especially during the last three years, it has stressed on improving the quality of existing loan than working for new. These have been reflected in its drawing of "Financial Restructuring Plan". The target of the plan was to bring the exorbitantly high level of NPL to the standard. And it is in progress as per the plan. Yet one of the mechanisms of mitigating the problem, adding new but more quality loans to the portfolio, has been pushed back; and thus the loan volume has been declining during the same period (CBE annual reports).

In the third group we can mention certain part of the recommendations that are either untouched or are not worked upon enough. These include:

- Risk based pricing of credit facilities,
- Credit review and analysis,
- Introduction of risk management system,
- Introduction of Risk rating.

Even though the bank has made some efforts in this regard the implementation is not marked. No differentiated price has been introduced and thus the bank is still charging the same rate to all its customers; irrespective of the quality and volume loans it is granting. This is one of the areas seen as having strategic implications.

In sum, the implementation activity of the Bank in the credit function area is some how better as compared to the rest of the modules. Even though critical areas such as differential pricing are lacking, some tangible moves have been observed. However, the majority of the activities are at an infancy stage and the effective rolling out remains to be seen.



3.3.2. Accounting and Financial Management

CHANGES RECOMMENDED By Earnest &Young	STRATEGIC INITIATIVES	THE LEVEL OF EXECUTION In Last Three Years¹¹	REMARKS
Create a process for gathering cross-functional and more complete financial information to deliver efficient collection, analysis and circulation of	Create a process for gathering cross-functional and more complete financial information to support the risk management process of the Bank and implement it in	In the process of creating cross functional database, BabkMaster and BranchPower system has been installed to support Credit Summary, Branch Accounts and General Ledger Systems of Finance	the integration of data has not been possible for the IT infrastructure problems

¹¹ Commercial Bank of Ethiopia op. cit

information, ensuring data integrity and reliability. Facilitate effective development of measurement process	such a way that it will enhance effective management decision. Re-design standardized policies and procedures	Department	
Adopt internationally accepted accounting principles	Introduce international accounting standards and policies	Internationally accepted accounting standards (IAS) has been adopted since 2003/04 fiscal year	
Redesign and standardize policies and procedures to make them more efficient	Implement planning and budget in structured manner. Review and develop planning and budgeting policies and align it with strategic plan, and ensure implementation	Draft budgeting guideline has been developed with the help of consultants	this has not been finalized
Establish cost and profitability analysis system which can assist mgt in decision making in accordance with the Bank's strategy	Make sure that accounting to standard reporting is in place and generates reports on cost and profitability analysis, business performance measurement and external reporting	The finance department has started to prepare Branches' profitability analysis reports that show their economic value on a sample base since the year 2003/04 but on sample basis. It is to be rolled out to all branches	the product, client and account profitability measure has not been worked out
Reassess the information needs of the management in producing effective risk and performance based reports	Ensure complete and timely accounting for financial transactions; reliability and integrity of data, control over loss of records and fraud; revise the existing manuals and ensure its implementation	To introduce effective transaction processing, the Sun Software was tried but has been replaced by BabkMaster BranchPower system	but no change has been made in the information supplied to the management
Develop accounting policies and procedure in accordance with IAS	Adopt chart of accounts that addresses the information need of the bank; adopt proper classification scheme	The chart of accounts has been revised	recommendation has been fulfilled

	Adopt proper financial systems for fixed asset accounting and consolidation procedure	Fixed asset accounting has been decentralized and the head office records has been transferred to Sun Financial system and reconciliation of records against physical count is underway	it under the process
Establish profitability analysis systems which can assist management in producing effective risk and performance based report	Establish a cost and profitability analysis system Update/develop a financial control procedure and ensure compliance with standards Introduce measures like ROC, ROE, net interest spread, and business per employee	Branch profitability analysis report is implemented in 2004/05. The business performance measures are being drafted by the consultants	partly performed for the corporate and branch profitability analysis
Define and document formal policies and procedure which results in better responsibilities, set timing, methodology and awareness of products/ services	Align the account classification with accounting standards and regulatory reporting; update/develop classification scheme	A guideline to handle suspense is implemented	new policy to handle suspense items has been approved and is in use
	Review procurement process and procedure, identify bottlenecks, develop policies and implement	Cash holding limit procedure had been developed	
		ALCO operation procedure has been approved and implemented as well as the committee has started functioning in 2003/04	ALCO has been formed recently and has started operating
	Develop and implement a treasury management strategy; formulate policy and procedure; and develop and implement the necessary tool for treasury operation	As part of organizational realignment, treasury function has been separated into front, middle and back office functions. Policy, procedure and strategy has been introduced and implemented	

Develop banking systems with key interfaces that enhance productivity by eliminating duplicate work efforts	Develop and implement accounting package with banking industry functionality features that enhance the system	BankMaster BranchPower are introduced to finance area, new in-house developed software for internal ticket origination has been implemented	
Rollout the banking package and increase the efficiency of the process	Develop control governing the use of computer system Provide training in planning and budgeting	To be performed in collaboration with the management consultants	No performance report has been found in subsequent reports
Develop control governing the use of computer system, external operations and internal software which reduce loss of data and programs	Develop monitoring and control strategies for all finance processes	To be performed in collaboration with the management consultants	it has been introduced for the new internal ticket generation system

Accounting and Financial Management Module Analysis

This module is one of the areas where the Bank has made a considerable move to make the change happen. The level of achievement still is not magical one largely due to the low level of IT backing. Generous actions have taken place in the execution in this area. The activities include:

- Introducing International Accounting Standard,
- Reclassification of chart of accounts,
- Development and introduction of accounting policies and procedures,
- Performance measurement systems,
- Establishment of ALCO, and
- Organizational realignment.

In comparison to other areas, better work has been reported in the above areas. Accounting policies has been revised and implemented, new chart of accounts has been developed in line with the International standard; and now is in use.

Regarding the performance measure, it is partly done. The performance measures are classified as organizational performance, branch performance, product profitability, client profitability and account profitability. Among these measures, parameters are developed for the first two with the help of consultants and are now in use.

The other three elements, which have paramount importance to other areas, such as product pricing and market segmentation are not developed. The reason is that the consultant that embarked on the process has been replaced and thus the process was interrupted.

Another area where achievements have been reported is the implementation of new software to the head- office accounts and finance a new computer based transaction processing. BankMaster/BranchPower system, new in-house developed package for ticket origination and a computerized check clearance system have been put in place.

Structural re-alignment is another area where recent changes are taking place. The treasury function has been reorganized as front, middle and back offices, one to counter-check the work of the other; independent credit assessors are organized under the finance function, in the attempt to bring independent risk assessment system; and MIS unit is under formation. However, no tangible development has been made in the following areas:

- Developing a process for cross-functional data
- Development of a new budgeting system,
- Provision of better financial information
- Development of control governing the use of computers.

These are the areas where progress has not been made so far. The basic reason is the problem related to IT. As the grand IT project has not been implemented, the computer utilization status of branches is not at par. Only the old-day five branches are online, and 72 of them operate on a standalone PC basis. The remaining ones are operating manually. Thus in such situation it is difficult to produce bank wide integrated information system.

All in all, the change activities of the bank here have been a better one. But the heart elements such as creation of integrated data have not been attained implies changes of strategic nature that can create differences are not executed.

3.3.3. Marketing and Corporate Planning

CHANGES RECOMMENDED By Earnest & Young	STRATEGIC INITIATIVE	THE LEVEL OF EXECUTION OF In Last Three Years¹²	REMARKS
The Bank has to implement its strategic planning process in fully structured manner and each step of the process flow from the previous stage; definition of strategic direction supported by full strategic analysis, followed by SWOT analysis, then by tactical planning, then by business plan and budgeting	Introduce business culture which is service oriented costumer focused	To introduce service- oriented, customer-focused, services, the compliant handling new system has been introduced in A.A. and it is to be rolled out. A toll-free line for lodging compliant has been installed and made operational. Customer handling guideline has been drafted	The marketing aspect of CAP doesn't appear as a as separate module and the main parts are incorporated in Branch networking section

¹² Commercial Bank of Ethiopia op. cit

processes			
	Align operational policy and procedures with the Bank's strategic direction	To align operational policy and procedure with strategy, new domestic and foreign banking manuals have been drafted and presented for deliberation in fiscal years 2002/03 and 2003/04. But no indication of continuation in the report for 2004/05	the operational manual is under the approval process
	Establish and implement formal process to support the development of branch network strategies such as segmentation, product development, sales management, etc. and improve the management information system	<p>To establish process to support the development branch network strategy such as segmentation, product development, sales management etc, various activities which include,</p> <ul style="list-style-type: none"> ❖ Smart card bid but was suspended waiting IT policy ❖ Business development service training was conducted to introduce consultancy service to customers ❖ Study to introduce mobile banking is underway ❖ Corporate customer selection criteria revision is underway ❖ Baseline survey on customer profitability analysis is underway <p>However, no continuation this regard in the current fiscal were reported except for mystery shopping is being drafted</p>	branch expansion scheme is being emphasized following the aggressive expansion of competing privet banks
	Design a strategy to gain new business in the marketing function, which includes marketing, sales management and accounts management	Study on providing foreign banking service at Mekele, Nazareth, and Jijiga Branches has been finalized, but waiting the completion of SWIFT operational guideline introduction	the progress in this area is not much
	Design and implement a system to improve customer service and monitor the effectiveness thereof	To improve customer service, service time was extended to 4:30pm assessment on current customer waiting time in A.A. is finalized, efforts were made to improve	service hour has been extended since last year

	Introduce customer-relationship management function in the branches, based on business volume of the operating unit	To introduce customer relations management in branches, placing relations managers at district and contact person at branch has commenced	no report in this regard has been found
	Develop a business strategy to identify cost-reducing opportunities as well as to promote cross-market servicing and to monitor the effectiveness thereof	To identify cost reducing opportunities and cross-market study was conducted on non-interest-bearing deposits and implementation is underway, reorganize FOREX bureaus pricing foreign currency, and merger of Tewodros & Ghandi branches were recommended in 2003/04. But no continuation or evaluation has been reported	no action report is found
	Define strategic objective of the Bank in relation to its departments, divisions and branches and ensure implementation	Defining strategic objective of the bank in relation to its departments, divisions and branches, designing of functional strategy is in progress.	
	Design and implement strategic planning process, which includes a strategic analysis, the defining of a strategic direction, developing a strategic plan, implementation and monitoring and review of the implementation thereof	New strategic planning process has been introduced in fiscal year 2003/04 and strategic plan has been drawn as per CAP recommendations	currently it has drawn a five year strategic plan and is said it is up to the standard

Marketing and Corporate Planning Module Analysis

One different item has been included here. The CAP does not have a module for marketing and corporate planning. Its recommendations in this regard have been reported in the branch networking and management capabilities. Though, it has been included here for that the planning documents and reports use this taxonomy; and thus the main activities have been incorporated here accordingly.

In the entire documents the Bank has up loudly advocated a change in marketing. The following are areas that have been raised time and again in relation to marketing and corporate planning:

- Introduce standardize strategic planning process,
- New product development,
- Market segmentation,
- Introduce service oriented and Customer focused marketing,
- Introduce customer relations function in branches,
- Introduce card banking,
- Development of marketing policies and strategies.

Such are plans and intentions that are reflected in the annual plans and reports. On the other hand, the actual realization, as reviewed from reports and interview, does not reflect the above vital elements.

It has become clear that various studies has been carried out by the department and have been presented for decision. But no act of approval by the side of the management has been reported. This includes studies on new product, card banking, providing foreign banking services, extending service hours are among such studies.

Furthermore, it is evident that the marketing activities have been highly influenced by the daily routine tasks like promotion. In recent rears however, marketing research activities are becoming somehow task oriented, and increasingly focusing on the marketing intelligence. Some activities have been learnt in the following areas:

- The introduction of ATM service,
- Non-interest bearing Savings account has been implanted,
- Diaspora foreign currency accounts,
- Marketing audit, to study competitor moves, are the main ones.

As compared to the previous task like segmentation and pricing, the later ones do not have strategic values. Introducing new form of saving account, for highly liquid Bank like CBE, does not have equal importance with risk based pricing in strategic terms. The only competitive move is the study conducted in branch network. In reaction to the expansion of the branch networks of private banks, CBE has finalized a study to open additional branches in Addis Ababa.

In nutshell, the marketing activity of the bank has been largely dominated by a day-to-day routine and it is not being changed to support the Bank in the dynamic market.

3.3.4. Internal Control System

CHANGES RECOMMENDED By Earnest &Young	STRATEGIC PLAN INITIATIVES	THE LEVEL OF EXECUTION In Last Three Years ¹³	REMARKS
Develop a control culture in the Bank, which is actively supported by BOM and senior management. Incorporate control concept into the Bank's overall strategy. Formally document the Bank's Code of Conduct and ensure adherence to it	Design internal control process based on the efficiency and effectiveness of activities	Detailed implementation strategy that would help the Bank to move from current practice to the new practice has been finalized in current year ❖ And BOM has approved the organizational structure of control main department in current year ❖ Identify mechanisms of rectifying irregularities ❖ It and systems audit function manual has been finalized	the approved strategy is under implementation
		BPR study has been completed the documentation, analysis	it is at its final stage

¹³ Commercial Bank of Ethiopia op. cit

		and recommendation and is forwarded for approval in 2004/05 fiscal year	
Establish and maintain effective MIS that include accounting and record keeping control	Ensure that financial and management information in the bank is reliable, accurate, complete and timely	Routine activities are still operational in line with the existing working procedure, until further revision	
Develop and maintain comprehensive set of procedural controls Set organizational and process control Ensure prudent segregation of functional responsibilities Maintain effective MIS	Integrate adequate control mechanism into the daily function	Not started	
	Continuously monitor business risk	Not started	
Re-focus current audit and inspection planning methodologies and techniques from substantive testing to incorporate risk-based techniques	Refocus audit and inspection planning process	Waiting for audit and inspection policy	the policy is approved and organizational realignment is underway
Establish independent audit committee with a full support and mandate to: Review the activities and decisions of BOM, the President and senior mgt Review audit reports of the control division external audit and NBE Review and critique mgt policies and procedures The integrity of financial accounting system and control	Put in place audit analysis	Draft on Audit Analysis and Reporting Procedure has been is developed in 2003/04 to be enriched by consultants	still to be finalized
	Design audit strategy and implement	Underway	
	Propose structure	Proposal has been drafted in 2003/04 and BOM has approved the organizational structure of control main department in	

		current year	
	Design audit policy and procedure	Draft ICP is prepared in 2003/04	
Establish formal training program for control division including basic auditing skills, for all new staff, risk-based auditing concepts and techniques and computer training and EDP auditing	Establish formal training program for	Various trainings have been conducted for new and existing staff	
Establish and maintain prudent and appropriate IT control			no report have been found that reported any move in this direction
Establish and maintain sound and conservative valuation policies and procedures			ditto

Internal Control System Module Analysis

The reports on the status of changes in the control activity of the Bank indicate that significant efforts have been recorded in the past two consecutive fiscal years. The fundamental points of change in the control functions are:

1. The realignment of organizational structure and changing concept of control as a managerial function than an independent watchdog.
2. In the reengineered branches, the full responsibility and accountability of control activity has shifted from the previously internal audit which was independent of the management i.e. the internal auditors' function has been changed to checker.
3. various trainings has been conducted for new and existing staff

However, there are also some basic required changes as per the CAP recommendations that are not acted upon. These include:

1. Setting organizational and process control,
2. Ensuring prudent segregation of functional responsibilities,
3. integrating adequate control mechanism into daily function,
4. refocusing audit and inspection planning process,
5. establish and maintain prudent and appropriate IT control

It has been learnt that the current activities however are in the direction of the Bank is towards effecting these activities.

3.3.5. Information Technology

CHANGES RECOMMENDED By Earnest & Young	STRATEGIC INITIATIVES	THE LEVEL OF EXECUTION OF In Last Three Years¹⁴	REMARKS
Re-engineer and rollout BranchPower /BabkMaster Align business process and IT functionality The Bank Should implement life cycle process to strategic information system planning	Finalize outstanding technological direction issues and design the IT strategy based on the selected technology	Technological direction has been determined in terms of selection of the relevant application systems and the infrastructure needed to support it in 2002/03. However, roll out the operational system has been reconsidered, but for head office accounts The security of BranchPower System has been upgraded Debit card specifications has been developed but is to be revised per IT short-term strategy Remote transaction Processing capability of Western Union office is applied	In the report or the recommendation of the consulting firm, it is indicated that the bank has chosen Kindle solutions as its technological platform (Unix-based server with Novell NetWare client).
		IT vision is to be designed as the cornerstone of IT strategy in collaboration with consultants	
Rollout reengineered branch/back office process.	Design data architecture at logical and physical level, implement it	Steps towards full implementation of selected Bank systems and systems relevant to Finance, HR, and others has been carried out in year 2002/03	No action has been taken in this regard even with the coming of the consulting firm

¹⁴ Commercial Bank of Ethiopia op. cit

Align business process and IT functionality related to banking operations front-end and back-end processes	Define and design application and technology architecture, characteristics	Implementation of LAN at HR, application software; set up of configuration for Sun System accounting package are finalized in fiscal year 2002/03; Ticket generating system development is at test level in 2002/03 and implemented at HO level in 2003/04 and to be rolled out; Development of Debt Recovery and Litigation is finalized; Proposal to rollout SWIFT to ten branches was developed same year but later reconsidered to align it with short-term IT strategy; Application for credit information system has been modified and enhanced	Regarding the data architecture, no observable progress is reported. The interview also has confirmed as being area where no action has been taken so far.
	Define and design technology architecture, characteristics	The work of disaster recovery sites and others is being done in view of the short-term IT strategy	
	Establish integrated database for various functional areas	The activity is limited to the implementation of the individual application systems that are subjected to integration and to be executed in line with short-term IT strategy	this is said not carried out for that CBE was waiting the vacating of NBE from its building to bring various organs in one building
Realign the organizational structure and IT should be represented at executive management level Upgrade telecom Equip all Branches an HO with means to support centralized accounting and back office processing	Re-align IT organizational structure with a view to introduce a project management function and glairing toward key application system	To be accomplished in collaboration with IT consultants as part of It strategy	In recent development the Bank has approved the new organizational structure that split the IT in to MIS and IT IT will take the responsibility to develop and handle infrastructure related issues
The Bank need to	Develop and	Systems solution has been	No tangible move

develop comprehensive disaster recovery plan and procedures as a component of overall business continuity planning	implement comprehensive disaster recovery system	selected but to be reviewed in line with short-term IT strategy	is reported here.
	Implement core banking systems and rollout process of the re-engineered pilot branch	The six already online branches are operating with an enhanced computer system since 2003/04 fiscal year	
A project management methodology should be adopted that has the appropriate characteristics: Scalability and adoptability for different types and sizes of projects; Applicable to all forms and techniques of application systems development to be employed, both custom and package based; applicable to infrastructure; capable of handling programs, usable with MS Project and affordable			No report has been found in the documents showing implementation of these recommendations
	Design IS strategy and insure IT functionality objectives are aligned to the strategic information system planning process	The short-term strategy has been developed and implemented in year 2003/04	

Information Technology Module Analysis

The Bank's activity in this aspect puts it as a one of the areas where list performance has been observed. The activities in the IT area or the change needed in it are so fundamental that most of the weakness of the Bank could have been resolved through the support of IT. And in light of the recommendations of the consulting firm the actual activity in the area of IT is the weakest one.

It is known that the Bank has started to use mainframe computer facilities long back - since the early 1980's - by sharing a central server system with the NBE. But its development in the level of improving its IT advancement, as compared to its history is not laudable. For example, its online connected number of branches used to be five, right at the beginning, and it is still at that number¹⁵.

As to the implementation of the recommendations of CAP, the performance level is not as such attractive. Rather the documents reviewed and interview responses show that it's one of the least. The Bank's initiative to bring IT change dates over a decade. But it has not materialized due to one basic problem. The grassroots of the problem comes from late 1990's when the Bank changed its mainframe hardware as part of resolving the 'millennium bug Y-2K' and the potential obsolescence reported by the supplier of the old software.

Originally the bank initiated a big IT project that will put it as a technology leader in sub-Saharan region and had short-listed companies for the purpose. However, in the midst, this project turned to firefighting as the above-mentioned problems cropped up. This has turned out in to a new problem known as the '2GB problem' that is related to the hardware capacity. That is, the capacity of the hardware was found to be two gigabits that cannot support the voluminous transaction of the Bank.

¹⁵ As per interview response with IT Director of the Bank

Thus the other problems of the Bank revolved around this problem and the recommendations of the consulting firm also are associated with overcoming it; and to rollout the previously introduced reengineered system to the rest of branches of the Bank. Since the bottleneck problem has not been resolved, no significant changes have been achieved in this regard.

When we go into the status of implementation of the CAP, some activities have taken place following the consultancy service. Others are still in the level of untouched. From among the activities performed include:

- Establishment of credit database,
- Implementation of ATM project
- Computerization of back office operation of head finance
- Establishment HR database and networking of the department with LAN
- LAN connection of the marketing department
- The organizational realignment
 - IT steering committee has been formed
 - MIS and IT has been separated
 - IT is being organized as development, control, recovery and project management

These are the areas where tangible activities have taken place. The interview response corroborates these and all are in the short term IT strategy of the Bank.

However, most of the recommendation of the project are of long-term nature and are not still resolved. These include:

- Implementation of the big IT project
- Networking its branches
- Rolling out BankMaster BranchPower

- Developing IT strategy
- Definition of technology structure
- Definition of data structure
- Development of IT process and control
- Disaster recovery planning
- Establish MIS based integrated database

These are fundamental elements of IT task and do have strong strategic implications. So we can see that the Bank has not resolved core problem of the said 2GB problem and is not in a position to implement. Thus we see that fundamental IT change has not taken place, despite its indispensable role for the successful operation and change in other areas of the bank too.

3.3.6. Human Resource Management

CHANGES RECOMMENDED By Earnest &Young	STRATEGIC INITIATIVES	THE LEVEL OF EXECUTION In Last Three Years¹⁶	REMARKS
The Bank need to change the prevailing attitude towards accepting responsibilities and being accountable	Introduce a culture graciously welcoming change	The diamond jubilee of the Bank has been celebrated in 2003 bank-wide and the occasioning was instrumental in enhancing communication between management and staff Culture audit survey has been conducted	The result of the Culture audit survey has shown a weak organizational culture of the Bank
The HR function should be changed to reduce the administrative 'policing' role to support and guide line managers in execution of their roles	Change the administrative 'policing' job of HR function	Draft has been prepared on to institute accountability and responsibility, delegation of authority in HRM in 2002/03 and under the process of deliberation and comment by consultants	Still the HR policy has not been approved

¹⁶ Commercial Bank of Ethiopia op. cit

Launch initiatives to ensure managers delegate authority to more appropriate lower level in the Bank and hold the person responsible for delivering	Create sense of commitment and accountability by specifying behaviors required for success	A procedure aimed at instituting accountability and efficiency in the HR process and delegation of authority is being prepared Training on result oriented performance and reward has been carried on	The delegation is being done at pilot branch level still it is to be rolled out
A communications review should be initiated and strategy determined which will involve employee and which will seek upward feedback as well as top-down briefings	Design and implement a strategy of internal communications that ensures the commitment of employee	Preparations are underway to concert HR and corporate communications Formal internal communications process recommended by consultants is under execution	Internal communications manager has been assigned very recently
Embark a major training and development initiative to drive up the managers and staff's technical expertise and to build more flexible skilled employees. Develop a practical succession planning process	Design and implement the leadership capability of the bank	PPDD review a short and medium term training programs within and outside the country to augment management skill Competency framework for management succession plan. However no sign of continuation on that regard.	In recent action the training department has been downsized. This seems contrary to the what has been expected to be
Redesign the remuneration systems so that they are more closely aligned to the business goals	Introduce performance measurement system that will ensure all staff receive performance goals	New performance appraisal system has been designed in 2003/2004 fiscal year, and is being developed based on the principles of result-oriented appraisal system	No practical measure has been taken so far. BPR study is underway
	Make sure that HR policies and procedures are aligned with future requirements of the Bank	HR policy has been revised by the consultants and is under deliberation	The policy is not been approved yet.
Change the base pay management system and make high performers move through the structure quicker Develop competency	Redesign and implement the remuneration system	Salary scale has been introduced in 2003/04. Yet consultants have proposed a performance related reward system which is under deliberation	The adjustment is said for cost of living adjustment. Still another study is said underway

framework to underpin salary management Review incentive plans and insure some differentiation			
Launch a major change management initiative to underpin the change required to realize the strategic goals	Realign organizational structure and make it leaner	Regional office tier has already been dissolved and new leaner and flatter organizational structure under implementation	no visible actions are been taken to change management area
Review selection and promotion processes to reduce the influence of HR and increase the line managers' influence. Disband committees and amend the selection and promotion criteria Eradicate unnecessary steps	Redesign and implement the selection and promotion processes to reduce influence of Hr and increase the influence of line managers	Selection criteria that involves line managers are getting implemented for managerial posts the system will be extended to unionized employee upon further negotiation with labor with revised Collective Agreement	This has been applied for the managerial posts and in the selection of RM managers. Full application require labor agreement
Develop employee relations strategy to address the current poor state of union relations with the target of improving the quality of the relationship	Develop employee relations strategy and improve Bank/trade Union relationship	Underway along with HR strategy formulation and negotiation with labor to revise collective agreement	currently they are in the process of renegotiation
Delegate responsibility and accountability by transferring to line management many of the decisions that are currently taken by HR	Ensure delegation of authority and monitor implementation	Delegation in relation to HR activities has already started at the top management and will be cascaded down to Bank's structure	still it has not been pushed down
The Bank should improve the state of HR information system so that line managers can easily access information about their own staff subject to the necessary security protocols			No practical action has been taken in this area. There is no network to connect lines to HR database
Establish program office to oversee and coordinate all project associated with change program			This has not happened. A separate office has been set for project implementation and BPR

Human Resource Module Analysis

Apart from the data present above, two additional works on HR activities of the Bank are reviewed. The first one is research by Chanyalew Yima and the second is opinion survey carried out by Bank of Scotland and Ireland (BoSI), the consultant of the Bank. Both documents do not suggest effective implementations of the sound recommendations of CAP.

The findings of Chanyalew (2002), shades light on HR problems, focusing on HRD, as not strategically integrated, not linked to one another, not efficiently organized and equipped to effectively accomplish its business mission; and this indicates that the Bank is lacking a well-framed approach to implementing its strategic goals.

The second study too is not different. It has found that the Bank has a culture of politeness, high expectation of mobility, poor perception of top management, feeling of absence of equal opportunity, low trust, unclear communication, following rules than right to the bank, hard work but only perceived one, not reward for performance culture are main findings. And these are not sound cultural reflections; as organization culture dominates behavior when it is at a variance with personal experience.

One of the critical success factors of service business, for that matter any institution, is its employees. CBE seem is not grateful for this reality; despite it is claiming to have considered its employee as its most valued assets. In deed, the top management does not pay much attention to the HR matters. Contrary to its claim in papers, there is no visible change.

Activities in connection to HR module implementations are not as such vivid. The status of implementation of the project is not sound one.

- Cultural audit survey has manifested a negative attitude of employee toward the existing management,
- No major change management initiatives has been taken,
- Very recently a new internal communications office has been formed to overcome excommunication,
- Change in performance measure has not been implemented,
- Personnel policy still has not been finalized
- The rare of staff resignation is climbing indicating the staff dissatisfaction

On the whole, the Bank has not taken appropriate measures as recommended by the project; and need to harness its operation in near future.

3.4. *The Project Implementation Methodology*

The consulting firm in its report has emphasized the following points regarding the implementation of change, Earnest & Young (2000).

- There are a number of documents that summarize the business mission and strategy. However, there was little or no understanding of what needs to change to ensure neither that the strategic goals of the business are delivered nor that the understanding of the strategy had been cascaded throughout the organization.
- The top management of the Bank demonstrates high levels of commitment to the achievement of strategic goals and objectives. However, there has been less success in managing commitment at lower levels both through appropriate communication and by involvement of the employee into the strategic planning process.

- The Bank needs to ensure that the implementation of its strategic objectives are continuously monitored and reviewed.
- The Bank needs to strengthen the role and capability of its Board of Management and Executives.
- Attract new talent to the executive; hire someone from outside the Bank who has worked internationally and who has complementary skills for the rest of the executives to benefit from.
- Ask one of the correspondent banks for a secondee from their high-potential development program
- Invest in developing the skills and competencies of the Executives by sending them on secondments to other Banks and or management colleges like Harvard for short courses
- Retain a councilor or coach to help the Executives to ensure that the people appointed have the appropriate level of knowledge, experience and motivation to successfully perform the role.
- The bank needs to develop managerial skills in:
 - The creation, delivery and use of strategic and management information (financial and non-financial),
 - Key customer management,
 - Strategic/operational planning and implementation,
 - Problem solving, process value analysis, and performance management,
 - Marketing, and
 - Benchmarking particularly distribution/delivery and marketing system

Based on the above findings, according to the respondents, the Bank has decided to carryout the change in line with the recommendations of CAP. Two strategic options were taken up.

1. The first one was a management contract. International bid was floated; and a few number of Banks participated in the bid. Even though the Bank had awarded the job to one Indian Bank, the deal was not finalized due to some technical problems - as per the interview response.
2. Next, the bank switched to use consultancy service. As a result a two-year contract has been signed with Bank of Scotland and Ireland, commenced May 2003. Hence, it has been working with the consultants; and now it is at the verge of the contract termination period.

We can see from the above that the ultimate aim of the contract is capacity building. In the course of working with the consultants, it is expected that the management will benefit from a skill transfer. Looking into the actual process, still, this does not seem to be met. The Bank's modality in this respect is:

1. Project Implementation Office was formed so that it can liaison the consultants.
2. Supervisors at the middle level management have been assigned as a counterpart.
3. A counterpart team was formed in each module; that will scrutinize the proposals forwarded by the consultants before implementation decision has been passed. They are responsible for checking whether the proposition is applicable in the Ethiopian context.

As the result, at the end of the project, the recommendation of the consulting firm will be attained; and the existing management and the counterpart members will insure its sustainability, as the result of skill transfer.

The facts, however, do not reflect the like flow. We have seen in the analysis, in each section, that even though much of the recommendations have been acted upon in the last two years, after the consultants has taken office, un acted parts are few in number; but are quite crystal ones in their strategic implications to the bank.

Thus we can say that the Bank's strategy in this respect is not making full achievement of the proposed. Simply looking at the points listed above one can tell about status effectuation.

Recommendation of the Earnest & Young consultants was to implement its recommendations in either of the two ways. The first option is to have an external management that can handle the implementation of the recommended changes.

4. Conclusion and Recommendations

4.1. Conclusion

Based on the discussions in the body of the paper i.e. from the conceptual discussions in the literature review; from the consideration about the project implementation attempts, based on the recommendations of the TAF; from the plan-performance comparison of the execution endeavors on CAP proposals; and supplemented by interview of key executives of the Bank; the following conclusions are drawn.

- A. The Bank has failed to identify adequately key success factor areas for its project implementation and to prioritize them. As the result it has thinned its efforts to change; from what Romanelli and Tushman (1994) termed 'a radical change' into 'incremental change', which does not help to uproot the problems. We can see this from the following facts.
 - i. Among the modules recommended by Earnest & Young (2000), the bank has put aside the management capabilities module. As presented in the implementation modality section, it has suggested a number of alternative actions that can curb the capacity problem of the Bank. But none of them have been attempted to carry out and no report is filed on it.
 - ii. The implementation modality shows that the intended change is to happen by the help of a consultancy service that will be backed by the counterpart teams, which mainly came from the middle and supervisory level managers. In contrast the management capacity building has been intended to be carried out through skill transfer in the due course. Then it is not clear how the skill transfer is to accommodate the senior

management the key decision makers. Just to mention one, the development of performance measures has been interrupted after Organizational and Branch Performances Measures were finalized. But the Product Profitability, Client Profitability and Account Profitability measures are out of the track; for the consultant who started it has left and has been replaced by another. No effort to complete these issues is there, telling us the weakness of the skill transfer process.

- iii. Moreover, the poor emphasis placed on overcoming IT problems is other main evidence that the bank is not doing proper in priority areas. For instance, the 2GB problem is a problem that has been identified before CAP has been initiated. But still it is an outstanding issue even after the Bank is claiming to have implemented recommendations of the project. Resolving this problem would have paved a way for the creation of integrated information; the networking of branches; the creation of MIS database etc. all would have been facilitated. For a Bank visioning to become World-Class Bank, excellence in IT is mandatory issue and has to be in the priority agenda, which is not the case here.
- iv. We can even easily observe that from its new products introduced. In recent years it has begun new non-interest bearing saving account. For a bank in a surfeit of liquidity, introducing a deposit account by no means is a priority; where it has been able to work in the area of income generating products.

B. Many literatures suggest that organizational change of radical one need to have motivated and inspired change agents. For instance Backhard (1969), Tailor and Singer (1983) suggest; a combination of an executive who wields real power, an internal agent who is respected and an external change agent with a capability of raising sensitive issues; as fundamental for the successful

implementation of change. Looking into the CBE's case in this line, we come across the following:

- i. The Project Implementation Office has been established but mainly with assignment of coordinating and liaison tasks, where, as such fully committed change agent with the appropriate level of authority is needed.
- ii. Its heading level, as seen in the organization's tier, is not at an executive level which shows no real power for decision concerning implementation matters.
- iii. It would have been appropriate to establish a project implementation office to be led by a fulltime executive level management as had been recommended by the CAP.

C. Another area of concern here is speed in decision making. Murray and Richardson (2003) have indicated three principles for effective implementation of change; of which include speed and momentum in decision-making. In most instances indecision situation is reported to be too slow. Especially such matters as the development of policies, procedures, strategies and guidelines take long time to be cleared off from the executives' table or conference room. For instance a number of reports showed that marketing has made studies on new product and forwarded for approval. But no product has been introduced so far; except for the two new accounts.

D. Looking into individual module implementation, we can see the level of attainment differ from module to module. A better performance has been reflected in the Credit and Risk Management, and Accounting and Financial Management. The HR and IT are the areas where there is no substantial progress. The following may highlight the facts.

- i. the better performance in credit, in terms of policy and procedure development, organizational realignment, improving the quality of loans probably is attributable to BPR handled side by side with the project implementation
- ii. In all the modules, there are areas where the recommendations are not implemented. This include:
 - a. Introducing risk based pricing
 - b. Creating integrated cross functional information
 - c. Market segmentation and cross-selling
 - d. New product introduction, like credit card, POS etc
 - e. Employee performance management system changes
 - f. Development of HR policy
 - g. Development of IT strategy, technological structure, and data structure,
 - h. Development of IT control system and disaster recovery plan
 - i. Networking

These are few in number, as compared to the number of items in the performed list. However, they are essential in each area to bring about fundamental change.

- E. The Bank suffers from a surfeit of initiatives Earnest & Young (2000). This is true to date. Before it has even tried half way of the implementation effort of its 'migration' to the recommended target models of CAP, it initiated another new project BPR. Such an attempt usually entails lack of focus in important areas leading to hamper the effectiveness of the initiatives.

F. It has started a strategic planning process different from its old day practice. One of the strongest recommendations of the CAP used to be to go into standard strategic planning process. The bank has made progress in the area and has drawn a strategic plan for three years covered 2002/03 to 2004/05. As this plan period is to lapse, another five years plan has been drawn covering 2005/06 to 2010/11. However, important consideration here will be how to convert it in to action plan and its monitoring where always the bank was in shortfall; yet to be seen.

G. Executive management of the bank has little or no exposure to international standard banking practice and technology utilization; despite the CAP suggested facilitating such an exposure. The Bank has paid no attention to that. During interview, I have encountered an executive who never has been exposed, even haven't traveled, to foreign. This is a pitfall if the Bank is to become World Class.

All in all, the change insight has still to march a lot; before it reaches those changes that have been articulated in the referred documents.

4.2. Recommendations

Winning accomplishment of change of strategic features calls for firm and integrated move with full commitment at the top level of corporate management. The findings outlined in this project showed that the banks implementation effort lacks a number of important concerns of effective execution. Base on the findings of this project, the following specific recommendations are forwarded.

1. **Focus on key priority areas:** the bank has to work on its priority areas i.e. to give priority to the key aspects that have strategic features and

which are the bottleneck for successful implementation. But the bank put so many efforts at a given single time without sufficient prioritization. Five years back, one of the comments of Earnest & Young is related to this issue, that the bank suffers from surfeit of initiatives. This trend has continued to date. On one hand it is implementing the CAP recommendations through consultancy and Project Implementation Office. On the other hand, Transformation Office is working on business process reengineering. Such effort leads to duplication of efforts and even to conflicting results. For instance, the IT problems, 2GB issue, that warrant a top level priority is not resolved until now. Thus the bank needs to harness it by adequately prioritizing its key issues of strategic nature.

2. **Enhance the change in IT:** the problem of server capacity, the so called 2GB problem, has been a long lasted issue. This is at the heart of the bottleneck problems the bank is facing in implementing changes of strategy nature. Plans like creation of integrated dbase, networking, streamlining of operations are unimaginable without having adequate IT. Thus resolving this problem is of high order. It is known that the Bank is in a process of acquiring a new system and thus to expedite its process at metro-speed is vitally recommended.
3. **Reestablish and refocus the project implementation office:** one of the factors for a dedicated execution of changes is to have inspired internal agent and dedicative executive. it will be worthwhile to have a separate office with full responsibility and adequate level of authority to undertake all changes. Now, two offices, Project Implementation and Transformation offices are operating independently. Such split activities hamper coordination and synergy. Thus realignment of the office with a high profile head and decision power will help a synchronized effecting of changes of strategic in nature.

4. **Improving decision process:** in most cases, it has been observed that the management decision process takes long time, especially in areas of development of policy and procedure. In today's dynamic and competitive environment, delay in decision making is unaffordable. Thus, it is high time that the existing weak system is replaced by an efficient decision making process through delegation, empowerment in order to free the executive management from routine tasks and allow them to focus on strategic issue.
5. **Make implementation audit; identify and refocus on change:** in all the modules there are strategic dimension issues – such as introducing risk based pricing, creating integrated management information, developing IT strategy, technology strategy etc. – which are not fully implemented. Hence the bank needs to make module implementation audit so that it can refocus and act on those matters of strategic importance.
6. **Ensure sustainable implementation:** unless changes that took place are institutionalized and continuity ensured, it will be difficult to sustain them. So the bank has to institutionalize newly implemented processes. It has to think of the mechanism to insure continuity for whatever change has taken place.
7. **Building Management capacity:** The professional competency of executive level managers is indispensable for the success of a given business. In an environment like ours, exposures to international business practice - beyond a theory - do have paramount importance. The bank has to refocus its attempt of management capacity building. The recommendations of Ernst & Young, which the bank failed to pursue, are worth reconsidering. Equally, emphasis has to be placed on the

management succession plan. This doesn't seem to prevail at present and this amounts to easily 'throwing away' the Bank's potential staff.

8. **Develop adequate feedback system:** an efficient feedback system that allows timely corrective measures is one of the preconditions for successful attainment of intended goals. In project implementation not only the feedback on weaknesses but also fast remedial solutions should be developed.
9. **Enhance the strategic planning process:** one of the recommendations of CAP was to bring strategic thinking in the planning process. Accordingly the bank has started strategic planning with a better focus in relating it to the bank's vision and mission. This has to be enhanced through adequate process for operational planning and budgeting process. So the initiative has to be reinforced.
10. **Special concern for HR matters is given:** in most of the literatures people aspect of any change is taken as the crystal of success i.e. winning the heart and mind of the employees is at the center of getting intentions of change done. In the case company, however, HR related changes are at the lowest echelon. In addition, the attitude survey made by BoSI showed that the culture of the bank is not at a plus. Thus the bank has to focus on the implementation of HR changes underway in accelerated manner. Currently the staff resignation rate is on the higher side attributable to more competitive market and the bank's failure to react on time to the competitors moves in this matter¹⁷. Thus, the Bank has to make changes in its HR function as urgently as possible.

¹⁷ The last sentence is from the writer's personal observation and words of mouth, i.e. it is not substantiated by empirical evidence.

Implementing the above recommendations and make them reality than mere wish would require, among other things, willpower and dedication of the Bank's executives and the Board of Management.

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Annex - I

ADDIS ABABA UNIVERSITY
Faculty of Business and Economics
Masters in Business Administration (MBA)

Questions for a Semi-structured Interview

These questions are set by Sime G/Selassie, a staff of CBE, enrolled in a post-graduate study at AAU for Masters of Business Administration (MBA) degree.

As part of my graduation project, I'm studying a case on **Effecting/Implementing Strategic Change**. To this end, I'm to conduct an interview with you; and hence longing for your cooperation. I hope the findings of the project will be of great help to the Bank too in future courses of action.

Thus, I will be grateful if you allow me to spend a few times with you for this purpose. I can meet you at your office at any time convenient to you. Main points, which I want you to focus on during our discussion, are the following.

1. to what extent marketing and product development activities of the bank has been developed in terms of:
 - a. establishing customer-driven marketing,
 - b. maintaining market share
 - c. new product development
 - d. developing marketing policies and strategies
 - e. creating marketing information database
 - f. market segmentations
 - g. product pricing
 - h. Marketing research
 - i. Diversifying channels of distribution
 - j. Promotional activities
 - k. Organizational realignment

2. Credit functions. How do you describe:
 - a. Changes that have taken place in last five years in the following areas?
 - ⇒ Policy procedure and strategy development and implementation
 - ⇒ Credit information system
 - ⇒ Credit assessment
 - ⇒ Loan monitoring
 - ⇒ NPL management
 - ⇒ Credit risk management
 - b. change in organizational structure
 - c. technological support
 - d. in human resource aspects
 - e. the implementation in terms of planning, responsibilities
 - f. how do you express the level of implementation and attainment of study findings

3. how do you explain changes in information technology at a strategic level
 - a. IT strategy development
 - b. an integrated database establishment
 - c. Networking
 - d. Staff development
 - e. Creating MIS
 - f. IT process and control, disaster recovery planning, project management methodology
 - g. Technological selection
 - h. Organizational re-alignment
 - i. The level of achievement in the above areas

4. Financial management and accounting system. How do you describe:
 - a. Changes in Accounting and finance functions;
 - i. create complete functional financial information system, ensuring data integrity, effective measurement process
 - ii. adopting internationally accepted accounting standards
 - iii. redesign policy and procedure
 - iv. change in functional areas
 - v. business performance measurement
 - vi. Change in planning and budgeting system
 - vii. Technology support
 - b. Change in Treasury function
 - i. Strategic planning
 - ii. Process improvement
 - iii. Risk management (liquidity, interest rate and foreign exchange)
 - iv. Staff skill development


5. The change in management capability in terms of:
 - a. strategic planning process
 - b. employee commitment management
 - c. change in the management system
 - i. management development
 - ii. managerial skill and competence developing
 - d. policy, procedures fit to strategy
 - e. structural adjustment
 - f. overall change implementation modalities followed

6. to change the internal control system to:
 - a. change in IC policies and procedures
 - b. developing control culture,
 - i. formulating code of conduct
 - ii. communication and staff education
 - c. independence in auditing
 - d. improvement in internal control and inspection process
 - i. in planning
 - ii. risk based audit techniques
 - e. control over EDP

7. change in HRM
 - a. changes in HR policies and functions
 - b. the level of accepting responsibility and accountability
 - c. selection and promotion process
 - d. change program management
 - e. delegation of authority
 - f. performance management system
 - g. technological support
 - h. employee relations

8. branch network development

MANY THANKS



SUMMARY OF STRATEGIC CHANGE INITIATIVES & ITS IMPLEMENTATION STATUS (BASED ON TASK FORCE REPORT ON AND OTHER EVIDENCES)

Following dynamic transformation of the Ethiopian economy from command to market economy, the Bank has undergone various changes. Accordingly it has conducted a number of studies and has implemented new strategies to cope-up with the dynamics of the change. Thus the following tabular summary presents the main areas of concern of the change attempt, problems identified, and their implementation status. The following fundamental points were taken as the reference for the initiation and development of new strategy of the Bank¹⁸:

1. The Banking Business Proclamation (Proclamation No. 84/1994) has created favorable environment both for emergence of private banks and eminent reorganization of the financial sector as a whole along the principles of Universal Banking,
2. To be able to tap the lion's share of the rapidly evolving market system that engenders increased and changed banking service,
3. To develop the requisite vision and strategy which goes hand-in-hand with the dynamism resulting from economic policy change,
4. The existing system of the Bank is much more far from the desired level to support the envisaged business,
5. Being aware of the disreputable existing salary system which disadvantaged the core staff of the Bank which is responsible for the productivity of the bank,
6. Lack of autonomy with regard to sanctioning credit,
7. Need to strengthen its domestic base with the objective of commanding a competitive edge including branching out to external market including PTA and other sub-region.

Based on the above elements, the Bank has initiated studies to address the following:

¹⁸ Strategy to enhance the competitiveness of the CBE, synthesis of the Task Force report, unpublished

1. Assessment of the existing operational performance of CBE, both domestic as well as international, its strengths and weaknesses, the external and internal problems and the initiatives it has taken to solve them,
2. Review of the implications of changing economic environment on the business purpose and activities of the CBE, the challenges and opportunities the new environment creates and the changes that the Bank must undergo to positively respond to the requirements of the emerging environment
3. Assess the responsiveness of existing resources, viz, human, material, technical (information), financial, and organizational to deliver the requisite services in and increasingly competitive environment.

Triggered by the profoundly dynamic environmental change, the Bank has conducted a study to take in hand strategic redefinition and operational review study that addressed; assessment of existing operational performance, strengths and weakness, changing economic environment, opportunities and challenges it posed, and the responsiveness of the existing system. To this end the Bank has studied seven task areas and accordingly organized six task forces: Marketing and Product Development, Credit and Risk Management, Banking Operations, Accounting and Financial Management Practice, Human Resource Management and Information Systems. The following summary is based on this study and the subsequent review and appraisal of comprehensive audit project report conducted by Earnest & Young.

The bank has developed the following strategic change elements with the objectives, goals and strategies of: customer driven marketing philosophy; for enhancing corporate mission and objectives of the Bank; creation of marketing organization with importance marketing; instill excellence in service; importance of maintaining market share, attaining growth and utilizing capacity.

Issue	Problem	Decision (Recommendations of TAFs)	Status of Implementation	Limitations
<p>⇒ Marketing & product development customer driven marketing effort; maintain market share; diversification in new products and markets; leadership in product and service development</p>	<p>Objective: Goals: New product development</p> <ul style="list-style-type: none"> ⇒ Develop new product & service ⇒ Provide card banking, ATM, POS, night safe deposit, roving cash collection, cash management service(1996-2001) ⇒ Enter into investment banking and merchant banking(1996-2001) ⇒ Attain 95% customer satisfaction rate by the year 2001 ⇒ Establish standard for product and service delivery (1996-98) ⇒ Produce customer service policy and guideline (1996-97) ⇒ Maintain 90% market share in each main product (1996-2001) ⇒ Presence in bankable urban and rural sites <p>Strategies:</p> <ul style="list-style-type: none"> ⇒ Assess, identify and understand customer 	<p>Recommendations: Marketing strategy and competition:</p> <ul style="list-style-type: none"> ⇒ Acquire the requisite technology; design a flexible system and tailor made products; price products competitively; develop alternative channel of distribution; ⇒ develop external environment intelligence system; remove barriers to credit; develop new products; ⇒ allocate sufficient R&D budget; <p>⇒ Product development: study the Bank's services, including rendered for free, re-examine pricing of such product; identify the cash-cows, the rising-suns and problem children products; assign adequate R&D fund for research on new products; reintroduce discontinued products based on demand; encourage the use of checks</p> <p>⇒ Marketing channel: use ATM in Addis and big cities, join SWIFT system; consider mobile banks for deposit and collection activities; set special office and home cash service for big customers, dedicated cage for corporate customers, start drive by windows; make use of active selling</p>	<p>New product development & developing alternative channels of distribution:</p> <ul style="list-style-type: none"> ⇒ project for card banking and ATM project was started in 1998; ⇒ various implementation actions were taken until it was halted for synchronizing it with CAP, and; hardware was purchased in 2001 ⇒ feasibility stud on new products was conducted but not implemented ⇒ study on price revision was conducted in years 1999 & 2000, but not implemented ⇒ Opening ForEx bureau, ⇒ Feasibility studies on new branch opening were undertaken in years 1998 to2001 and partly implemented 	<ul style="list-style-type: none"> ⇒ most are limited to a study level, ⇒ with regard to curtail strategic recommendation like goals of roving cash collection, night safe depository, entering into investment banking, merchant banking, and, no action has been reported

<p>needs</p> <ul style="list-style-type: none"> ⇒ Develop marketing information system to enable the provision of tailor-made products and services ⇒ Segment the market ⇒ Review continuously and modify existing products ⇒ Develop human resource commitment to excellence in serving customer ⇒ Provide high quality product and service ⇒ Aggressively promote products service and the bank ⇒ Price product and service competitively ⇒ Improve service efficiency through use of modern IT ⇒ Monitor the market and competitors' through internal intelligence ⇒ Develop and implement new policies ⇒ Conduct continuous aggressive market research ⇒ Develop new IT 	<p>Segmentation:</p> <ul style="list-style-type: none"> ⇒ Market organization: bring all marketing activities under one functional organ; structure marketing responsible to high level management with further stratification, promotion, marketing research, product development, and customer service ⇒ start segmenting using broad parameters; conduct further research to streamline the process; and rework organizational design to reflect purpose of segmentation ⇒ Pricing Strategy: lower rate to golden customers; update cost structure of every product and compare with the industry; compare profit to cost, the EBE price with competitors – in synchronization with long-term objective; take special and specific price measures ⇒ Market orientation, training and customer service: formulate marketing philosophy; train employee, assign employees at the counter based on merits, recruit new potential employee, re-examine the existing products mix and fitness, make customer service survey , establish compliant handling system ⇒ Service quality management: establish current quality level; 	<p>market segmentation and differentiation:</p> <ul style="list-style-type: none"> ⇒ branch re-grading study was conducted, but not implemented ⇒ corporate customer service system at city branches was introduced, ⇒ study on differentiated interest rate use for both deposit and loans were done but not implemented <p>customer service:</p> <ul style="list-style-type: none"> ⇒ study on extending service hour to 5pm was conducted, ⇒ to improve service quality, various trainings were planned and conducted, employee marketing handbook was prepared and distributed ⇒ design and implement tailor-made services to corporate customers, ⇒ survey on customer waiting line was conduct 	<ul style="list-style-type: none"> ⇒ apart from study no tangible implementation has been achieved and reported ⇒ the same trend here also; apart from trainings the rest are limited to study
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	<ul style="list-style-type: none"> ⇒ Identify locations and customers with high potential for new products & design for phased implementation ⇒ Promote the new product and service aggressively ⇒ Expand branches and other channels in unbanked areas ⇒ Conduct feasibility study to identify bankable sites and design phased implementation of branch expansion ⇒ Identify locations with high potential for ATM and mobile bank services ⇒ Allocate sufficient R&D budget ⇒ Develop highly qualified R&D staff ⇒ Strengthen marketing database 	<p>establish target quality standards and goals</p> <p>⇒ Promotion: set promotional goals derived from corporate marketing objectives; continuous update information on promotion; budget must be based on the variables it is intended to influence; carryout continuous promotional impact assessment</p> <p>⇒ Marketing audit: measure performance against strategic goals set; evaluate goals and performance for consistency, practicability etc.</p>	<p>⇒ establish quality circle</p> <p>promotion:</p> <p>⇒ various promotional activities were planned and implemented, especially in year 2000; foreign banking promotion, customer training, awareness creation on foreclosure law, standardise and install branch names, corporate video project, conduct periodic mystery shopping prepare/renovate billboards, revise promotional guideline, improve desktop and giveaway materials</p>	<p>⇒ promotional activities are reported but no major elements of the recommendations are taken care of</p>
Credit and Risk Management	RECOMMENDATION			
	<p>Objective</p> <ul style="list-style-type: none"> ⇒ improve the quality of credit assessment ⇒ healthy asset growth and industry standard loan /deposit ratio 	<p>Asset Expansion and Composition:</p> <ul style="list-style-type: none"> ⇒ slow pace until capacity catches-up; concentrate on areas of expertise and capacity; ⇒ create credit ceiling for every budget year monitor fast expansion 	<p>Improving Quality of Credit Portfolio:</p> <ul style="list-style-type: none"> ⇒ establish STF for resolving NPL; implement foreclosure law ⇒ implement loan review and follow-up system 	<p>⇒ the reports indicate that the actions during the period has concentrated on improving the</p>

<p>⇒ balanced credit risk exposure</p> <p>Goals</p> <p>⇒ loans and advances growth of 25% (1996-2001); loan deposit ratio of 75%; limit in the next three years CBE's exposure against its free capital, legal reserves and unencountered reserve to: one co. up to 20% one group up to 50%, one industry up to 100%, related industry up to 500%, business segments up to 1000%, long-term loan upto 600%, contingent liabilities up to 2000%, unreserved credit 300% of its capital</p> <p>Strategies</p> <p>⇒ improve credit risk organization; introduce policy and procedures manual; implement credit information system</p> <p>⇒ slow pace of asset expansion until internal capacity</p>	<p>⇒ centres; create a healthy credit collection culture;</p> <p>⇒ discretionary lending limits: evaluate lender competence; discretion where appropriate; decentralize as competence build</p> <p>⇒ guideline for balanced credit risk exposure, workout flexible monitoring scheme; reduce proportion of overdrafts;</p> <p>⇒ guideline for handling workout loans; target collection through workout team, monitor performance; strong and motivated workout group;</p> <p>⇒ develop guideline; introduce comprehensive credit information system; improve credit analysis; institute credit rating; increase appraisal capacity</p> <p>⇒ quarterly provisioning based on credit scoring; loan loss reserve to acceptable standard; more aggressive collection on written off loans; interest realization based on credit scoring; liaison freehand in book write off; contract out collection</p> <p>⇒ expand credit product; increase lending capacity; cut savings; strengthen long-term lending ability; lobby for capital market</p>	<p>⇒ monitor credit decision points as to their contribution to NPL</p> <p>⇒ control of discretionary lending limit and credit portfolio quality</p> <p>⇒ develop strategy for handling acquired property; prepare and implement collection and follow up guideline; implement insurance and risk management manual</p> <p>⇒ prepare monthly return on NPL</p> <p>⇒ consolidate write off cases and present for decision</p> <p>Developing Policy and Procedure</p> <p>⇒ develop policy and procedure manual; develop customer classification based on risk; prepare insurance manual; develop policy and procedure manual for OD; conducted work shop on policy and procedure manual</p> <p>⇒ prepare write off policy and procedure manual</p> <p>product and process improvement</p> <p>⇒ apply differentiated interest rate on loans; improve loan processing time and quality of credit at all levels of approval</p> <p>⇒ design and implement credit information system</p> <p>⇒ redesign monthly return formats</p>	<p>⇒ quality of loans</p> <p>⇒ no indication on the attempt of relating the</p>
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	<ul style="list-style-type: none"> ⇒ catches up ⇒ expand credit product offering ⇒ aggressive training of lending personnel ⇒ establish competitive rates ⇒ reduce overdrafts as a percent of total outstanding ⇒ design a system and assign responsibility of monitoring loan/deposit ratio to PPDD 	<ul style="list-style-type: none"> launch ⇒ develop documented regular client call/contact, document discussion; follow up regularly ⇒ improve collateral appraisal; improve staff strength and qualification; develop capability for analysis; hire consultants ⇒ report exposure at least quarterly; avoid undue risk concentration; limit concentration as % of capital ⇒ credit risk management organization: based on product line and industry: establish chief credit officer position, industry profile assessment organ; draw relationship and accountability guidelines; set-up directors' and officer' loan committee 	<ul style="list-style-type: none"> ⇒ assign credit analysts per HR plan ⇒ design bank wide credit information system ⇒ conduct market segmentation 	
Banking Operations	<p>Objectives</p> <ul style="list-style-type: none"> ⇒ improve service quality ⇒ provide sufficient service ⇒ provide technology driven service <p>Goals</p> <ul style="list-style-type: none"> ⇒ deliver products recognized as a quality in the industry ⇒ reduce waiting time 30-50% with out IT, up to 90% with IT (996-2001) ⇒ improve cost and 	<p>Policy recommendations</p> <ul style="list-style-type: none"> ⇒ inactive account less than 500 should be charged and closed if less than 100 ⇒ raise initial deposit of saving accounts to 100 subsequent minimum deposit of 20; no interest will be paid on balances under 100 ⇒ withdrawals over twice a month should be charged <p>General Recommendations</p> <ul style="list-style-type: none"> ⇒ relive branch managers from daily routines for managerial duties ⇒ opening of account be handled by one senior staff 	<ul style="list-style-type: none"> ⇒ rollout reengineering to networked branches was planned but delayed due to IT problems ⇒ operations manual for domestic banking was developed with the reengineering framework and draft was presented to EMC for deliberation; it was not approved, for IBD not done ⇒ extension of service hours was planned but not implemented for delay in reengineering and manpower shortage ⇒ provide foreign banking service to all city branches was planned but not implemented for NBE directive 	<ul style="list-style-type: none"> ⇒ more of the specific recommendations does not reflect the incorporation of strategic objectives of the bank in this area ⇒ the implementation issues too do not reflect actions to implement the either the

	<p>efficiency of product delivery (1996-2001)</p> <p>Strategies</p> <ul style="list-style-type: none"> ⇒ introduce ISO-9001 service quality guidelines ⇒ streamline the service process continuously (1996-2001) ⇒ spot with employee participation steps that have no contribution to the value chain ⇒ managers report non-value adding process steps; O & M evaluate and report implications of cutting ⇒ implement new operation policy(1996) ⇒ develop operational policy for new products(1996) ⇒ develop service procedures manual (1996-97) ⇒ introduce IT (1996) ⇒ integrate operations review studies with IT system project (1996) strengthen fraud control and introduce fidelity insurance scheme 	<ul style="list-style-type: none"> ⇒ eliminate two signature system on transfers ⇒ lift pre-audit requirement for less than 10,000 ⇒ revise the identification system ⇒ review control directives ⇒ consolidate operational manuals ⇒ revise working hours; the cash hour to 4pm ⇒ counter service must be given by senior staff ⇒ staff performance control must be intensified ⇒ assign job oriented managers ⇒ resolve branches' space problem; revise office layouts ⇒ improve working condition and increase efficiency ⇒ supply branches with modern office furniture ⇒ waive the new draft coding procedure ⇒ replace old office equipment with new 	<ul style="list-style-type: none"> ⇒ availing processing machines to participating merchants in smart cards, but not done for as the products were not introduced ⇒ to improve customer service, trainings on marketing, banking, were planned and conducted; customer feedbacks were processed and communicated for improvement ⇒ introducing L/C processing in 24 hrs was planned but not implemented for IT delays ⇒ introducing tailor-made service to corporate customers in city branches was planned and pilot project has been carried out ⇒ conduct quarterly meetings operating organs (conducted 99) 	<p>specific recommendations or strategic directions</p>
<p>Accounting & Financial</p>	<p>Objective</p> <ul style="list-style-type: none"> ⇒ Profitability: healthy 	<p>Recommendations</p> <ul style="list-style-type: none"> ⇒ budgeting and internal reporting: 	<ul style="list-style-type: none"> ⇒ asset and liability management policy and procedure was partially 	<ul style="list-style-type: none"> ⇒ we can see that most of the

<p>Management</p>	<p>net profit; industry standard ROA,ROE; acceptable interest margin; industry standard overhead ratio</p> <p>⇒ Liquidity: acceptable quick asset/deposit ratio</p> <p>⇒ capital adequacy ratio: industry standard capital; acceptable adjusted capital/ TA, to contingent liability ratio, loan loss provision; improve CBE's credit standing</p>	<p>approve budget manual include amendments, improve structure, use recommended budget calendar; environmental assessment of strategic indicators; adequate training on budgeting; no budget alteration, without consultation; management commitment to budget system; periodic progress report, and feedback; improve operating formats;</p> <p>⇒ financial management:</p> <p>i. fund management; centralize treasury activities; periodic review of non-interest bearing inactive accounts; control cash FCY determine optimum shipment based on cost benefit; maintain position book, treat FCY on hand separately, keep separate account for cash cover account; competitive interest rate on foreign deposit; review interest rate on non-resident account;</p> <p>ii. asset and liability management; capital adequacy reporting, implication of investments; lobby for profit plough-back of profit; regulate level of new deposits; remove barriers to credit; introduce new loan scheme; look for new investment opportunities; computerize IS; lobby for relaxation of directives; practice matching of</p>	<p>developed</p> <p>⇒ preparing insurance and risk mgt manual and presented for deliberation</p> <p>⇒ prepare nationwide inter-bank clearing system had been launched</p> <p>⇒ treasury and budget control manuals were drafted but decided to outsource it</p> <p>⇒ redesign return formats but postponed for other priority</p> <p>⇒ tag fixed asset in city branches and HO but not done</p> <p>⇒ preparation of fixed asset, foreign treasury, and cost management manuals but directed to be done by external consultants after the internal drafts has been reviewed</p>	<p>reports doesn't reflect the objectives, goals and strategies and recommendations</p> <p>⇒ the reflected points of development of manuals have been limited to a draft level i.e. are not put in place</p>
<p>Goal</p>	<p>⇒ annual net profit growth; ROA; ROE; interest margin; overhead ratio</p> <p>⇒ meet NBE minimum liquidity requirement</p> <p>⇒ B/RWA capital of 8% (2001); adjusted capital/TA of 12% by 2001; loan loss provision of up to 1% (2001); improve credit standing in 1-10 scales from 1-5</p>			

	<p>Strategy</p> <ul style="list-style-type: none"> ⇒ establish financial budgeting, feedback and control mechanism ⇒ establish asset-liability committee; effectively communicate these goals to branches ⇒ attain the BIS capital requirement; ⇒ workout flexible plan to achieve desired capital ratios; ⇒ provide quality loans; improved LLP and write offs ⇒ design international campaign to improve CBE's image 	<p>market for liquidity mismatch; keep eyes on maturity structure of assets and liabilities, when interest rate change is expected;</p> <p>iii. other issues; estimate cost of fund to determine spread competitively; price of deposit be based on competition; find alternative outlets, promote development of capital market</p> <p>⇒ external reporting practice: cost centre own asset registry; replace change in financial position with cash flow statement; evaluate performance by line of service and product, use subsidiary ledgers; revise chart of accounts</p> <p>⇒ external reporting: improve external reporting system like centralised asset registry; cash flow statement is preferred than change in financial position; chart of accounts does not allow accumulation of direct costs; some unduly merged accounts exist; delays in monthly report is being observed</p>		
	<p>Human Resource Management</p>			
	<p>Objective</p> <ul style="list-style-type: none"> ⇒ make CBE one of the best employer in the industry; ⇒ have quality work force ⇒ have motivated staff 	<p>Recommendation</p> <ul style="list-style-type: none"> ⇒ personnel policy and practice: reduce and streamline committee function; use examination and interview for selection; emphasise on interview than GPA; upgrade system to promote ablest candidate; 	<ul style="list-style-type: none"> ⇒ to improve service quality, various staff training on customer service, marketing, customer feedback handling, has been carried out, ⇒ human resource development such as, various training, develop internal capability in collaboration 	

	<p>⇒ favourable management-labour relationship</p> <p>Goals</p> <p>⇒ improve quality of work life; efficient utilization of human resource</p> <p>⇒ Recruit and select the best candidates; Train; develop</p> <p>⇒ Competitive pay level; recognize reward meritorious employee</p> <p>⇒ Maintain a healthy labour management agreement</p> <p>Strategies</p> <p>⇒ improve working conditions; use career planning ; schedule leave; reduce attrition rate and absenteeism; modify, structure planning, transfer and promotion systems; establish HR data base; upgrade health service; establish management success</p> <p>⇒ Modify recruitment & selection; training...</p> <p>⇒ install a salary scale</p>	<p>revise terms of service in one location; forfeit salary increment for demoted employees; schedule leave; review the performance appraisal system and train the evaluators; design clear personnel policy and procedure</p> <p>⇒ HR profile: reduce ratio of non-clerical; improve skill and gender mix;</p> <p>⇒ manpower planning: link with strategic planning and revise the process; design succession scheme; revise terms of service, encourage local employment to reduce mobility; strengthen existing HR information system</p> <p>⇒ training 7 development: improve need identification; design appropriate curriculum; establish full-fledged training institute and upgrade the unit; design training evaluation system, focus on impact assessment; link it with reward; managers be committed for training; provide scholarship and experience sharing foreign visit programs</p> <p>⇒ adopt salary scale; performance based bonus and salary increase; review other benefits</p> <p>⇒ working condition and relation: improve work place; negotiate new agreement; establish labour relations office</p>	<p>with EIBI and EMI had been conducted</p> <p>⇒ training on banking and management development has been conducted in collaboration with City Bank</p> <p>⇒ various recruitment programs has been planned and conducted for university and college graduates</p> <p>⇒ HR policy manual & employee benefit policy and procurement policy has been drafted in 1998 and reworked based on input from BOM but has not been finalized until end of fiscal year 2000</p> <p>⇒ Job description and specification has been drafted in year 2000</p> <p>⇒ Developed and implement employee succession plan and career development submitted to BOM</p> <p>⇒ Revise branch's building standard and was not carried out for not knowing who has initiated it</p> <p>⇒ Credit monitoring officers has been assigned to district and regional office</p> <p>⇒ Planned to draw HR strategy for five year and HR & skill inventory is carried out and</p> <p>⇒ HR and training annual plan and for the coming three.</p> <p>⇒ Gap analysis on job requirement vis-à-vis the qualification of job holders</p>	
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	<p>develop performance evaluation system; train evaluators; develop appropriate benefit packages</p> <p>⇒ negotiate new collective agreement, consultation program; employ labour relation officer; pursue participatory management</p>	<p>⇒ culture and work value: encourage power exercise and authority delegation; allow flexibility, adaptability to changing environment; encourage participatory management and open communication; encourage values like punctuality, honesty, integrity, teamwork etc; promote interpersonal relationship</p> <p>⇒ efficiency rate: devise measurement system with justified parameters; improve the bank's capital</p>	<p>⇒ Survey on staff turnover and conducted and recommendation forwarded</p> <p>⇒ Construction & maintenance activities were planned to have establish adequate follow up and engineers were assigned to each project for supervision,</p> <p>⇒ Purchase and distribution of generators, vehicles and office equipment planned and conducted. However, strict adherence to plan was not observed</p> <p>⇒ Labour negotiations had been started</p>	
	<p>Management Information System</p>			
	<p>Objectives</p> <p>⇒ best and efficient delivery of customer service</p> <p>⇒ leadership in IT & MIS</p> <p>⇒ be efficient in keeping up-to-date information for decision support</p> <p>⇒ be the best bank having HR to handle the technology based information processing</p> <p>Goal</p> <p>⇒ introduce fully automated on-line real-time banking service</p> <p>⇒ continually upgrade IT</p>	<p>Recommendations</p> <p>⇒ General: automate customer related operation; implement automated delivery system; automate non-banking functions with PCs and of-the-shelf software; SWIFT and interface it with the banking system; review existing policy...define MIS for information support; set up IT department with qualified personnel, and train</p> <p>⇒ Specific(a) accounts & investment; use of PCs automation to process branch returns, avoid manual inputting of same; purchase of-the shelf budget control software; PC upgrading semi automated branches; streamline the work flow for efficiency; install current</p>	<p>IT projects implementation</p> <p>⇒ Implementation of bigger IT projects</p> <p>⇒ Implementation of additional features of Y-2K</p> <p>⇒ Develop project plan for bigger IT</p> <p>⇒ Select and hire IT manager</p> <p>⇒ Reengineer all computerise city branches</p> <p>⇒ Project mobilization to computerize city branches</p> <p>⇒ Install ATMS at eight branches</p> <p>⇒ Automate operations</p> <p>⇒ Make Djibouti branch y2k compliant</p> <p>⇒ Fully computerise six manual branches</p> <p>⇒ Semi automate branch saving</p>	

	<p>platform based on capacity</p> <p>⇒ establish data bank for financial and non-financial information; office work simplification</p> <p>⇒ maintain skilled and experienced HR</p> <p>Strategies</p> <p>⇒ phased automation of branches; membership to the SWIFT system; use PC and in-house developed banking software; balance between control and efficiency</p> <p>⇒ visit correspondent banks, assess new technology</p> <p>⇒ selection should address database requirement of the bank; automate non-financial task with in-house developed software; implement office automation system</p> <p>⇒ establish IT organ; in-depth and ongoing training and up keep knowledge; motivate</p>	<p>for efficiency; install current technology for IBD, develop in-house software or acquire it for correspondent account reconciliation; and for LC and guarantee database; (b) administration; establish computerised employee information; implement inventory management software on PC; (c)credit: establish comprehensive credit information database; acquire credit tracking software; (d) property administration; use project management software; computer based specification file; use inventory management software (e) legal service; use legal case tracking software; (f) control; look for availability of facilities with auditing through/ with computer; (g) planning & BDD; acquire forecasting software, and of-the-shelf software</p>	<p>accounts on standalone pc for city and outlying branches</p> <p>⇒ Rollout bank master to ten city branches</p> <p>⇒ Introduce card banking system</p> <p>⇒ Fully automate selected outlying branches</p> <p>⇒ Avail processing machines for smart cards</p> <p>⇒ Finalize the big IT project</p> <p>⇒ Rollout online system to all city branches</p> <p>⇒ Fully automate selected outlying branches</p> <p>database development</p> <p>⇒ Design and implement credit information system</p> <p>⇒ Redesign reporting format</p> <p>⇒ Automate head office operations</p>	
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Declaration

This project is my own original work, has not been presented for a degree in any other University and that all sources of material used for the project have been duly acknowledged.



Declared by
Sime G/Selassie

July 03, 2005



Confirmed By
A.D. Madhavi

July 03, 2005