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BUDGETING AS A MEANS OF MANANGMENT CONTROL SYSTEM: THE CASE OF ETHIOPIAN PRIVAET BANKS

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DECLARATION

I declare that, "**Budgeting as a Means of Management Control System: The Case of Ethiopian Private Bank**" is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

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ABSTRACT

Management control systems (MCS) include techniques and mechanisms which organizations use to pursue objectives, accomplish goals and successfully pursue strategies. One of the Management control systems techniques and mechanisms is budget. Budget help to integrate, motivate, support in decision making, communicate objectives, give feedback and so much more in the organization. The researcher studied on budgeting as a means of management control system: The Case of Ethiopian private bank. The objective of the study was to study whether budget serves as means of management control system in Ethiopian private banks. The descriptive research design was used. The data was collected using structured questionnaire from 122 respondents of the staff of 12 private commercial banks of Ethiopia. The data was analyzed using SPSS. The study overviews the overall budgeting process in light of Management control systems of the bank. The study revealed that Budgeting system of the banks have problems/challenges in aligned with its strategic objective, and helps to fine Tune the long term plan to annual plan, the budget indicates performance parameters in a clearly measurable way, Budgeting process insisted the communication & learning process of different business units, Budgeting not focus on cross-functional core processes rather than isolated departmental and business unit performance, there are multidimensional performance measurement systems, that Budgeted performance linked with rewards and compensation system of the banks, the budget target did not fully comply with some of the attribute that help to use for motivational purpose. Finally, the study recommended the banks strategies should influences the adoption and implementation of budgeting system of the banks, Business unit should be accountable which they have no direct Control to empower them to influence the behaviors of other with direct control, The budget should be interactive and flexible tool that are able to cope with new environmental scenarios which stimulating the employee commitment.

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ABBREVIATION/ACRONYMS

AB Awash Bank

BB Birhan International Bank

BIB Buna International Bank

BSC Balanced Score Card

BOA Bank of Abyssinia

CEO Chief Executive Officer

COOP Cooperative Bank Oromia

CIMA Certified Institute of Management Accountant

DGB Debub Global Bank

EB Enat Bank

EPS Earning Per Share

DB Dashen Bank

GDP Growth Domestic Product

LB Lion International Bank

NB Nib Bank

NBE National Bank of Ethiopia

NGO None Governmental Organization

OIB Oromia International Bank

ROE Return on Equity

UB United Bank

USD United States Dollar

WB Wogagen Bank

ZB Zemen Bank

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

According to K. Shim & G. Siegel (2005) a budget is defined as the formal expression of plans, goals, and objectives of management that covers all aspects of operations for a designated time period. The budget is a tool providing targets and direction. It is a financial plan to control future operations and results. It is expressed in numbers, such as dollars, units, pounds, hours, manpower, and so on. A budget may span any period of time. Short term budgets provide greater detail and specifics. Intermediate budgets examine the projects the company currently is undertaking and start the programs necessary to achieve long-term objectives. Long-term plans are very broad and may be translated into short-term plans. Budgets highlight the interaction of each business segment to the whole organization. For example, budgets are prepared for units within a department, such as product lines; for the department itself; for the division, which consists of a number of departments; and for the company.

Blocher, Stout, Cokins (2010) argue that an organization determines short-term objectives for the budget period based on strategic goals, long-term objectives and plans, operating results of past periods, and expected future operating and environmental factors including economic, industry, and marketing conditions. These objectives serve as the basis for preparing the master budget for a period. A master budget translates the organization's short-term objectives into action steps. The master budget is also a comprehensive financial summary of the organization's budgets. As such, it comprises both operating budgets and financial budgets. Operating budgets are plans that identify resources needed to implement strategic projects and to carry out budgeted activities such as sales and customer services, production, purchasing marketing, and research and development, and the acquisition of these resources. The set of operating budgets culminates in a budgeted income statement. Financial budgets identify sources and uses of funds for the budgeted operations, including strategic projects and initiatives. Financial budgets include the cash budget, budgeted statement of cash flows, the budgeted balance sheet, and the capital expenditures (including strategic expenditures) budget.

MCS is a system used in an organization which collects and uses information to evaluate the performance of the organizational resources that will eventually influence the behavior of the organization to implement organizational strategies. Management control systems (MCS) include techniques and mechanisms which organizations use to pursue objectives, accomplish goals and successfully pursue strategies. Management control systems help to integrate, motivate, support in decision making, communicate objectives, give feedback and so much more in the organization.

The central component or cornerstone of an MCS package in most organizations is the traditional fixed annual budget1 (Anthony and Govindarajan, 1998). Umapathy (1987, p. xxii) argues there is “no other managerial process that translates qualitative mission statements and corporate strategies into action plans, links the short-term with the long-term, brings together managers from different hierarchical levels and from different functional areas, and at the same time provides continuity by the sheer regularity of the process”. Budgets, though, are claimed to play useful roles in strategic planning, resource allocation, cost management, and performance management (De Waal *et al*., 2011) and in operational planning, performance evaluation, communication of goals, and strategy formation (Hansen and van der Stede, 2004).

Organizations should come up with effective budgeting systems in order to ensure that the outputs produced and services delivered achieve their set objectives. The firm has to put clear controls that ensure that the budget is well maintained and allocated as required and strictly followed so that variances can be explained and mitigated as much as possible. It is therefore very crucial that an organization should understand its budgeting systems as well as giving priority to urgent matters that require attention to firm’s control tools. There are numerous determinants that influence the effective implementation of budgets among organizations. Those determinants, according to Srinivasan (2005), include: availability of financial resources, skilled human resource, and participation of both staff and other stakeholders in the budgeting process, effective planning, evaluation, staff motivation, monitoring and control of the budget process. Some critics claim most organization budgeting system is ineffective. Designing and implementing budgeting system is difficult and complex in the strategic ambition management and rapidly changing business environment. For budget to be effective, it must be inter wined with the organization strategy and match the business condition the firm is facing so that they can be used as a near constant guide for employee action. Careful planning has to be done by management to prepare budget that would fit to their organizational need. In preparation of budget, organizations have to ensure the planning, control and coordination activities all met to have a successful and effective budget program. Companies' planning and budgeting systems vary considerably. Some are more formal than others. Some are more elaborate and time-consuming. And some require considerable top management involvement, while others operate more on a bottom-up, management by- exception basis. Certainly, there are many designs of effective planning and budgeting systems, but not all systems are equally effective, and some systems work better in certain settings such that company strategies, business environment and competition of rivalry.

Indeed, every organization needs their own system, which is unique for them, and is aligned with structure and strategy. Thus, the purpose of this study is to investigate Ethiopian private banks budgeting system and its role its play in the bank's management control system.

1.2. Statement of the Problem

Armesh, Salarzehi, Kord (2000) One of the traditional management control systems is the budgeting process, in order for employees to be better aligned with the organization s strategic goals, budgets are used to emphasis the organization s core beliefs and critical interactive controls. Blcher, Stout, Cokins (2010) suggest that budget should start with a careful review and study of the organization's strategic plan. The objective is to build a budget to achieve the organization's strategic goals and objectives. Ignoring the strategic plan can result in not adequately funding the projects and initiatives that are critical to achieving results aside from the daily operations of taking and fulfilling sales orders. Strategy helps a firm to be more focused in its operations and to take advantage of its strengths and opportunities. A firm executes its strategy through long-range plans and master budgets. An annual master budget is an extension of the organization's long-range plan to fulfill organizational goals and objectives.

A well-developed system of budgeting is crucial for an enterprise, especially large one. It can help to better coordinate the work of all departments, avoid crisis, improve motivation, increase reliability of managers at every level, predict financial results, prevent undesirable outcome Yuzvovich, Korogodina, and Azisova (2000). The budgeting process is an essential component of management control systems. It provides management with a system of planning, coordination, and monitoring (Pidgeon, 2010). In fact, budgeting is considered to be one of the most important and effective tools used in managerial accounting (Pietrzak, 2013).

According to Tanase (2014), today's budgeting processes, which are mainly based on a traditional method (Group, 2005), have a number of serious drawbacks: They are time-consuming, do not allow a company to seize opportunities, reduce a company's Flexibility, they reduce the ability to react to changes, do not reflect the company's strategy, are bureaucratic and limit creativity. So, attention has been paid to the key aspects regarding the budgeting process, as well as of the connection among strategy, planning and budgets. At present, development and implementation of an effective budgeting system is practically a necessity, especially the banking sector expected to be in a deep instability and periodic crises, which are influenced by changing client needs, new competitors, fast technological development, and new regulations.

The Ethiopian banking business has become more competitive in recent years. When competition Increases, management control system become even more important. Management control and budgeting are distinct but intertwined activities. Most discussions of the budgetary process tend to focus on manufacturing firms. However, more Businesses are becoming engaged in nonmanufacturing activities, such that the banking industry and such businesses can benefit greatly from a properly designed budgetary system. Some of the research conducted by Doreen, D. (2014) determined the effectiveness of Budgeting process in achieving organizational goals in case of Tanzanian Electrical Mechanical and Electronics service Agency was concluded that the role of Budgeting process that make an organization attains its goals should be effective by having active support for Budgeting process from the top management. Ahmed (2015) did a research to examine the practice of budgeting and budget monitoring as a management tool for managing variances in NGOs operating in Ethiopia. The researcher concluded that effective Budgeting highly contributes to the attainment of goals and objectives. Carolyn M. and Tammy R. (2007) conducted a study on title ‘’an examination of the effects of Budgeting control on performance’’ and the result of their study shows that effective budgetary control has a positive effect on organizational performance. While, this research is focus on improving the overall budgeting practices to have properly designed management control system.

An organization can gain competitive advantage by having properly designed management control system. Management control systems are the tools which help in the effective implementation of strategy. Budgetary provisions should be goal oriented because they should view as practical tools and provide guidance to the firm in today's competitive market. Business conditions of the Ethiopian banking industry is changed by Changing client needs, new competitors, fast technological development, and new regulations, Demand for strategically significant activities revealed many limitations in banks budgeting control, it became evident that a review of this concept was necessary. Thus, this study investigates the Ethiopian private bank budgeting process and its implications in their management control system. Moreover, the specific characteristics of this industry make the need for the investigation of control systems and budgeting process even more important.

1.3. Research Questions

The overall/ general research question is does Budgeting process in Private Commercial Banks of Ethiopia serve as a means of management control?

Specific questions

- What are the overall features of the budget process, how is it prepared and approved?
- IS budgeting system aligned with its strategic objective, and does it help to fine tune the long-term plan to annual plan?
- Is the budget specifically defined at strategic business unit level to enable clear reporting and performance measurement at unit/ responsibility center?
- How far does the budget indicate performance parameters in a clearly measurable way?
- How does Budget process encourage participation of implementing unit to enhance cooperation?
- How far is budgeting used to coordinate efforts of the business units to meet overall objective of the firm?
- Are the performance indicators balanced between financial and non-financial indicators, external and internal indicators to avoid emphasis on quantified financial facts only?
- Is the budgetary control linked to employee rewards and compensation system?

- Does the Budget serve as means of motivating managers and employees to help the firm achieve its objectives?

1.4. Objective of the Study

1.4.1. General Objective

To study whether budgeting serves as means of management control system in Ethiopian private banks.

1.4.2. Specific Objectives

- To examine the features of budgeting system in Ethiopian private bank.
- To assess the budgeting is used as means of fine-tuning strategic plan to annual plan.
- To evaluate that the budget is clearly used to assigns responsibility.
- To evaluate that the budget defines target to be achieved in a concrete way.
- To investigate whether budget identifies key performance indictors to enable performance evolution.
- To investigate whether budget helps in promoting goal congruence in the organization.
- To evaluate the contribution of the budget to organization control.
- To investigate whether budget and budgetary control is linked to rewards and compensation system.
- To investigate to what extent the budget includes non-financial performance targets to avoid inherent weakness of financial control myopia.

1.5. Significance of the Study

The research paper helps the banks and other who has the same budgeting approach to establish best practices with their company budgeting system that are efficient and effective and allow the company to have well management control practices. Having examined existing problems with budgeting, the paper provides how a firm can exercise greater control over strategic planning by well-developed budgeting system. Thus, the paper results a warning signals for changes or alterations to the banks in the area of budgeting and there is a lack of research in the financial institution budgeting practices so it helps as the reference for further research by another researcher.

1.6. Scope of the Study

The study concerns with the Ethiopian private bank budgetary practices and its influence with the company management control. For the purpose of this study the researcher selects 12 private commercial banks. All these banks prepare and control budget centrally. Due to this, the study delimited to the office of strategy and finance department of the banks because the researcher tried to address employees which believe they have well knowledge and job position in the subject matter. It also includes line managers. The research conceptually delimited on budgeting practices and its influence on the management control system.

1.7. Organization of the Study

This research organized in to five chapters. The first chapter deals with the background of the study, statement of the problem, objectives of the study, research questions, significance of the study, and scope of the study. The second chapter consists of the review of literatures which is relevant to the topic under investigation. The third chapter is about the methodology uses in the study. The fourth chapter includes discussion and interpretation of data which was gathered from respondents and the last chapter is chapter five which is containing findings, conclusions, and recommendations.

CHAPTER TWO

2.REVIEW OF RELATED LITERATTURE

2.1. Introduction

The chapter concerned with literature that support management control system, the budgeting process, purpose of budgetary control. It also concerned the concept of budget with strategic planning. Finally, state summaries of review literature and identifying the gap why need this study.

2.2. Definitions of Budget

Budget is defined as the formal expression of plans, goals, and objectives of management that covers all aspects of operations for a designated time period. The budget is a tool providing targets and direction. Budgets provide control over the immediate environment, help to master the financial aspects of the job and department, and solve problems *before* they occur. Budgets focus on the importance of evaluating alternative actions before decisions actually are implemented. A budget is a financial plan to control *future* operations and results. It is expressed in numbers, such as dollars, units, pounds, hours, manpower, and so on. It is needed to operate effectively and efficiently.

Horngren et al (2012) refers to budget is the quantitative expression of a proposed plan of action by management for a specified period and an aid to coordinate what needs to be done to implement that plan. It includes both financial and nonfinancial aspects of the plan, and it serves as a blueprint for the company to follow in an upcoming period. A financial budget quantifies management’s expectations regarding income, cash flows, and financial position. Nonfinancial budgets concerns units manufactured or sold, number of employees, and number of new products being introduced to the marketplace.

Kinney **(**2010**)** outlines budget can be an effective device to communicate objectives, constraints, and expectations to all organizational personnel. Such communication promotes understanding of what is to be accomplished, how those accomplishments are to be achieved, and the manner in which resources are to be allocated. Determination of resource allocations is made, in part, from a process of obtaining information, justifying requests, and negotiating compromises.

2.3. Nature of Management Control System

According to Anthony, Dearden and Govindarajan1 (1992), management control is “the process by which managers ensure that resources are used effectively and efficiently in the accomplishment of the organization's objectives”. ICFAI (2006) Controls are designed to help organizations to achieve their goals. An organization can gain competitive advantage by integrating the usually separate functions of strategy and control. Management control systems are the tools which help in the effective implementation of strategy. It is important to analyze the different kinds of strategies, as control systems can be designed based on the types of strategies.

Every MCS has certain generic components. There must be a reliable performance measurement system. Realistic standards should be planned and maintained. The standards should be consistently and regularly compared with performance measurement data. Any variances that exceed predetermined thresholds should be enthusiastically investigated and reported to the people who have responsibility and authority to make appropriate and timely adjustments. All adjustments should be controlled, especially any adjustments that affect predetermined standards and thresholds. If the management monitors the activities of the business units frequently, then it is exercising tight control. Limited monitoring of the business units’ activities can be termed as lose control. Pooja (2006)

Controls have been categorized in many ways. For example, formal and informal controls (Anthony *et al.*, 1989) output and behavior controls (Ouchi, 1977) market, bureaucracy and clan controls (Ouchi, 1979) administrative and social controls (Hopwood, 1976) and results, action and personnel controls (Merchant, 1985a). Formal controls include rules, standard operating procedures and budgeting systems. These are the more visible, objective components of the control system, and thus, the easiest to research.

2.3.1. Budgeting

The first step in creating a budget is to determine the overall or strategic goals and strategies of the business, which are then translated into specific long-term goals, annual budgets, and operating plans. The techniques and details of preparing, reviewing, and approving budgets varies among companies. The process should be tailored to each entity's individual needs. Five important areas in budgeting are planning, coordinating, directing, analyzing, and controlling. Jae K. Shim & Joel G. Siegel 2005.

Companies develop budgets to monitor progress concerning their goals, help them manage expenses, and predict cash flow and profit (Carlene Cassidy, Kreitner, & Van Huss, 2014). The budgeting process is an essential component of management control systems. It provides management with a system of planning, coordination, and monitoring (Pidgeon, 2010). In fact,

budgeting is considered to be one of the most important and effective tools used in managerial accounting (Pietrzak, 2013). Budgeting practices are heavily influenced by the organization's management style and can vary considerably, but the theory is common to all. Budgeting helps all types of organization to plan and control their operations, and to support their managerial strategies. Therefore, budgets are a management tool, expressed in quantitative terms because this is the easiest way to priorities and co-ordinate complex competing decisions throughout the organization. CIMA 2005. During budget preparation procedures, consideration of alternative courses of action becomes an integral part and leads to increased rationality. A budget allows a goal, a standard of performance to be established with subsequent comparison of actual results with the created standard. It requires those involved to be forward looking rather than looking back (Scott, 2005). Budgets have therefore been identified as playing a number of roles which include making goals explicit, coding learning, facilitating control, and contracting with external parties (Selznick, 2008).

The traditional budgeting process can range from the informal simple processes small firms use that take only days or weeks to complete to elaborate, lengthy procedures large firms or governments employ that span months from start to final approval. The process usually includes the formation of a budget committee; determination of the budget period; specification of budget guidelines; preparation of the initial budget proposal; budget negotiation, review, and approval; and budget revision. Blocher, stout & Cokins 2010

2.3.2. Budgetary Control

Scott, (2000) budgetary control is more than an administrative technique which aims to ensure that management functions are carried out in a well organize and coordinated fashion. According to him, budgetary control rather aims at straightening communication within an organization in other to ensure that budgetary provisions remain goal oriented. Budgets should not only be used as tool for management and indicators of management, they should also be viewed as practical tools within which organizations should use to enhance their financial goals (Odour and Jagongo, 2013). According to Frimpong, (2013) Budgeting and budgeting control measures are an integral part of any organization including timber firms. It serves as a basis of planning, controlling cost of operations and evaluating performance of workers of the organization.

According to Merika, (2008), the deviations in budgeted and actual performance will enable the determination of weak spots. According to Davidson (2009) budgetary control entails preparing of budget, recording of actual performance, ascertaining of variance, evaluation of financial performance and taking suitable corrective action so that budgeted financial performance may be achieved. The budgetary control system helps in fixing the goals for the organization as a whole and concerted efforts made for its achievements (Scarlett, 2008). while, Waren, (2011) noted that within an organization, different departments have a bearing on one another, this therefore makes coordination of various executive and subordinates necessary in achieving of budgetary targets.

Budgetary control refers to the principles, procedures and practices of the organization in achieving given objectives through budgets. Principles, policies and procedures developed by top management are guideline to help the employees practice the activities of organization in the direction of goal achievement. The budgetary control system helps in fixing the goals for the organization as a whole and concerted efforts made for its achievements (Scarlett, 2008).

2.3.3. Budgeting Process

The process usually includes the formation of budget department, budget committee; determination of the budget period; Specification of budget guidelines; preparation of the initial budget proposal; budget negotiation, review, and approval; and budget revision. Blocher, stout & Cokins 2010.

Budget Committee

The budget committee oversees all budget matters and often is the highest authority in an organization for all matters related to the budget. The committee sets and approves the overall budget goals for all major business units, coordinates budget preparation, resolves conflicts and differences that may arise during budget preparation, approves the final budget, monitors operations as the year unfolds, and reviews the operating results at the end of the period.

Budget Period

Owler and Brown (1999) identified budget periods as the duration for which a budget is to be implemented, which could be short-term, medium-term or long-term. Consequently, a number of advantages or benefits are derived by an organization from the preparation of budget.

Budget Guidelines

In a traditional budgeting process the budget committee is responsible for providing initial budget guidelines that set the tone for the budget and govern its preparation. The committee issues budget guidelines after careful considerations on the general outlook of the economy and the market; the organization’s strategic goals, long-term plan, strategic projects, and expected operating result of the current period; specific corporate decisions or policies such as mandates for downsizing, reengineering, pollution control, and special promotions; and short-term objectives. All responsibility centers (or budget units) follow the budget guidelines in preparing their budgets.

Initial Budget Proposal

Each responsibility center prepares its budget request based on the budget guidelines.

Negotiation, Review, and Approval

The executives of budget unit examine & negotiate with other business unit to arrive to consistent business unit budget and the combined unit budgets become the organization’s budget. The budget committee reviews the budget for consistency with the budget guidelines, attainment of the desired short-term goals and strategic objectives of the organization. The budget committee gives final approval, and the CEO then approves the entire budget and submits it to the board of directors.

2.3.4. Strategic planning

Strategic planning is the first step in the management control process. Strategic planning is the process of deciding on the programs that the organization will undertake and the number of resources that will be allocated to each program in the next few years. For strategic planning to be effective, it should be accompanied by an appropriate organizational structure, an effective management information system, a budgeting system and a reward system. Strategy planning is concerned with developing programs to implement organization goals effectively and efficiently. Strategic planning is different from budgeting in the sense that strategic planning focuses on activities that extend over many years, whereas budgeting usually focuses on activities that take place within a year. Strategic planning provides the framework for the preparation of annual budgets. Strategic planning is formed on the basis of product lines or other strategic programs while budget is structured on the basis of allocation to responsibility centers. ICFAI (2006)

According to Dale McConkey (October 1988) perfect strategic plan will serve little purpose if it is not implemented. Many organizations tend to spend an inordinate amount of time, money, and effort on developing the strategic plan, treating the means and circumstances under which it will be implemented as afterthoughts Change comes through implementation and evaluation, not through the plan. A technically imperfect plan that is implemented well will achieve more than the perfect plan that never gets off the paper on which it is typed.

Tim blumentritt (2006) further went to point out that Budgeting, strategies, and strategic management share an orientation toward improving business performance, as each is used to set an organization on an appropriate path to success and guide its managers' decisions and activities. Such relationship between strategic management and budgeting does not exist in many firms. The problems in appropriately using the two processes may arise when a firm does not properly integrate them or does not employ strategic management at all.

2.3.5. Tools for Integrating Strategic Management and Budgeting

According to Tim Blumentritt (2006), by integrating strategic management and budgeting, these questions of "What should we do"? And "How do we pay for it?" might be tackled simultaneously. In doing so, the two processes share their strengths. The true goal of these processes is rigorous agility. A firm's managers and employees must believe that good strategic decisions are being made or they will be less dedicated to them and their implementation. Strategic management and budgeting, when used properly, become powerful tools for communication of management's commitments. These processes must also enable a firm to be agile. Most firms operate in business environments characterized by strong competition, global pressures, and demanding customers. Rarely is any plan, strategic or budgetary, insulated from change. While well-developed plans are the place to start, they must be open to questioning and revisions to ensure they stay relevant.

James Creelman (1998) also recognizes the need for organizations to modify their budgeting and planning system approaches and link them to strategy in order to successfully implement new strategic management system driven by balanced scorecard. He presented D. Norton and R. Kaplan's (1992) proposal of how to link budgeting and strategic planning. Organizations can adopt many different processes and tools to develop rigorous agility in their planning activities.

These include the following

1) Standing strategic review committees:

Developing great strategies necessarily involves peering into the future. A strategic review committee often consists of executives representing diverse areas who meet to address challenges to the firm's strategic direction. Such committees supplement the annual strategic planning processes. By including executives from throughout the firm, including those responsible for a firm's strategic management and budgeting processes, ramifications arising from changes in one area of the firm for others are more quickly identified. (Tim blumentritt 2006).

2) Flexible planning

According to Jeffrey C Thomson (2007), treating planning as Key business process is more important to an organization's long-run viability, sustainability, and value creation for stakeholders than its strategic plan and then engages employees at some level in the plan.

3) Technology

The advanced processes for integrating planning and budgeting share a need for communicating information and decisions. Flexibility depends on getting good information to the people who need it when they need it. The increased capability of IT tools makes them increasingly important in business planning (Tim Blumentritt 2006).

2.3.6. Budget as an Instrument of Control

According to ICMA (1999) a budget is a 'means,' budgetary control is the 'end result. Budgetary control is the establishment of budgets, relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of that policy or to provide a basis for its revision. A budget is an important control mechanism. When actual results do not tally with the budget; a variance is said to have occurred. Variance analysis thus provides managers with useful information for measuring efficiency and improving performance. The overall performance of a business unit is divided into revenue variance and expense variance. The different types of variances that occur in budgets are sales budget variance, material budget variance, labor budget variance and manufacturing overhead variance. ICFAI (2006).

The aim of budget is to develop plans correlated with the whole entity and certain sections or separate sectors, based on established strategies and financial structure formation, fulfillment of the plan, control, analysis and correction Svetana Mihaila (2015). Budget represents planning and control devices that require management to anticipate changes and adopt them. Lambe, Mary, Theresa (2015).

The main reason why budgeting continues to add value in their organizations quite simply, it provides an overall framework of control without which it would be impossible to manage.

Large companies in particular would struggle to plan, co-ordinate and control without such a framework. But, even in small companies, a budget can provide a road map detailing where the business is, where it wants to go and how it can get there. Of course, this does not mean that a budget can prepare the company for every eventuality. Any budget is based on a set of assumptions that may change as soon as it's published. CIMA (2004)

2.3.7. Budgeting Methods

Four main budgeting methods identified, which are described in detail below

2.3.7.1. Traditional Budgeting

Traditional budgeting is also known as incremental budgeting because the process is mainly concerned with the incremental (or marginal) adjustments to the current budgeted allowance. The traditional method takes last year's budget as a base. The current year's budget is prepared by making changes to the previous year's budget by adjusting the expenses based on the inflation rate, consumer demands, market situation, and other factors (Pidgeon, 2010). One of the biggest drawbacks of the traditional method is the fact that budgets increase every year (Rieg, 2015).

Nevertheless, most companies still take base their budget on the previous year's budget.

2.3.7.2. Better Budgeting

The better budgeting concept involves incremental improvements in traditional budgeting (Rickards, 2008). Three approaches can be distinguished: zero-based budgeting, value-based budgeting, and rolling budgets. Zero-based budgeting is based on the premise that no budget lines should be carried forward from one period to the next simply because they occurred previously. Instead, everything that is included in the budget must be considered and justified (Pidgeon, 2010). The value-based budgeting method is a formal and systematic approach to managing the creation of shareholder value over time. All expenditure plans are evaluated as project appraisals and assessed in terms of the shareholder value they create. This method helps to link strategy and shareholder value during the planning process (Rivero, 2013). Rolling budgets are updated periodically when a time period comes to an end. The budget is accurate, constantly forward-looking, and always covers the same time horizon. According to Mejzini and

Seidel (2015), budgeting becomes a more or less continuous process. Rolling budgets are more responsive to changing circumstances but require permanent resources to administer (Mejzini & Seidel, 2015).

2.3.7.3. Advanced Budgeting

The advanced budgeting approach sustainably reduces the time and money spent on planning by shortening the planning process and consistently operational zing the company strategy and external factors into operational planning (Rieg, 2015). This concept includes the following tasks:

- Reducing the amount of detailed planning content
- Employing a balanced scorecard linking operational and strategic planning
- Rolling budgets
- Decoupling planning from the company's incentive schemes

2.3.7.4. Beyond Budgeting

The aim of the beyond-budgeting management model is to increase the adaptability of enterprises. By running the company completely without a fixed budget, the model wants to overcome the restrictions of the traditional budget-based management concept. The beyond budgeting concept introduces new leadership principles based on the principle of the empowerment of managers and employees and new, more adaptive management processes (Mitchell, 2005). Svenska Handelsbanken famously became the first bank to implement the beyond budgeting method in 1972. Ever since Dr. Jan Wallander started as its executive director in 1970, the bank has been operating without any budgets. The bank is strongly decentralized and has devolved the responsibility for customers to its branch levels (Mejzini & Seidel, 2015). The German discount supermarket chain Aldi North is another well-known example of a company that has succeeded in implementing beyond budgeting. Dieter Brands, its former CEO and member of the supervisory board, finds budgets superfluous. In his view, controllers have too many ideas and overestimate their competence (Rickards, 2006).

2.3.8. The Role and Purposes of Budgeting

"Budgeting creates a framework within which individuals, departments, and whole organizations can work. Budgets encourage individuals and departments to look and plan ahead using a standardized agenda that can enhance effective communication of their objectives. Drafting assorted budgets and collating them can help co-ordinate and motivate employees. Budgets also provide a focus for evaluation of the various aspects of a business in a controlled fashion". Brook son (2000).

In the view of Brook son (2000) budgets should be prepared to serve the following purposes:

1. Planning

There is the likelihood that managers may be tempted not to plan for future operations because of day-to-day pressures and operating challenges. The budgeting planning process ensures that managers do plan for future operations, and that they consider how conditions in the next year might change and what steps they should take now to respond to these changed conditions.

2. Coordination

This brings different parts of the budget together, reconciled into a common plan. Budgets are not prepared for the benefit of individuals involved in the process but for the best interest of the business or the stakeholders. Without guidance therefore, managers might make their own decision that will work against the overall objective of the business.

3. Communication

Everyone in the budget preparation chain must be aware of their input to the success of the entity's financial plan. This will ensure that all are made accountable for the implementation of the budget. This will also help in coordinating all budget activities for smooth implementation of the plan.

4. Motivation

The budget provides a standard which managers will evaluate their performance with. If they meet their targets regularly, they may be motivated to go for a higher target. If budget is dictated from above and imposed on those who are to implement the plan, it will rather not motivate workers and may be resisted. It can also serve as a useful device for influencing management behavior and motivating managers to perform in line with the organizational objectives.

5. Control

Planned activities can be compared to the actual so that effort will be concentrated on ascertaining the reasons behind the differences. By investigating the reasons for the differences, managers may be able to identify inefficiencies such as the purchases of inferior quality materials. Appropriate control action will then be taken when reasons for inefficiencies have been found.

6. Performance evaluation

As a manager you will like to evaluate your own performance even if you are not assessed by your superior. However, performance is often evaluated by measuring a manager's performance against budget and the ability to achieve the targets would lead to promotion or bonus. The budget thus provides a very useful means of informing managers of how well they are performing in meeting targets that they have previously helped to set.

Budgets are simply exercising in calculation unless they are used. When an organization draws a budget, it does so as part of a system of budgetary control. The controls are some basic ideas of what the entity wants to do. It prepares budgets to help to achieve those ideas and then once that is done whatever it is that has to be done, budgetary controls check to see if expenditures are on course.

2.3.9. Determinants of Budgetary Control

There are numerous determinants that influence the effective implementation of budgets among organizations. Those determinants, according to Srinivasan (2005), include: availability of financial resources, skilled human resource, and participation of both staff and other stakeholders in the budgeting process, effective planning, evaluation, staff motivation, monitoring and control of the budget process.

2.3.9.1. Adequate Availability of Financial Resources

Despite the adequate availability of financial resources, firms are expected to allocate adequate financial resources and other structures efficiently so as to ensure effective implementation of projects and other activities within the firm such as adequate allocation of funds to facilitate effective budget implementation. An organization must ensure that it has adequate access to financial resources in order to finance its projects and to carry out its activities. According to Dunk (2001), the management team should plan and come up with budgeted estimates before implementing organizational projects.

2.3.9.2. Competence of Human Resource

Firms are expected to be well equipped with knowledgeable and skilled employees who are well conversant with budgetary control measures to effectively implement the budgetary control processes and allocation as well as having the relevant industry experience. According to Horngren (2002), in order to successfully execute firms' activities, firms must ensure that they have competent human resource with technical knowhow on efficient and effective means of budgetary control processes and procedures.

2.3.9.3. Participation of both Staff and other Stakeholders

During budgetary formulation, all staff and other stakeholders responsible for achieving results should be consulted. Budgetary control systems prosper only when they compact a mutual understanding of superiors and subordinates. Firms should communicate budget decisional outcomes with all the relevant personnel. To ensure that the process of implementing the budget is successful, management and employees must work together to ensure that all stakeholders' interests are fully represented when making key decisions involving budgetary allocations in key projects. Budgets play an important part in the communication of objectives, targets and responsibilities throughout the organization. Full participation in budget and budgetary control process assures full co-operation and commitment for making budgets successful which makes budgets realistic and workable (Simiyu, 2002).

2.3.9.4. Proper Planning

The budgetary period duration is usually one year. The plan should to be in line with the long-term development strategy of the firm, although in the shorter term of a budget year, conditions may prevail which could filter this aim. It is important that feedback is made available to the managers responsible for budget operations through monthly budget reports. These reports have comparisons between the budget and the actual position and they draw differences which are known technically as variances. The management team ought to define these patterns of expenditure and revenue over the life of the project or the activity that the firm is undertaking.

A predetermined budget of possible costs that was incurred carrying out the activities planned in a project should be made. A realistic planning of finances is vital to the implementation of a project or program (Joshi & Abdulla, 1996). The budget plans must be properly coordinated in order to remove all possible bottlenecks. Individual budgets should be coordinated with one another to ensure that the implementation process is conducted properly in order to save time and costs (Horngren, Forster & Dater, 1997). Thus, before formulating the budgets, the policy to be pursued during the forthcoming trading period should be established (Dunk *et al.*, 2001).

2.3.9.5. Evaluation

Simiyu (2002) states evaluation as the process of developing a plan in cooperation with an evaluation workgroup of stakeholders who foster common objective for effective budgetary control. Hancock (2009) says to enhance effectiveness and transparency the management requires to be involved in both monitoring and evaluation.

2.3.9.6. Monitoring and Control of Budget Process

Once the budgets have been implemented, they need to be monitored and controlled to ensure effectiveness in aligning budgets over a given period of time (Horngren *et al.*, 1997). An open and professional approach to budget planning boost investors, development financial partners and national or international donors to make financial resources available (Otley & Van der Stede, 2003). This is achieved through ensuring that the estimated budget does not deviate from the actual outcome in order to make necessary adjustment from any variance noted.

2.3.9.7. Staff Motivation

Challenging but realistic targets in budgeting can play a significant part in motivating management. Hansen *et al*. (2003) In addition says that targets must be measurable and easier to achieve, while managers should be involved in setting own budgets. The budget acts as parameter for top management to measure performance of their teams. It should be noted, that adherence to the budget alone may not measure all aspects of management's performance. Hansen *et al.* (2003) asserts, for an effective budget implementation, the budget plan should be clearer and more accurate, the financial resources readily available and sufficient, while actively involved staff in the budget making should be motivated to facilitate successful implementation of the budget process.

2.4. Empirical Review

Doreen, D. (2014) determined the effectiveness of Budgeting process in achieving organizational goals in case of Tanzanian Electrical Mechanical and Electronics service Agency using a case study research design strategy with the objective of investigating how Budgeting process helps organization in achieving its goals. It was concluded that the role of Budgeting process that make an organization attains its goals should be effective by having active support for Budgeting process from the top management.

Yesuf Ahmed (2015) did a research to examine the practice of Budgeting and Budget monitoring as a management tool to for managing variances in NGOs operating in Ethiopia using descriptive study design. The researcher concluded that effective Budgeting highly contributes to the attainment of goals and objectives.

Badu (2011) conducted an investigation of budgeting and budgetary Control at Ernest Chemist Laurea. The aim of this study was to conduct research concerning the budgeting practice in Ernest Chemist, a pharmaceutical company based in Ghana, and identify the perception of the budgeting experts in the company and assess their views towards the current status of the company. This research was necessary in order to assess the possibility of solving any problem this organization may face in designing an effective budgeting and budgetary control system. A self-designed interview questionnaire was sent to a member of staff in the company to seek his views on the problems and concerns regarding budgeting and budgetary control in the organization. The results of the study indicated that the appropriate system of budgeting and budgetary control had been adopted and used to prepare the pharmacy ‘s budgets but there were a few problems associated with ethical issues which were also revealed.

Nasrin, (2014) budgeting is no more the act of “matching” the figures of income and expenditures as had been in the past. It has come out of age. As a major tool of management control, budget does not only set performance standards for measurement and control; it is a better tool for future planning. Besides, budget recognizes the impacts of external standards through cognizance of business trends and competitors‟ performance. Modern budgetary practices also recognize the human behavioral aspects of budget through participatory approach model of budgeting. In this study, the researcher evaluated budgetary practices in the private sector bank of Bangladesh. Qualitative research method used by researcher to determine how far the practices of budget are prevalent in the private commercial banks in Bangladesh and the attitudes of the management towards its effectiveness. Primary data were collected from targeted private banks of Bangladesh through designed questionnaire. Secondary data were also used. The study found that budget is partly used and full benefits of budgetary practices are not reaped by these banks.

Silva and Jayamaha (2012) the budgetary process has been a part of management control system of the organization. This process encourages managers to plan, consider the stakeholders involved, provides information for improved decision making, increases and enhances communication and coordination among departments, and for evaluation. The researchers evaluated budgetary process of apparel industry in Sri Lanka and sought whether budgetary process has significant impact on performance of such industry. They used independent variables such as planning, coordination, control, communication and evaluation. The performance of apparel industry in Sri Lanka was examined by using dependent variable Return on Assets. Primary data were collected using questionnaire and secondary data were collected from financial statements of apparel industry. Correlation coefficients and regression analysis showed that budgetary process have significant associations with the organizational performance of apparel industry in Sri Lanka. This confirms that efficient apparel companies maintain sound budgetary process which contributes to higher levels of organizational performance.

Darge Deressa (2018) studied on the impact of budget and budgetary control system on effectiveness of public organization in the case of west wollega zone finance and economic development office using descriptive statics on his thesis in Addis Ababa University. The researcher concluded based on the response of the questioners obtained from the respondent concerning budget monitoring and control again there are no regular budget meeting to review performance in the organization. There is no good budget performance evaluation and budget holders give less attention for budget participation in the organization.

2.5. Summary of Literature Review

An organization can gain competitive advantage by integrating the usually separate functions of strategy and control. Management control systems are the tools which help in the effective implementation of strategy. Budgetary provisions should be goal oriented because they should view as practical tools within which organizations enhance their organizational goals. Good management control system helps in fixing the goals for the organization as a whole and concerted efforts made for its achievements. Budgeting allows management to plan ahead, communicate the plan and performance expectations to all divisions and employees, and, when properly implemented, motivate employees. A budget can also serve as a basis for performance evaluation.

Some research conducted concerning the budgeting practices as a management tool. more of them asses the possibility solving the problem the organization face in the budgeting practices. But the list of suggestion for improving the overall budgeting process in light of management control system is very rare. Thus, this research focus in to investigate the phenomena of the Ethiopian private banks budgeting and its influence management control system.

CHAPTER THREE

3. RESEARCH DESIGN AND METDOLOGY

3.1. Research Design

The study used descriptive research design which helps to examine the company budgeting and its management control system. This design attempts to collect data from members of the population and describes existing phenomenon with reference to pre-established objectives. Unlike other types of investigation descriptive investigation carry out their study without altering or manipulating any of the variables of the phenomenon, limiting themselves only to their measurement and description. At all the advantage of this type of research design is that allow collecting data in a natural environment that gives high quality and honest data collection also its easier to make decisions and go further for data analysis.

3.2. Population of the Study

The populations of the study were including finance managers, office of strategy (budget office) and line managers of 23 private commercial banks of Ethiopia.

3.3. Sample Design

The total population classified in to two strata based on the time length they have been working on, which is less than 12 years and longer than 12 years. The banks who have a range of more than 12 years included in the sample of the research because over the year, companies undertaken various attempts aimed at improving its budgetary process with the objective of having a strong detailed and well laid budgeting process in place, used as a practical tool for management control system. From these 12 banks will included in the sample of the research those are awash bank, dashen bank, bank of abyssina, united bank, wegagen bank, nib bank, cooperative bank of oromia, lion international bank, zemen bank, oromia bank, berhan bank, bunna bank. thus, this the study will be address finance managers, office of strategy (budget office) and line manager of the 12 private commercial banks of Ethiopia.

3.4. Data Collection Method

The study conducted by collecting data from primary source. The primary data collected from staff members of the banks which have direct relation with study such as finance managers, accountant and office of strategy (budget office) using structured questionnaire which is extracted from literature. The hard copies of developed questionnaire delivered to the staff targeted this enabled the researcher to get adequate and accurate information from people with related experience.

3.5. Methods of Data Analysis

The data that is collected in the course of close ended questionnaire analyze in terms of mean and standard deviation and the results were presented in tables.

The collected data were processed and analyzed through the use of a statistical software package called Statistical Package for Social Sciences (SPSS) 26 versions and Microsoft excel tables; charts, pie charts and percentage are used to analyze the data.

CHAPTER FOUR

4. DATA PRESENTATION AND ANALYSIS OF FINDINGS

4.1. Introduction

The finding of the research project was exploring the evaluation of budgeting as a means of management control system in the case of Ethiopian private banks. The result was analyzed using descriptive statistical methods and presented per study objective. The sample size for analyses was 12 private commercial banks in Ethiopia. The data was gathered exclusively through questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study. Furthermore tables, graphs and charts are used to present the facts of the study analysis.

4.2. Reliability Test

Reliability is the consistency of your measurement, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects. To carry out the reliability analysis, Cronbach's Alpha (α) is the most common measure of scale reliability and a value greater than 0.700 is very acceptable (Field, 2009; Cohen and Sayag, 2010) and according to Cronbach's (1951), a reliability value (α) greater than 0.600 is also acceptable.

Table 1: The Result of Cronbach's Alpha.

No	Category of questionnaire	Cronbach's Alpha	No of Items
1	overall features of the budget process	0.988	7
2	Budgeting aligned with its strategic plan	0.971	5
3	Budget defined at strategic business unit level	0.979	4
4	Budget indicates performance parameters in a clearly measurable way.	0.984	4

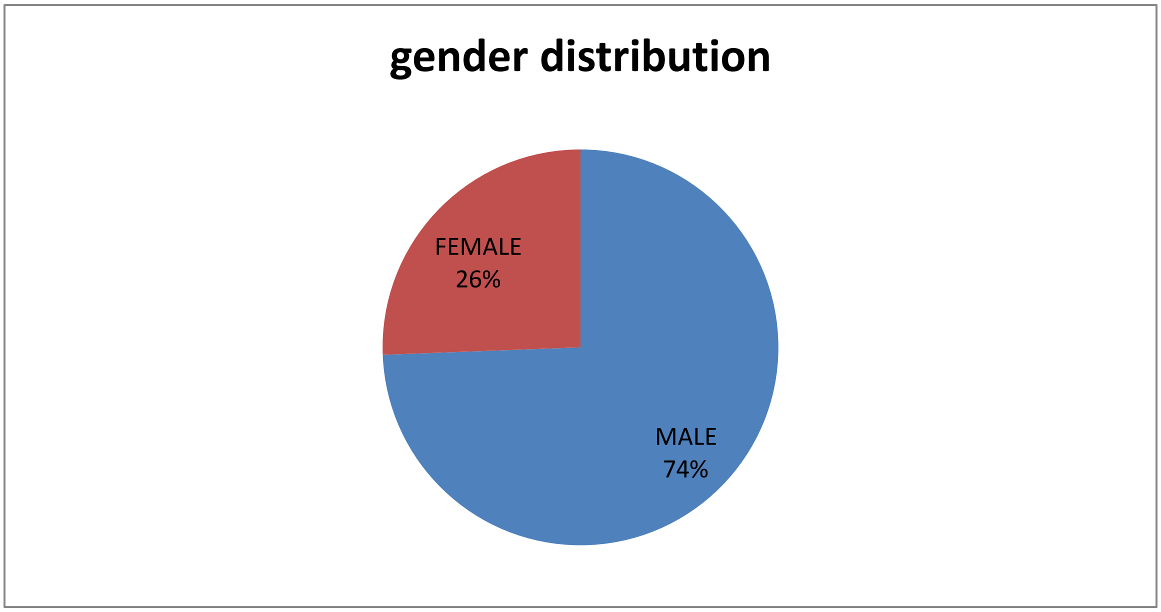
5	Budget process encourage participation and enhance cooperation.	0.968	4
6	Budgeting used to coordinate efforts to meet overall objective of the firm.	0.962	4
7	Performance indicators balanced between financial and non-financial indicators,	0.968	4
8	Budget and budgetary control is linked to rewards and compensation system	0.966	4
9	Budget motivating managers and employees	0.970	5

4.3. Participation Rate

The study targeted 160 respondents from 12 banks in collecting data with regard on budget serves as means of management control system in Ethiopian private banks. From these, 122 respondents making response this is 83.7% of the target. According to Kothari (2004) assertion that a response rate of greater than 70% is very good. Based on these assertions 83.7% of response rate in this case of study is very good.

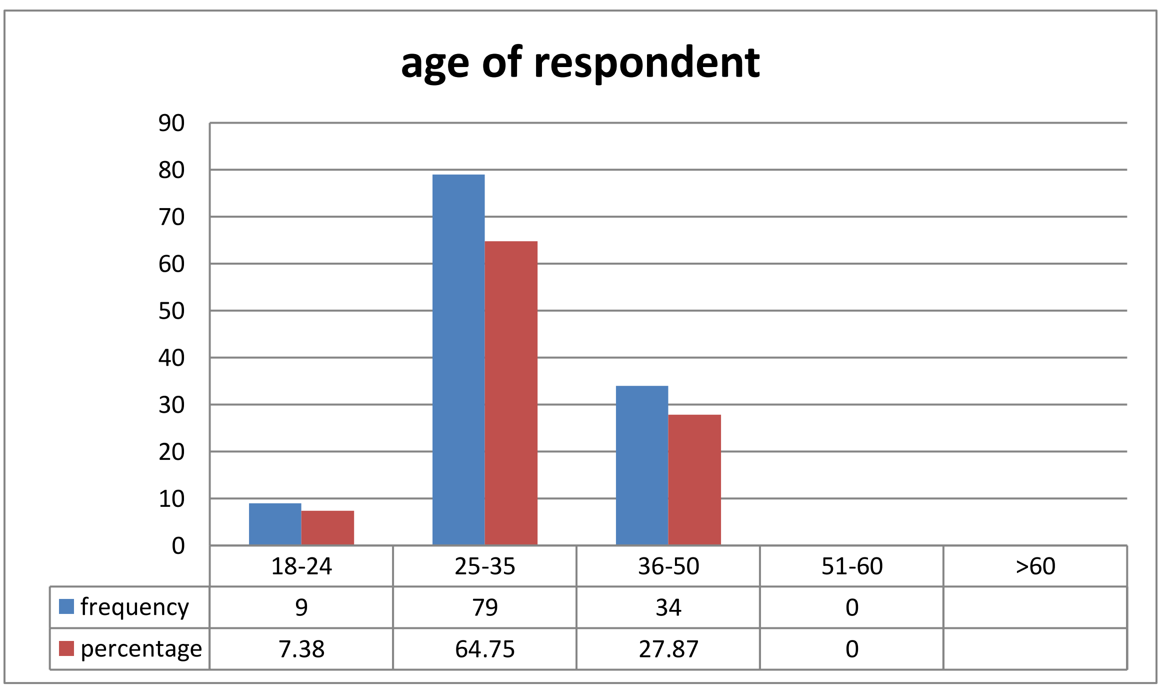
4.4. Personal Information of Respondents

Figure 4.1: The Gender Distribution of the Respondents



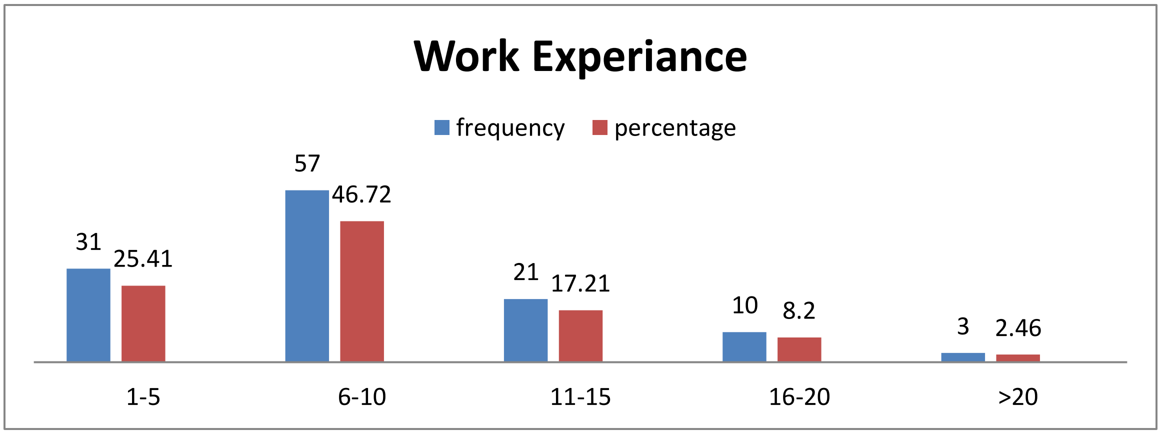
The above figure clearly indicates that 74% of the respondents are male and 26% of the respondents are female.

Figure 4.2: Age Distribution of Respondents



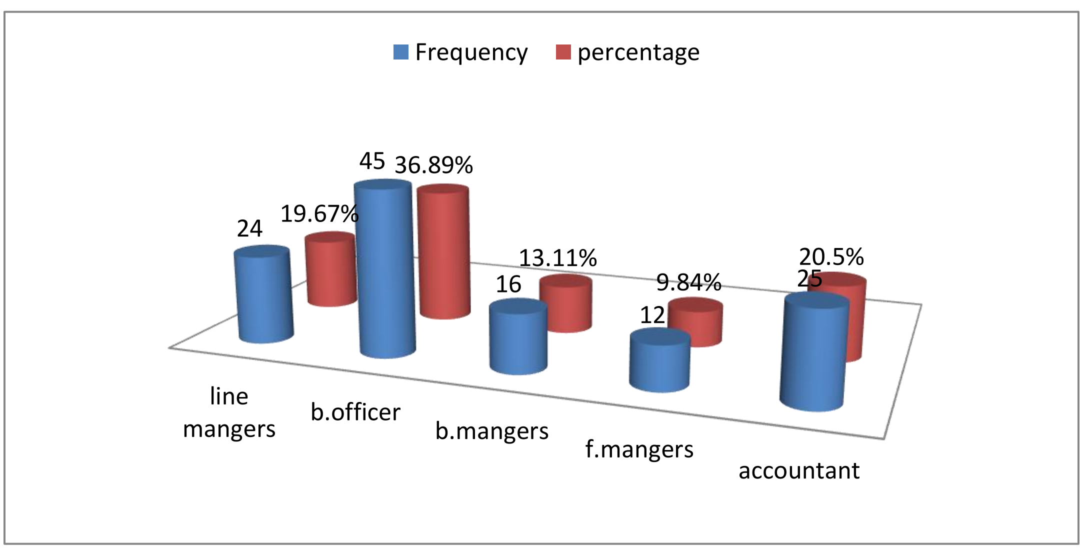
The study sought to find out the age of respondents. 7.38% of respondents are from age of 18 to 24 while 92.62% of respondents are the age b/n 25 and 50. The result is shown by figure 2.

Figure 4.3: Work Experiences Distribution of Respondents



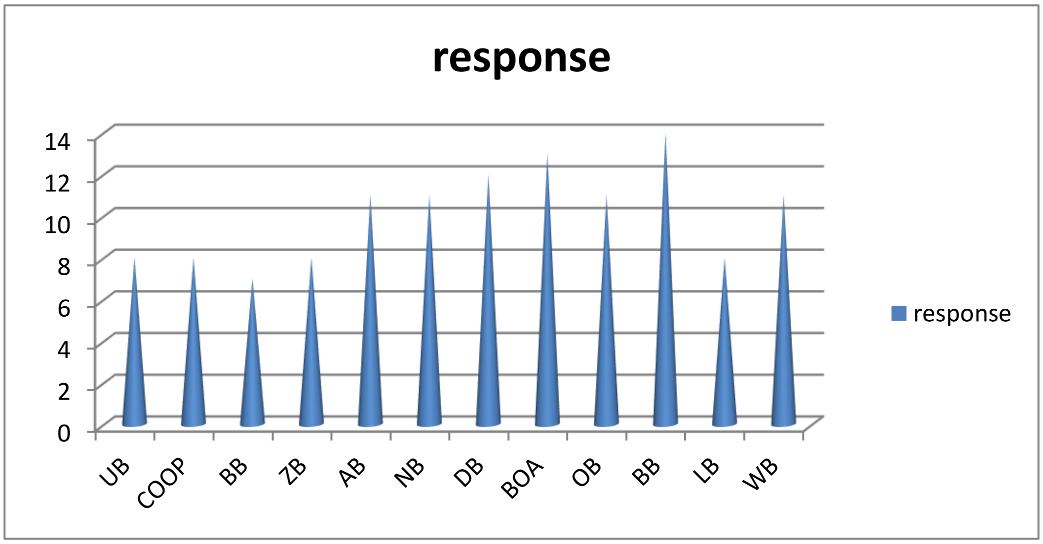
According to the above figure, 31(25.41%) of the respondents have work experience of less than five year, while the majority of them, 91 (74.59%) have been worked for more than five years. Therefore, as clearly stated in the above figure, most of the employees included in study have more than five years of working experience which implies that the respondents had the accumulated experience to have better awareness about the organization budgeting practices.

Figure 4.4: Job Position Distribution of Respondents



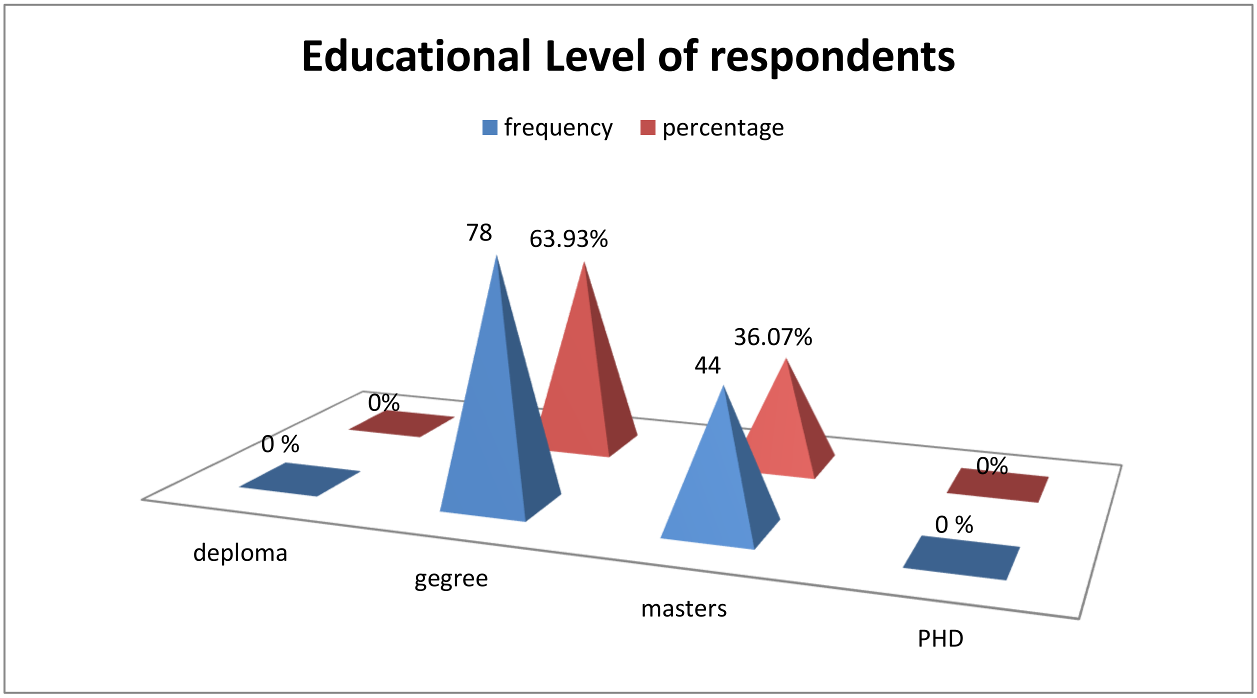
The researcher also investigated the job position of respondents assigned in the respective banks. This helps to determine how the respondents related to budget and its means of management control. As indicated on the above figure 24(19.67%) from line mangers, 45 (36.89%) from budget officer, 16 (13.11%) of the respondent is from budget mangers while 12 (9.84%) of the respondent is from finance mangers. Moreover 25(20.5%) of the respondent is from accountant

Figure 4.5: Distribution of Banks



From the above finding 8 each response collected from United bank, Cooperative bank of Oromia, Zemen bank and lion bank. 7 each response collected from Birhan Bank. 11 each response collected from, Awash bank, Nib bank, Oromia bank and wegagen bank. 12 each response collected from dashen bank. 13 responses collected from Bank of Abyssinia.14 each response collected from bunna bank. This helps to determine the participation of each bank in the research finding.

Figure 4.6: Distribution of Educational Level of Respondents



The research finding sought the educational level of respondents. This helps to determine the knowledge of respondents to analyze the evaluation of budget as a means of management control system. Based on the analysis of finding it can be depicted that all of the respondent are degree and master's level

4.5. Analysis of Overall Features of the Budget Process, How is it Prepared& Approved

Mean result was used to analyze the extent at which the sample group in average agreed or disagree with the raised statements. Low mean implied that majority of the respondents disagree while, higher mean value indicates their agreement. Accordingly, the perceptions of the 122 respondents were captured using a five-point Likert scale (1- Strongly Disagree, 2– Disagree, 3 – undecided (neutral), 4 – Agree and 5 - Strongly Agree) and interpreted in accordance with the below detailed Zaidatol et. al., (2012), Mean scores degree.

i. Mean = 1.00 – 2.33 - Low,

ii. Mean= 2.34 – 3.67 - Moderate and

iii. Mean = 3.68 – 5 - High

Table 2: The Overall Features of the Budget Process, how is it Prepared and Approved.

	max	**min**	mean	Std. Deviation
The budge process has a budget manual that disclosed to the basic rules and principles of conduct of the budget.	5	1	3.89	1.335
The budget process issue budget guidelines prior to preparing budget.	5	1	3.25	1.381
Both long-term and short-term budget are prepared.	5	1	3.54	1.355
Managers of different responsibility centers within the organization develop a budget request.	5	1	3.65	1.384
The Analysis and control of budget performed by different business unit managers.	5	1	3.75	1.242
Budget revised from time to time in order to check discrepancies	5	1	3.28	1.673
managers of departments participate in the approval and control of budgets	5	1	3.16	1.485

Based on the findings budget process has a budget manual that disclosed to the basic rules and principles of conduct of the budget (3.89) and budget process issue budget guidelines prior to preparing budget (3.25). In addition, both long-term and short-term budget are prepared (3.54). Moreover, most of the respondents' responses were undecided (neutral) The Analysis and control of budget performed by different business unit managers (3.75), budget revised from time to time in order to check discrepancies (3.28), managers of departments participate in the approval and control of budgets (3.16).

4.6. Analysis of Budgeting System Aligned with its Strategic Objective, and Help to Fine Tune the Long-term Plan to Annual Plan.

The respondents are invited to indicate their level of agreement on the following statements in relation to Budgeting system aligned with its strategic objective, and help to fine Tune the long-term plan to annual plan. The responses are rated on a five-point Likert scale where: 1 indicate strongly disagree; 2 disagree; 3undecided (neutral); 4 agree and 5 strongly agree

Table 3: Budgeting System Aligned with its Strategic Objective, and Help to Fine Tune the Long-term Plan to Annual Plan.

	max	**min**	**mean**	**Std. Deviation**
The Strategic planning used as the framework for the preparation of annual budgets.	**5**	**1**	**3.53**	**1.495**
Budgeting system used wide range of data about internal and external environment when it's prepared its budget.	**5**	**1**	**3.54**	**1.461**
The budgeting system gives priorities for strategic initiatives to meet strategic purpose of budgeting.	**5**	**1**	**2.2**	**1.296**
The budgeting system used strategic related score card.	**5**	**1**	**3.55**	**1.472**
The budgeting process reviews and modifies the budget as the organization's strategy and resources change.	**5**	**1**	**2.39**	**1.257**

Based on the above table the respondents were agreed with The Strategic planning used as the framework for the preparation of annual budget (3.53) and Budgeting system used wide range of data about internal and external environment when it's prepared its budget (3.54), The budgeting system gives priorities for strategic initiatives to meet strategic purpose of budgeting (2.2).

In addition to this most respondents were moderately agreed with the budgeting system used strategic related score card (3.55), the budgeting process reviews and modifies the budget as the organization's strategy and resources change (2.39).

4.7. Analysis of the Budget Specifically Defined at Strategic Business Unit Level to Enable Clear Reporting and Performance Measurement at Unit/ Responsibility Center.

The respondents are invited to indicate their level of agreement on the following statements in relation to the budget specifically defined at strategic business unit level to enable clear reporting and performance measurement at unit/ responsibility center. The responses are rated on a five-point Likert scale where: 1 indicate strongly disagree; 2 disagree; 3undecided (neutral); 4 agree and 5 strongly agree

Table 4: The budget specifically defined at strategic business unit level to enable clear reporting and performance measurement at unit/ responsibility center.

	max	**min**	**mean**	**Std. Deviation**
Budget decomposing the corporate goals into multiple organizational business units.	**5**	**1**	**3.82**	**1.330**
Budget operates on the premise that the business unit should be held responsible for their budgeted performances.	**5**	**1**	**3.55**	**1.084**
The budget accounting classifies and report information about an organization’s activities performance to defined according to the business unit who are responsible for them.	**5**	**1**	**3.28**	**1.467**
Budget Report furnishes details of the responsibility of business unit variances in actual and budgeted figure.	**5**	**1**	**3.41**	**1.341**

From the findings most respondents agreed with Budget decomposing the corporate goals into multiple organizational business units (3.82), Budget operates on the premise that the business unit should be held responsible for their budgeted performances (3.55) and the budget accounting classifies and report information about an organization’s activities performance to defined according to the business unit who are responsible for them (3.28), Budget Report furnishes details of the responsibility of business unit variances in actual and budgeted figure (3.41).

4.8. Analysis of the Budget Indicates Performance Parameters in a Clearly Measurable Way.

The respondents are invited to indicate their level of agreement on the following statements in relation to the budget indicates performance parameters in a clearly measurable way. The responses are rated on a five-point Likert scale where: 1 indicate strongly disagree; 2 disagree; 3undecided (neutral); 4 agree and 5 strongly agree

Table 5: The Budget Indicates Performance Parameters in a Clearly Measurable Way.

	max	**min**	**mean**	**Std. Deviation**
Performance parameters are enriched with the prospect of using leading and lagging indicators of performance.	**5**	**1**	**3.59**	**1.401**
Performance parameters satisfy many of the measurement criteria like Timeliness, precision, and objectivity.	**5**	**1**	**3.28**	**1.416**
Performance parameters well familiar by employees what the measures represent and how they can be influenced.	**5**	**1**	**3.63**	**1.439**
The budget set of performance parameters that reflect their objectives to assess performance appropriately.	**5**	**1**	**3.63**	**1.392**

As the above result shows the respondent agreed Performance parameters are enriched with the prospect of using leading and lagging indicators of performance (3.59) and Performance parameters satisfy many of the measurement criteria like Timeliness, precision, and objectivity (3.28), Performance parameters well familiar by employees what the measures represent and how they can be influenced (3.63), The budget set of performance parameters that reflect their objectives to assess performance appropriately(3.63).

4.9. Analysis of Budget Process Encourages Participation of Implementing Unit to Enhance Cooperation.

The respondents are invited to indicate their level of agreement on the following statements in relation to Budget process encourages participation of implementing unit to enhance cooperation. The responses are rated on a five-point Likert scale where: 1 indicate strongly disagree; 2 disagree; 3undecided (neutral); 4 agree and 5 strongly agree

Table 6: Budget Process Encourages Participation of Implementing Unit to Enhance Cooperation.

	max	**min**	**mean**	**Std. Deviation**
Budgeting process insisted the communication & learning process of different business units.	**5**	**1**	**3.59**	**1.436**
Budgeting process not imposed budget rather be understood & accepted by business units.	**5**	**1**	**3.59**	**1.365**
The budgeting process insured by visible and long-term involvement of top management to encourage implementing unit.	**5**	**1**	**3.59**	**1.353**
Business unit encouraged to actively involved in the process of setting their performance targets	**5**	**1**	**2.27**	**1.311**

As indicated in above table 5, Budgeting process insisted the communication & learning process of different business units (3.59) and Budgeting process not imposed budget rather be understood & accepted by business units (3.59), The budgeting process insured by visible and long-term involvement of top management to encourage implementing unit (3.59), business unit encouraged to actively involved in the process of setting their performance targets (2.27).

4.10. Analysis of Budgeting Used to Coordinate Efforts of the Business Units to Meet Overall Objective of the Firm.

The respondents are invited to indicate their level of agreement on the following statements in relation to Budgeting used to coordinate efforts of the business units to meet overall objective of the firm. The responses are rated on a five-point Likert scale where: 1 indicate strongly disagree; 2 disagree; 3undecided (neutral); 4 agree and 5 strongly agree

Table 7: Budgeting Used to Coordinate Efforts of the Business Units to Meet Overall Objective of Firm.

	max	**min**	**mean**	**Std. Deviation**
Those involved in budgeting is properly trained and guided in the objectives, benefits, steps, and procedures.	**5**	**1**	**3.52**	**1.356**
The budgeting processes not implementing conflicting goals to individual business unit.	**5**	**1**	**3.37**	**1.356**
Budgeting focus on cross-functional core processes rather than isolated departmental and business unit performance.	**5**	**1**	**2.13**	**1.354**
Budgeting processes stimulate effective communication in the organization for working together to ward common goal.	**5**	**1**	**3.58**	**1.448**

As the above result shows, those involved in budgeting is properly trained and guided in the objectives, benefits, steps, and procedures (3.52) and the budgeting processes not implementing conflicting goals to individual business unit (3.37). On the other hand, most of the respondents were disagreed with Budgeting focus on cross-functional core processes rather than isolated departmental and business unit performance (2.13). In addition to this most respondents were moderately agreed with Budgeting processes stimulate effective communication in the organization for working together to ward common goal (3.58).

4.11. Analyses of Performance Indicators Balanced Between Financial and Non-financial Indicators, External and Internal Indicators to Avoid Emphasis on Quantified Financial Facts Only.

The respondents are invited to indicate their level of agreement on the following statements in relation to Performance indicators balanced between financial and non-financial indicators, external and internal indicators to avoid emphasis on quantified financial facts only. The responses are rated on a five-point Likert scale where: 1 indicate strongly disagree; 2 disagree; 3undecided (neutral); 4 agree and 5 strongly agree

Table 8: Performance Indicators Balanced Between Financial and Non-financial Indicators, External and Internal Indicators to Avoid Emphasis on Quantified Financial Facts Only.

	max	**min**	**mean**	**Std. Deviation**
Performance indicators directing attention to the common measurement areas: product, market, employee and customer.	**5**	**1**	**3.32**	**1.479**
Performance indicators possess interest of stake holder at large.	**5**	**1**	**3.39**	**1.345**
Performance indicators benchmarking against industry best performance.	**5**	**1**	**2.11**	**1.329**
Performance indicator relaxes the Pressure to generating short-term profits.	**5**	**1**	**2.15**	**1.197**

From the findings most respondents agreed with Performance indicators directing attention to the common measurement areas: product, market, employee (3.32) but disagreed with Performance indicators possess interest of stake holder at large (3.39). Moreover, most respondents were agreed Performance indicators benchmarking against industry best performance (2.11), Performance indicator relaxes the Pressure to generating short-term profits (2.15).

4.12. analyses of Budget and Budgetary Control are Linked to Rewards and Compensation System

The respondents are invited to indicate their level of agreement on the following statements in relation to Budget and budgetary control is linked to rewards and compensation system The responses are rated on a five-point Likert scale where: 1 indicate strongly disagree; 2 disagree; 3undecided (neutral); 4 agree and 5 strongly agree

Table 9: Budget and Budgetary Control is Linked to Rewards and Compensation System

	max	**min**	**mean**	**Std. Deviation**
Budgeted performance linked with rewards and compensation system	**5**	**1**	**3.41**	**1.430**
Rewards and compensation system including short term and long-term budgeted performance.	**5**	**1**	**2.45**	**1.391**
The budget alien multiple goal levels with multiple bounce and other compensation level.	**5**	**1**	**3.67**	**1.399**
Reward and compensation take place only when budget attainment occurs	**5**	**1**	**2.34**	**1.291**

Based on the above table the respondents were agreed with Budgeted performance linked with rewards and compensation system (3.41) and Rewards and compensation system including short term and long-term budgeted performance (2.45), the budget alien multiple goal levels with multiple bounce and other compensation level (3.67) and reward and compensation take place only when budget attainment occurs (2.34).

4.13. Analysis of Budget Serves as Means of Motivating Managers and Employees to Help the Firm Achieve its Objectives

The respondents are invited to indicate their level of agreement on the following statements in relation to Budget serve as means of motivating managers and employees to help the firm achieve its objectives. The responses are rated on a five-point Likert scale where: 1 indicate strongly disagree; 2 disagree; 3undecided (neutral); 4 agree and 5 strongly agree

Table 10: Budget Serve as Means of Motivating Managers and Employees to Help the Firm Achieve its Objectives

	max	**min**	**mean**	**Std. Deviation**
The budgets tend to be facilitated basic psychological needs: autonomy, competence, relatedness.	**5**	**1**	**3.60**	**1.412**
The budget targets are challenging and attainable at the same time	**5**	**1**	**3.60**	**1.424**
Developed budget is fair enough to motivate employee’s performance.	**5**	**1**	**3.69**	**1.286**
The budget crafted in terms of stretch goal in order to motivate employee to do their best effort.	**5**	**1**	**2.25**	**1.283**
Budget difficulty not being increased as a result of their achieving past difficult target.	**5**	**1**	**2.20**	**1.197**

From the findings most respondents agreed with the budgets tend to be facilitated basic psychological needs: autonomy, competence, relatedness (3.6) and the budget targets is challenging and attainable at the same time (3.60), Developed budget is fair enough to motivate employee’s performance (3.69). In addition to this most respondents were disagreed with the budget crafted in terms of stretch goal in order to motivate employee to do their best effort (2.25), and most respondents disagreed with the Budget difficulty not being increased as a result of their achieving past difficult target (2.20).

CHAPTER FIVE

5. FINDINGS, RECOMMENDATIONS, AND CONCLUSION

5.1. Major Findings

The main purpose of this study is the evaluation of budgeting as a means of management control system in the case of Ethiopian private banks. To meet these objectives of the study primary data were collected and analyzed using descriptive statistical techniques. The questions raised were categorized in to nine to enable the researcher provide response for the nine research questions that have asked in chapter one. Based on the result of the study, the concluding remarks and some relevant recommendations that are made as per on the specific objectives of the research are presented as follows.

5.2. Conclusion

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

Overall features of the budget process, how is it prepared and approved

It is evident from the analysis that the budget processes of the banks has a budget manual that disclosed to the basic rules and principles of conduct of the budget in their bank. The study reveals that the private banks are issue of a budget guideline prior to preparing budget that helps in giving managers an overview of the budgeting process. Both long-term and short-term budget are prepared in these private banks. Managers of different responsibility centers within the banks develop a budget request that give them access to participate in, and to have influence on in the budget setting process. Budget revised from time to time in order to check discrepancies that lead to them assess factors to take corrective measures. The Analysis and control of budget performed by different business unit managers. managers of departments participate in the approval and control of budgets.

Budgeting system aligned with its strategic objective, and help to fine Tune the long-term plan to annual plan.

The study revealed that Budgeting system of the banks have problems/challenges in aligned with its strategic objective, and helps to fine Tune the long-term plan to annual plan. In the area of, the budgeting systems are unjustly lower priorities for strategic initiatives to meet strategic purpose of budgeting and limitation in the reviews and modify of the budget in the budgeting process when the organization's strategy and resources change.

However, the Strategic planning used as the framework for the preparation of annual budgets, Budgeting system used wide range of data about internal and external environment when it's prepared its budget, The budgeting system used strategic related score card.

The budget specifically defined at strategic business unit level to enable Clear reporting and performance measurement at unit/ responsibility center

In complex and diversified firms such that banks it is important to defined budget at a strategic business unit level. From the findings of the analyzed data, it is possible to conclude that the budget specifically defined at strategic business unit level to enable clear reporting and performance measurement at unit/ responsibility center. Budget decomposing the corporate goals into multiple organizational business units; Budget operates on the premise that the business unit should be held responsible for their budgeted performances; the budget accounting classifies and report information about an organization's activities performance to defined according to the business unit who are responsible for them; Budget Report furnishes details of the responsibility of business unit variances in actual and budgeted figure. Thus, Ethiopian private banks budget has important role which are believed to be ultimately leads to clear reporting and performance measurement system.

The budget indicates performance parameters in a clearly measurable way.

It can be concluded from the finding that the budget indicates performance parameters in a clearly measurable way. That is, Performance parameters are enriched with the prospect of using leading and lagging indicators of performance; Performance parameters satisfy many of the measurement criteria like Timeliness, precision, and objectivity; Performance parameters well familiar by employees what the measures represent and how they can be influenced; The budget set of performance parameters that reflect their objectives to assess performance appropriately.

These shows the banks budget comply with the major conditions which are indicated in this study necessary to be introduce to indicates performance parameters is in a clearly measurable way.

Budget process encourage participation of implementing unit to enhance cooperation.

It can be concluded from the finding that Budgeting process insisted the communication & learning process of different business units.

The primary risk organizations face by imposing budget to its employees is having lower commitment to achieve the targets. Based on the response Budgeting process not imposed budget rather be understood & accepted by business units. The study concluded the budgeting process insured by visible and long-term involvement of top management to encourage implementing unit shows there is strong budget monitoring practice in Ethiopia private banking industry. Business units of the banks encouraged to actively involved in the process of setting their performance targets, hence target setting involves a process of sharing information about business possibilities and corporate preferences and resources, they can be provided useful information to superiors and to enhance cooperation.

Budgeting used to coordinate efforts of the business units to meet overall objective of the firm.

It is evident from the analysis that those involved in budgeting is properly trained and guided in the objectives, benefits, steps, and procedures, the budgeting processes not implementing conflicting goals to individual business unit, budgeting processes stimulate effective communication in the organization for working together to ward common goal.

However, Budgeting not focus on cross-functional core processes rather than isolated departmental and business unit performance.

Performance indicators balanced between financial and non-financial indicators, external and internal indicators to avoid emphasis on quantified financial facts only.

Indeed, from the major findings of the analyzed data, banks have found it useful to focus on a set of value drivers in their measurement systems, banks have used a variety of measures of value drivers that have attribute to many benefits which are; Performance indicators directing attention to the common measurement areas: product, market, employee and customer; Performance indicators possess interest of stake holder at large; Performance indicators benchmarking against industry best performance; Performance indicator relaxes the Pressure to generating short-term profits. Generally, the result of the study shows there are multidimensional performance measurement systems.

Budget and budgetary control is linked to rewards and compensation system

From the findings of the analyzed data, it is possible to conclude that Budgeted performance linked with rewards and compensation system of the banks, there is a Rewards and compensation system including short term and long-term budgeted performance; the budget alien multiple goal levels with multiple bounce and other compensation level; reward and compensation take place only when budget attainment occurs

Budget serve as means of motivating managers and employees to help the firm achieve its objectives

Budget targets have powerful motivations to increased commitment causes the managers to achieve organization objective. It is evident from the analysis that the budgeted target of the private banks complies with some of the attribute that help to use for motivational purpose this include; The budgets tend to be facilitated basic psychological needs: autonomy, competence, relatedness; The budget targets is challenging and attainable at the same time; Developed budget is fair enough to motivate employee's performance.

However, the budget target did not fully comply with some of the issue such that the budget crafted in terms of stretch goal in order to motivate employee to do their best effort; Budget difficulty not being increased as a result of their achieving past difficult target. In general, the banks fulfill 3 out of the 5 attribute of an effective budget target that used for motivation purpose that were incorporated in this study.

5.3. Recommendations

The study has examined Ethiopian private bank budgeting process and its effect as in the areas of management control system of the banks. The descriptive work cited in this study attempts to provide an optimal choice of MCS tools that leads to superior performance and higher perceived usefulness of MCS.

- This study recommends that the banks strategies should influences the adoption and implementation of budgeting system of the banks.
- There must be a need for an evolution in the tools of management control system to face environmental variability through the strategic change management.
- The budget should be interactive and flexible tool that are able to cope with new environmental scenarios which stimulating the employee commitment.
- Achieving historical difficult budgeted target used for current budgeting period makes managers react negatively to the budget targets they committed to deliver. Thus, Continuous planning should be introduced to permits the frequent review of the main financial performance indicators.
- Business unit should be accountable which they have no direct Control to empower them to influence the behaviors of other with direct control.

5.4. Limitation of the Study

One of the major limitations encountered in the study emanated from the fact that information from the banking industry is secured through strict confidential policies which make it classified

Therefore, accessing fully some of the crucial data by way of questionnaires was quite a difficult task. Secondly, most academic staff had a busy schedule and more so due to the fact that many researchers from different disciplines of knowledge frequently targeted these institutions for their case studies. Thus, the financial department saw this as very usual occurrence and did not seriously consider answering questionnaires.

5.5. Recommendations for Further Studies

This study has investigated budgeting as a Means of management control system in Ethiopian banking industry. To this end therefore a further study should be carried out to assess beyond budgeting as a means of management control system. Moreover, studies should also carry out to investigate the challenges facing management control system of Ethiopia banking industry for using budgeting as a control tool.

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Appendices I

Addis Ababa University

Collage of Business and Economics

Department of Accounting and Finance: Post Graduate Program

Questionnaire for Bank Staffs

Questionnaire

Dear Sir/Madam

I am MSC in Accounting and Finance student at Addis Ababa University and now I am doing research on topic entitled „ BUDGETING AS A MEANS OF MANANGMENT CONTROL SYSTEM: THE CASE OF ETHIOPIAN PRIVAET BANKs ‟. I shall be great full if you help me in filling up the questionnaire with fair and frank responses. I assure you that the information supplied will be kept strictly confidential and used for the academic research purpose only.

Thank you for your cooperation !!

If you have any ambiguity or a question, contact me

I. Personal Information of Respondents

Please put right mark **(√)** in front of your choice box that express yourself

1. Gender:

   ☐ Male ☐ Female

2. Age

   ☐ 18-24 ☐ 25-35 ☐ 36-50 ☐ 51-60 ☐ Above60

3. Year of experience

   ☐ 1-5 ☐ 6-10 ☐ 11-15 ☐ 16-20 ☐ Above 20

4. Job Position

   ☐ Finance Manager ☐ Budget office Manager ☐ Accountant

   ☐ Other line Manager ☐ Budget officer

5. Bank:

   United bank ☐, Awash Bank ☐ , Bank of Abyssinia ☐ ,

   Cooperative Bank of Oromia ☐, Oromia International Bank ☐, Lion Bank ☐

   Birhan Bank ☐, Nib Bank ☐ , Buna Bank ☐, Wogagen Bank ☐

   Zemen Bank ☐ , Dashen bank ☐

II. Question’s relation to budget as a means of management control

Please right mark (√) any no. from 1to 5 on the basis of your experience in the budgeting and management control.

s.no	Controlling factor	Strongly	Disagree	Neutral	Agree	Strongly
		1	**2**	**3**	**4**	**5**
1	**The overall features of the budget process, how is it prepared and approved.**					
1.1	The budge process has a budget manual that disclosed to the basic rules and principles of conduct of the budget.					
1.2	The budget process issue budget guidelines prior to preparing budget.					
1.3	Both long-term and short-term budget are prepared.					
1.4	Managers of different responsibility centers within the organization develop a budget request.					
1.5	The Analysis and control of budget performed by different business unit managers.					
1.6	budget revised from time to time in order to check discrepancies					
1.7	managers of departments participate in the approval and control of budgets					
2	**Budgeting system aligned with its strategic objective, and help to fine Tune the long-term plan to annual plan.**					
2.1	The Strategic planning used as the framework for the preparation of annual budgets.					

2.2	Budgeting system used wide range of data about internal and external environment when it's prepared its budget.					
2.3	The budgeting system gives priorities for strategic initiatives to meet strategic purpose of budgeting.					
2.4	The budgeting system used strategic related score card.					
2.5	The budgeting process reviews and modifies the budget as the organization's strategy and resources change.					
3	**The budget specifically defined at strategic business unit level to enable Clear reporting and performance measurement at unit/ responsibility center.**					
3.1	Budget decomposing the corporate goals into multiple organizational business units.					
3.2	Budget operates on the premise that the business unit should be held responsible for their budgeted performances.					
3.3	The budget accounting classifies and report information about an organization's activities performance to defined according to the business unit who are responsible for them.					
3.4	Budget Report furnishes details of the responsibility of business unit variances in actual and budgeted figure.					
4	**The budget indicates performance parameters in a clearly measurable way.**					
4.1	Performance parameters are enriched with the prospect of using leading and lagging indicators of performance.					
4.2	Performance parameters satisfy many of the measurement criteria like Timeliness, precision, and objectivity.					
4.3	Performance parameters well familiar by employees what the measures					

	represent and how they can be influenced.					
4.3	The budget set of performance parameters that reflect their objectives to assess performance appropriately.					
5	**Budget process encourage participation of implementing unit to enhance cooperation.**					
5.1	Budgeting process insisted the communication & learning process of different business units.					
5.2	Budgeting process not imposed budget rather be understood & accepted by business units.					
5.3	The budgeting process insured by visible and long-term involvement of top management to encourage implementing unit.					
5.4	business unit encouraged to actively involved in the process of setting their performance targets					
6	**Budgeting used to coordinate efforts of the business units to meet overall objective of the firm.**					
6.1	Those involved in budgeting is properly trained and guided in the objectives, benefits, steps, and procedures.					
6.2	The budgeting processes not implementing conflicting goals to individual business unit.					
6.3	Budgeting focus on cross-functional core processes rather than isolated departmental and business unit performance.					
6.4	Budgeting processes stimulate effective communication in the organization for working together to ward common goal.					
7	**Performance indicators balanced between financial and non-financial indicators, external and internal indicators to avoid emphasis on quantified financial facts only.**					
7.1	Performance indicators directing attention to the common measurement areas: product, market, employee and customer.					

7.2	Performance indicators possess interest of stake holder at large.					
7.3	Performance indicators benchmarking against industry best performance.					
7.4	Performance indicator relaxes the Pressure to generating short-term profits.					
8	**Budget and budgetary control is linked to rewards and compensation system**					
8.1	Budgeted performance linked with rewards and compensation system					
8.2	Rewards and compensation system including short term and long-term budgeted performance.					
8.3	The budget alien multiple goal levels with multiple bounce and other compensation level.					
8.4	reward and compensation take place only when budget attainment occurs					
9	**Budget serve as means of motivating managers and employees to help the firm achieve its objectives**					
9.1	The budgets tend to be facilitated basic psychological needs: autonomy, competence, relatedness.					
9.2	The budget targets is challenging and attainable at the same time					
9.3	Developed budget is fair enough to motivate employee's performance.					
9.4	The budget crafted in terms of stretch goal in order to motivate employee to do their best effort.					
9.5	Budget difficulty not being increased as a result of their achieving past difficult target.					

Thank You for Your Time.