

ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES

**The Application of Management Control System in Ethiopian
Commercial Banks**

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June, 2011
Addis Ababa

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***A thesis submitted to the School of Graduate Studies of Addis
Ababa University in partial fulfillment of the requirements for
the Degree of Masters of Science in Accounting and Finance***

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Declaration

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

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Acknowledgments

First and for most I am very enchanted to take this opportunity to thank my lord Jesus who initiates me to begin and helps me to finish this study.

Next, I would like to express my heart felt gratitude to my advisor Dr. Ulaganathan, for his priceless comments and suggestions without whom the paper would not have its present shape.

Special thanks go to the employees of Ethiopian Commercial Banks who helped me to materialize the paper by filling the questionnaires patiently and responding to interview questions.

My affectionate and deepest gratitude also goes to my family, particularly to my mother for her unreserved pray to the almighty GOD for my success.

My academic career has profited greatly from several key individuals who have provided inspiration, encouragement, and assistance in this endeavor: Assefa Mekasha, Arega Seyoum , Zelalem Tesfaye and Wubante Fetene, friends' of mine who devoted their golden time and helped me in many aspects to materialize this paper.

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List of Abbreviations

AA	Addis Ababa
CB	Commercial bank
ECB	Ethiopia Commercial Bank
EVA	Economic Value Added
H	Hypothesis
KPI	Key Performance Indicator
MCS	Management Control System
NBE	National Bank of Ethiopia
PM	Performance Measurement
ROE	Return on Equity
ROI	Return on Investment
SPM	Strategic Planning and Management

Abstract

Banking sector is one of the most successful financial institutions in Ethiopia; however, there is virtually no formidable study on management control system about this sector. The increasing knowledge and understanding on the application of management control system, for the area in which this research was undertaken by benchmarking of the same research undertaken in other country, were taken as the major initiators of this study and were the rationale to the research. This study focused only the application of management control system in Ethiopia Commercial Banks even if there were different managerial issues in the banking industry at the head and branch offices as well. An institution based cross sectional descriptive study with analytic components was conducted in Ethiopian commercial banks which are functioned at Addis Ababa. The study employed both quantitative and qualitative study approaches. Study population for the survey was employees, officers and managers of the banks. Besides, for the qualitative part, key informant interviews were conducted with managers and officers of the banks. A questionnaire with five Likert scale for the survey which is mainly used for quantitative part, and Semi-structured interview guide for the qualitative were used as data collection tools. SPSS version 19 for windows was employed to perform statistical analysis. Findings were displayed using tables, and pie-charts. The regression results show that strategic planning and management; and performance measurement have positive and statistical significant contribution on management control system of Ethiopian commercial banks .this is as similar result with (Sinikka 2007). Besides, the commercial banks are competing mainly in service and many of them adapting differentiation strategy. The priority of the majority of commercial banks is customer retention. Commercial banks are encouraging employees to upgrade their knowledge and skill on the basis of experience or service offer to the bank. However, some problems were also there; human capital, benefit entitlement, liquidity and responsibility center. Therefore, the commercial banks need to give due attention for these problems, giving and preparing continuous training for employees and evaluating training results.

Key words: Management control system, commercial bank, budgeting system, performance measurement, cost accounting and service pricing, decision making, compensation and benefit

Chapter One

Introduction

1.1. Background of the Study

Management control system (MCS) is a logical integration of techniques to gather and use information to make planning and control decision, to motivate employees behavior, and to evaluate performance (Horngren et al. 2002). It is the process by which managers assure that resources are used effectively and efficiently in the accomplishment of the organization's objectives' - in other words control using both financial and non-financial objectives. It is specifically concerned with the process by which managers influence other members of the organization to implement the organizational strategies (Anthony and Govindarajan 2002).

It involves a number of activities:

- Planning what the organization should do
- Coordinating the activities of several parts of the organization
- Communicating information
- Evaluating information

MCSs have been recognized as important in the formulation and implementation of strategies (Bromwich and Bhimani 1994). The orientation of corporate and business strategy should, therefore, be reflected in the design and use of the MCSs at the respective organizational levels (Langfield-Smith 1997 cited in Fredrik Nilsson 2002). In coping with the competitive forces, there are three potentially successful generic strategic approaches to

outperforming other firms in an industry; overall cost leadership, differentiation and focus (Porter 1998).

A control system is a set of formal and informal systems that designed to asset management in steering the organization towards the achievement of its purpose by bringing unity out of the diverse efforts of subunits and individuals (Marciallo and Kirby 1994). The formal system and informal system are independent but they are highly interrelated, indistinguishable, subdivision of control system.

One explanation for the high proportion of the business to fail is the difficulty of establishing a management control system (MCS) that will suit both for head and branch companies (Harrison et al. 1988). While there are many components that makeup a MCS, the researcher focuses merely on the following key elements: the strategic planning and management ,budgeting system, cash and cost management, decision making, performance measurement, and compensation(rewards). It is also possible that the company's control system is used for the purpose of exploiting synergies and implementing the chosen corporate strategy. Goold and Campbell (1997, p.123) suggests that implementation of corporate strategy is facilitated in cases where the corporate strategic planning system is consistent with the system implemented at the business-unit level. If this is the case, it is likely that corporate strategy will be an important driving force influencing the way in which MCSs are designed.

First, studies have revealed many facets or pros and cons emerging about the new managerial and management accounting techniques. Studies have also considered more broadly the application MCSs .Second, researchers have particularly examined the role of contemporary accounting practices in different managerial and changing settings reliance on accounting

performance measures (Hartmann 2000), or the influences of more current practices on decision making (Nixon 1995).

Third, instead of the role of contemporary accounting practices, the researcher has been focused on designs or characteristics of the employed MCS or their components and variations in different settings. These studies have contributed to the identification and understanding of the many relationships between the MCS and essential organizational and contextual factors, often also revealing relations to organizational performance. The rich variety of variables and settings used and combinations examined is typical of this research. Characteristically, the key variables have been some of the contemporary aspects of the factors presented in contingency theory of organizations, i.e. technique, strategy, size, organizational structure, environment and culture (Luft& Shields 2003).The research, thus, tried to relate MCS to organizational culture, focusing on strategic priorities and management techniques.

To put it in a nut shell, the researcher is interested in examining the application of MCS in ECBs to view under the perspective of strategy and plans, organization structure, reward system, performance measure, vision and mission and target. The previous study on this area conducted in other country helps to increase and build the level of understanding on the application of MCS for the area in which this research has been conducted. The study uses mixed methodological approach to gather data that could not possibly be obtained by adopting a single method. In addition, the researcher has ambition to examine greater number of components management control cited by (Anthony and Govindarajan 2001) unlike the previous researcher, Fredrik Nilsson (2002).

1.2. Statement of the Problem

Good MCS have been playing its own significant role in the company to scale up the heights of profitability and going concern. Also, when considering the 1992-2004 period, the trend seems to be towards increasing use of more recently developed and more MCS practices (Peljhan et al. 2005). One explanation for the high proportion of using it is the process by which managers assure that resources are used effectively and efficiently in the accomplishment of the organization's objectives'-in other words, control using both financial and non –financial objectives. It is specifically concerned with the process by which managers influence other members of the organization to implement the organizational strategies (Anthony and Govindarajan 2001). The business development of a firm is adversely affected due to inappropriately use and establishing a MCS that will suit for companies (Harrison et al. 1988).

It is evident in many cases that though intensive efforts have been exerted to properly utilize management control practice in Ethiopia by many organizations, no significant differences have been achieved over the management control practice which is being exercised in the country. The issue of management control practice still presents unique challenges in terms of effectively addressing the organizational goals and objectives. Therefore, there is a potential challenges in the managerial control practice of Banks as a result of regulated by NBE and custom of traditional management system

Various researches have been conducted concerning the role of MCS in achieving the organization objectives. Accordingly, it has been found out that companies systematically use comprehensive MCS information and practices have pivotal roles to play in aligning all

levels of control in the company, so what is critical to the company's success is regularly evaluated and rewarded by using key performance indicator (Metka et al. 2006).

This study is conducted by the researcher first with the assumption to strengthen the existing theory in that it does not only just establish a relationship between contextual and MCS variables, but also considers how this relationship impacts on organizational performance. Secondly, most of the empirical research conducted in other country has focused on issues related to the diversity of measurement (i.e. the use of broad set of financial and non-financial measures) and has overlooked the use of MCS as a whole. Therefore, this study fills this void as it considers the importance of holistic use of MCS. Here the researcher is interested in examining the components of MCSs. The other driving force for the researcher is to examine the application of MCS to achieve corporate and business strategy ,goals and objectives of the banks in Ethiopia .Finally, this research has been conducted with the aim to increase knowledge and understanding of MCS for the area in which this research has been undertaken by benchmarking of the same research undertaken in other country and the researcher has ambition to examine greater numbers of components MCS cited by (Anthony and Govindarajan 2001) that the previous researcher like Fredrik (2002) gave partial consideration of Management control components.

1.3. Research Questions

- ❖ What kinds of MCS do the Ethiopia banks apply and its contribution for profit and beat the competition?
- ❖ What reward system the commercial banks have been adopting?

- ❖ How do commercial banks encourage their employees to learn new skill and knowledge?
- ❖ What are the barriers to use of MCS practices and information?

1.4. The Purpose Statement

The purpose of this concurrent mixed methods study, thus, is to explore the application of MCS and to better understand a research problem by triangulating both quantitative (broad numeric trends) and qualitative (detailed views). In the study, therefore, survey was used to measure the components of MCS and its application. At the same time, the major components and application of MCS were explored using semi-structured interview with the bank managers and officers which function in AA. Therefore, having the aforementioned statement of problem in mind, the researcher addressed the following research objectives:

- To assess strategic planning and Management practice of the banks
- To assess the budgeting system and application of banks
- To evaluate cost accounting and service pricing of banks
- To examine decision making capabilities of the banks
- To evaluate the performance measurement systems applied by the bank
- To explore rewards (compensation) applied by banks.

1.5. Research Hypotheses (H)

The hypothesis of the thesis is developed after supporting theoretical framework so as to achieve the objective of the study.

Strategy and MCS. Firm strategy has been linked with MCS in many recent contingency theoretical studies (Baines & Langfield-Smith 2003). To sum up the studies, it seems that

firms pursuing generic strategies like Focus, differentiation, entrepreneurial or build are using more external, non-financial, and future oriented MCS information than firms focusing on somehow contradictory types of strategies (Chenhall 2003). These latter types of firms tend to use more traditional and narrower scope MCS information, i.e. internal, financial and historical-oriented information. These kinds of differences in design and use of MCS have been explained by different contingent factors such as information needs managers face in their decision making pursuing different firm strategies.

Thus, it can be assumed that if banking sector strategic mission is to pursue strong expansion in operations and increase market share, it will also need more external, non-financial, and future-oriented MCS information for its growth management (Guilding 1999).

On the other hand, those firms, which prefer more sustainability without such an explicit willingness to grow further, i.e. firms pursuing strategies with a harvest orientation, are content with more traditional information regarding MCS. The findings of Moores & Yuen (2001) that growth and revival firms use more MCS than birth, mature and declining firms is also in line with the above statements.

Additionally, Laitinen (2002) has reported, that high technology firms which want to improve their performance in a highly competitive environment tend to have stronger pressures to change and develop their management accounting practices and performance measures. On the other hand, Laitinen (2001a) found that stable and conservative firms are not so change oriented in their MCS. Furthermore, Reid & Smith (2002) report that adaptive firms prefer high growth and enlarged market shares as well as more formal methods in their MCS. Thus, it seems that a build type of orientation in a small firm results in increased use of

various MCS practices and information. These arguments above lead to the following hypothesis:

H1: There is a positive relationship between a strategy and use of comprehensive MCS practices.

MCS and Performance. In this study MCS is defined broadly as a system providing useful information to assist managers in their decision making to achieve desired organizational outcomes or goals efficiently (Anthony & Govindarajan 2001). Based on this role of MCS and taking into account the proposed effect of firm strategy on the use of comprehensive MCS, the increased use of comprehensive MCS practices and information can be assumed to result in better decision-making and improved performance among firms pursuing a build strategy (Chenhall 2003). The decreased use of comprehensive MCS practices and information in harvest firms is assumed respectively to be related to poorer performance of these firms. To sum up, it is assumed in this study using a path analytical structural approach that MCS acts as an intervening or mediating variable between firm strategy and performance as found in Baines & Langfield-Smith (2003). The following hypothesis that focuses on overall benefits of the use of MCS on performance is suggested:

H2: There is a positive relationship between use of comprehensive MCS and the performance of the firm.

Effects in future Performance. According to Sinikka (2007), the role of MCS is to support managers in their decision-making to attain strategic objectives and goals of firms efficiently, i.e. ultimately achieve better performance. The intended strategy, actual use of advanced dimensions of MCS and needs for more comprehensive MCS practices at the present time

may be interpreted as possible leading factors of future performance of firms. Thus, in order to confirm the study of the above scholar, the following hypothesis is stated:

H3: There is a positive relationship between the intended strategy and performance of the firm.

1.6. Significance of the Study

The researcher believes that this study does have a significant role to play in shading light on how to apply MCSs in major businesses of the country in general and in the bank in particular. Furthermore, this study also does have a paramount importance in providing a better ground for investors and other stakeholders, which are keenly concerned with this issue, to take it as a basement rock in their further stride to implement appropriate basic components of MCS. Moreover, the researcher also believes that this study can potentially serve as a stepping stone for further research in the area.

1.7. Scope of the Study

The study focused only the application of MCS here in Ethiopia focusing of ECBs in AA even if there are different managerial issue and branch office of the bank as well.

1.8. Limitation of the Study

As it has been tried to point out in the scope of the study, the horizon of study is confined merely on the application of MCS here in Ethiopia, particularly, ECBs operating in AA. The researcher believes that it would be much more comprehensible if it would have been conducted in country wide banking for taking numbers of firms. However, because of the constraints of time and money, the researcher is forced to limit the study on this limited area.

1.9. Structure of the Thesis

The research focuses on the application of MCS in ECBs including the rationale to study the subject. The research structured as follows: **Chapter 1** is introduction. **Chapter 2** contains a review of the literature with regard to MCS. The research design and methodology is presented in **chapter 3**. Particularly, this session shows the research questions to be addressed and followed by a discussion of the underlying principles of mixed research methods.

Furthermore, chapter 3 presents the rationale for the adoption of the mixed methods approach in the report. **Chapter 4** presents data presentation, discussion and interpretation the results of the different methods used. Specifically, the results of surveys with questionnaires, interviews, and documentary analysis, are presented in this chapter. Finally, **chapter 5** presents summary, conclusion and recommendations including areas where further research may be productive.

Chapter Two

Review of Related Literature

Management control is the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives (Anthony et al. 2007). MCS is thus the process that links strategic planning and operational control. MCSs have the purpose of providing information useful in decision-making, planning and evaluation (Brickley et al. 2007). The focus of MCS is not only on one form of control like performance measures but on multiple control systems working together (Widener 2007). Simons (2000) argues that "MCS are the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities. Whereas strategic control assesses the question whether the strategy chosen by the organization is valid, management control according to Merchant and Van der Steede (2003) addresses the question whether employees behave appropriately or not. MCS are therefore intended to help the organization to motivate employees to make decisions and to take actions which are in the organization's best interest. MCS thus have two main purposes: providing information useful to management and helping to ensure viable patterns of employee behavior in order to achieve organizational objectives.

This part of the study attempts to present a brief theoretical framework, different research findings and views of different scholars which are one way or the other pertinent to the study. The review of related literature is organized in three interrelated sections. The first section setting the theoretical underpinnings of the study. Section two puts the empirical study.

Finally, the review of related literature ends with presentation of conclusions and knowledge gaps are presented in section conclusion.

2.1. Theoretical Underpinnings

This section deals about the theoretical framework supported by different authors regarding the MCS. It is composed of definition of MCS, strategic issue, budgeting system, cost accounting and service pricing, decision making, performance measurement, and rewards and compensation.

2.1.1. Management Control System

In aggregate, Malmi & Brown (2008) define MCS as it includes all the devices and systems managers use to ensure that the behaviors and decisions of their employees are consistent with the organization's objectives and strategies. Any system, such as planning, budgeting, responsibility centers, cost management, decision making, management control, performance measurement, and compensation categorized as MCS (Anthony and Govindarajan 2001). MCS also have many characteristics which influence their use. For example, management controls may be formal or informal (Langfield-Smith 2007). In any case, the presence, use or absence of MCSs significantly influences the actions and decisions carried out within an organization (Anthony and Govindarajan 2001). In addition; Anthony & Govindarajan (2003) expand the definition of MCS as the process by which managers of all levels ensure that the people they supervise implement their intended strategies. This definition, according to Berry et al. (2005), reflects Anthony's current views on MCSs, which have some continuity with his original approach, but abandon some elements like; management control is primarily a process for motivating and inspiring people to perform organization activities

that will further the organization's goal. It is also a process for detecting and correcting unintentional performance errors and intentional irregularities, such as theft or misuse of resources (Joni 2009).

In addition, the issue of MCS is explored in the form of relationships with regard to hierarchical level such as Strategy formulation, management control and task control have a distinct and ranked relationship.

Management control fits between strategy formulation and task control in several respects. Strategy formulation focuses on the long run, task control focuses on short run operating activities, and management control is in between (Joni 2009).

Management control, hence, "rests very firmly in the domain of accounting" (Berry et al. 2005). The dynamic interplay between planning and control processes is ignored (Lowe & Puxty 1989). Until 1985, the research on MCSs had been widely developed in financial accounting, particularly conventional cost accounting and in behavioral and organizational accounting (Otley, 2003). MCS have also been defined more generically as the systematic use of management accounting to achieve some goal, but also encompassing the use of other forms of control such as personal or cultural controls (Chenhall 2003).

Chenhall (2003, pp. 137-138) concluded that;

...it can be seen that a consistent stream of research over the past 20 years has confirmed that uncertainty has been associated with a need for more open, externally focused, non-financial styles of MCS. However, hostile and turbulent conditions appear, in the main, to be best served by a reliance on formal controls and an emphasis on budgets. The question may be posed, what is the

appropriate MCS for organizations operating in conditions of uncertainty, turbulence and hostility?

Johnson and Kaplan (1987, pp.1-15) pointed out a paradox: management control practices no longer provided information relevant for managers' planning and control decisions, while ironically "many senior managers began to believe they could run their firms 'by the numbers'".

MCS a logical integration of techniques to gather and use information to make planning and control decision, to motivate employees behavior, and to evaluate performance (Horngren et al. 2002). It is the process by which managers assure that resources are used effectively and efficiently in the accomplishment of the organization's objectives' - in other words control using both financial and non-financial objectives. It is specifically concerned with the process by which managers influence other members of the organization to implement the organizational strategies (Anthony and Govindarajan 2002). It involves number of activities:

- Planning what the organization should do
- Coordinating the activities of several parts of the organization
- Communicating information
- Evaluating information

In the journal article of Saroj (2006) explore the ideas of different scholars regarding the MCS described in the following manner. A control system is a set of formal and informal systems that designed to asset management in steering the organization towards the achievement of its purpose by bringing unity out of the diverse efforts of subunits and individuals (Marciallo and Kirby 1994). The formal system and informal system are independent but they are highly interrelated, indistinguishable, subdivision of control system.

I. Formal Control System:-Formal system makes possible the delegation of authority. Formal documentation of structure, policies, and procedures assist members of the organization in performing their duties (Wu 2003). An effective set of formal control includes three major mechanism-operational plans, performance measurement systems, and feedback mechanism.

A. Operational Plans: Operational plans include the firm's annual master budget and related supporting work plans. They provide the linkage between senior management's strategic plans and the day-to-day organizational activities of each employee.

B. Performance Measurement: Performance measurement systems compile and report the result of the collective work activities on periodic basis. An effective performance measurement system presents both financial results and operating data on a responsibility basis.

C. Feedback Mechanism: Feedback mechanism reports the variances between actual and planned performance. The variance is communicated to managers and others within the organization periodically through various interim reports. Informal system requires management a mindset that differs from that required for formal controls. "Informally" refers to the flexibility to deal with any action beyond the documentary discipline and regulation. In this respect formally leads to a pattern of defined behaviors whereas informally leads to a pattern of interacting roles between two systems (Marciall and Kirby 1994).

II. Informal Control System:-The informal control system consists of five components:

A. Informal Control Process: Under certain conditions and uncertainty, management will try to gather more and accurate information from the dynamic environment and adapt

organizational goal. All these goal-directed actions are based on the experience and skill of management.

B. Infrastructure: Infrastructure includes personal contacts and network. A personal contact is a model of communication within the organization that acts an efficient method to exchange ideas and information between different levels of the organization

C. Management Style and Culture: Management and culture represent the dominant way that the top management and whole organization have chosen to conduct their work.

D. Informal Rewards: Informal rewards are status oriented. Individual employees are rewarded not only in financial terms. The informal rewards are important because it encourages employees to carry out their job efficiently

E. Coordination and Integration: Coordination and integration is considered as interpersonal relationship, which can be changed and adapted to meet the needs of the organization members. Informal communication helps deeper discussion of sensitive issues in a softer and flexible environment.

The reward system is not so much the money; it is also the friendship and working relationship (Wu 2003). The quality of work life is having work environment where an employee's activities become more important (DeCenzo and Robbins 1996). It means implementing procedure that makes the work less routine and more rewarding for the employees. These procedures include autonomy, recognition, belongingness, progress and development, and external rewards.

The importance of MCS has been increased significantly in recent years (Kald et al. 2002). One indication of this growing importance is the impact of balance scorecard. The balance scorecard is a management system (not only measurement system) that enables organization

to clarify their vision and strategy and translate them into action. The balance scorecard suggests that management views the organization from four perspectives, and to develop metrics, collect data and analyze it relative to each of these perspectives:

1. The learning and growth perspective
2. The business process perspective
3. The customer perspective and
4. Financial perspective

The four perspective of the scorecard permit a balance between

- Short term and long term objectives
- External measures for shareholders and customers and internal measures of critical business process, innovation, and learning and growth
- Outcomes designed and the performance drives of those outcomes
- Hard objectives measures and softer, more subjective measures

In recent years a new financial theory-Economic Value Added (EVA) has been developed for the measurement of financial performance of a company (Stern 1993). EVA is both a measure of value and also measure of performance. The value of a business depends on investor's expectation about the future profits of the enterprise. Stock prices track EVA far more closely than they track earning per share or return on equity. A sustained increase in EVA will bring an increase in the market value of the company. EVA is changing the way managers run their business. When business decisions are aligned with the interest of the shareholders, it is only a matter of time before these efforts are reflected in a higher stock price (Durant 1998). Environmental uncertainty may influence the effectiveness of goal setting, planning and control systems simultaneously. Since goals and planning have a close

relationship with the control function, (Euske 1984), the different characteristics of goals and planning may influence the choice of control systems (Hartmann 2000).

Finally, the researcher of this paper incorporates the proposed framework of Otley (1999) so as to briefly study the procedure of MCSs. Otley drew on the extant body of knowledge in the contingency theory of management accounting and on his personal experience in doing empirical research to inductively generate the framework. In essence, it highlights five central issues, which, he argues, need to be considered as part of the process of developing a coherent structure for performance management systems. It is important to recognize that this framework was intended to act as an aid to description rather than being prescriptive in nature.

The first area of Otley's framework relates to the identification of the key organizational objectives and the processes and methods involved in assessing the level of achievement in each of these objectives. The second area relates to the process of formulating and implementing strategies and plans, as well as the performance measurement and evaluation processes associated with their implementation. The third aspect of the framework relates to the process of setting performance targets and the levels at which such targets are set. The fourth area of Otley's framework draws attention to rewards systems used by organizations and to how these are influenced by achievement or failure to meet performance targets. The final key area of the framework is about the types of information streams required to provide adequate monitoring of performance and learning from experience.

Chenhall (2003) also supports this view by saying; Distinguishing official and operative goals would seem an essential aspect of MCS research that includes consideration of goals, mainly as it flags that the issue of organizational goals is far from unproblematic.

2.1.2. Strategic Planning and Management

In coping with the competitive forces, there are three potentially successful generic strategic approaches to outperforming other firms in an industry; overall cost leadership, differentiation and focus (Porter 1998).

According to Chandler (1962, p. 13), strategy is “*defined as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals*”.

Langfield-Smith (1997, p. 207) states that, “*the MCS should be tailored explicitly to support the strategy of the business*”. For example, Young and Selto (1991) observe that strategy influences the method of accounting practices and techniques used. Ittner et al. (2003) explored that, a basic assumption in the strategic control literature is the need to form specific control practices with the company’s selected strategy.

Therefore, strategy is an important factor in the design and use of MCS. Accounting scholars have argued that MCS have to be modified in accordance with the strategy of a company (Simons 2000). Otley (1999) notes that the strategy and objectives that a company decides to pursue represent a central contingency variable. Strategy is somewhat different from other contingency variables. In a sense it is not an element of context, rather it is the means whereby managers can influence technologies, the structural arrangements and the MCS (Chenhall 2003).

Miles and Snow (1986) pointed that the strategy selected by the company will affect its MCS, meaning that different types of organizational plans and strategies will tend to cause different control system configurations. As per the scholar(Whittington 1995) suggest that

there is an important link between strategy and MCS and that a congruent match of the two variables is essential to performance. According to performance measurement literature, the appropriate performance measurement system encourages actions that are congruent with organizational strategy (Simons 2000).

2.1.3. Budgeting System

The concept of budget by the scholar Hartmann (2000) viewed and found that positive relations between emphases on pressure of managers and manager budgetary performance. While Hopwood (1972) argued that too much budget emphasis would not only cause conflict and disagreement, but would also be ineffective.

2.1.4. Cost Accounting and Service Pricing

The cost incurred at each department is helpful to determine the selling price of service and important to determine the profit of the company by determining the cost incurred at each cost center (Anthony & Govindarajan 2003). Chenhall (2003) summarizes that strategies characterised by conservatism, defender orientations and cost leadership are more associated with formal, traditional MCS focused on cost control, specific operating goals and budgets and rigid budget controls, than entrepreneurial and product differentiation strategies. Furthermore, low cost and differentiation strategies imply different managerial mindsets and involve different perspectives for the MCS. Companies that have adopted a low cost strategy use a set of measures to control costs and to compare the standard with actual costs. On the other hand, companies following a differentiation strategy develop other types of measures concerning quality and efficiency of promotional operations, *etc.*

2.1.5. Decision Making

As Simons (2000) noted, decision making refers to the improvement of decision processes through planning (setting performance and strategic goals and ensuring an adequate level and mix of resources) and coordination (integrating disparate parts of a business to achieve objectives).

2.1.6. Performance Measurement

According to Anthony & Govindarajan (2003) states that MCS comprises those performance measures or KPIs (key performance indicators) which enable top management to monitor organizational performance against important dimensions of a given strategy. Previously restricted to largely accounting-based measures, such as ROI(return on investment) and ROE (return on equity) , firms' performance measurement systems now often encompass a broad range of „metrics,“ many of which are aimed at establishing minimum performance standards in key areas of the business. These include finance, customer service, internal operations, and innovation (Peljhan 2005).

Simons (1995) argues that formal performance measurement systems may be used in either a diagnostic or interactive manner. The difference lies in the amount of personal attention they receive from top managers. Interactive control systems are systems which top managers use to involve themselves regularly and personally in the decision activities of subordinates (Simons 1995). By contrast, diagnostic control systems operate simply as feedback or „error-based“ controls, and are monitored by subordinates or staff personnel, such as the accounting function. The purpose of interactive controls is to direct managers' attention towards current strategic uncertainties (Simons, 2000). The purpose of diagnostic control systems is to ensure

the implementation of existing or intended strategies (Simons, 1995). From this viewpoint and also taking into account the recent developments of MCS, (Peljhan 2005), the proposition is that the use of more comprehensive MCS practices and information results in improved company performance.

Chenhall (2003) states that measurement systems have to contribute to the implementation of the strategic orientations in guiding the action by ensuring short- and long-term performance evaluation. Therefore, strategy, actions and measures have to continuously work in harmony. Looking for consistency between strategy-actions-measures implies the use of financial and non-financial performance measures. If quality and time become essential strategic criteria, financial performance measures are less effective to manage a company in the long run. This does not mean that accounting data are not useful, but they have to be complemented by nonfinancial performance measures.

Trimo (2002) measures its performance with respect to the key elements of its strategy. Therefore, it uses a strategic performance management system (Ittner et al. 2003). Trimo began implementing strategic performance management in the prospector period when it realized the importance of aligning all levers of control in the company, so that what is critical to the company's success is regularly evaluated and rewarded by using key performance indicators (KPIs). KPIs are used by top management to monitor organizational performance in key strategic areas, as defined by key processes in the company. In Trimo, managers consider KPIs once a week at the Management board meeting. In diagnostic control, managers use a management by-exception approach when discussing the reports at the weekly Management board meetings. As its Quality Assurance Director (Trimo 2005b) says: *"Reports contain explanations for KPIs variances and whether they present problems*

or not”. Only problems (*i.e.* deviations) are discussed and appropriate actions taken. That the changes trigger revised action plans is reflected in the following Quality Assurance Director statement (Trimo 2005b): *“In the weekly meetings in which they discuss KPI for each organizational unit (sector), specific decisions are made about what actions we have to take in case of deviations”*. Based on observations, they argue that they have been using a strategic performance management system systematically since 2002. Trimo’s main performance indicator is value added per employee. This clearly shows that Trimo is focused on its future development and growth. Trimo uses balanced measurement systems as a means of communicating to their employees what is important and where the business is heading. Performance measurement systems assist managers in tracking the implementation of business strategy by comparing actual results against strategic goals and objectives (Simons 2000).

A performance measurement framework proposed by Rouse and Putterill (2003) reinforces the need for a greater internal accounting focus on stakeholder interests. They argue that stakeholder expectations should be taken into account when designing performance measurement approaches. In this context, managers should consider both a macro and micro perspective in relation to performance measurement information made available to stakeholders (Rouse and Putterill, 2003). From a micro perspective appropriate management controls would need to be in place to help managers ensure that a business was operating in accordance with stakeholder expectations. In general performance measurement emphasizes goals and stakeholder expectations in the development of lower level control systems (Rouse and Putterill 2003).

2.1.7. Compensation and Benefits

The compensation dimension has already been introduced by Simons (2000) (i.e. formula-based for diagnostic process and contribution-based for interactive process), though this dimension has rarely been explored in practice. One of the major conclusions with regard to Trimo (2002) strategy is that the leadership style is a very important determinant of Trimo's successful implementation of the strategy. She is very charismatic and capable of mobilizing employees towards achieving common goals. In literature, there are discussions about different types of leaders. When looking into the classification that distinguishes transactional and transformational leadership styles (Tucker & Russell 2004), they conclude that she is a true transformational leader with the following characteristics:

- ❖ She is a leader of innovation (King 1994).
- ❖ She creates new pathways in an organization (Mink 1992).
- ❖ She motivates people to work for a new and greater good and to create change (Davidhizar & Shearer 1997). She appeals to higher motivation and adds to the quality of life of the people and the organization. She uses authority and power to inspire and motivate people to trust and follow her example (Tucker & Russell 2004).
- ❖ She has energy-producing characteristics that generate new changes for the organization (Tucker & Russell 2004).
- ❖ She formulates an inspiring vision, facilitates the vision, and encourages short-term sacrifices and makes pursuing the vision a fulfilling venture (Ackoff 1999).

Marciall and Kirby (1994) state that Informal rewards are status oriented. Individual employees are rewarded not only in financial terms. The informal rewards are important because it encourages employees to carry out their job efficiently.

2.2. Empirical Evidence

This section deals with the empirical framework supported by different researchers regarding the management control system. It is composed of the practical application, methods adopted and findings of MCS, strategic issue, budgeting system, cost accounting and service pricing, decision making, performance measurement, and rewards and compensation.

2.2.1. Management Control System

According to Auzair and Langfield-Smith (2005) using quantitative method helps to study the impact of service process type, business strategy and life cycle stage on MCSs. The scholars scope their efforts by investigating service organizations. Dimensions of MCSs under investigation are action versus result control, formal versus informal control, tight versus loose control, restricted versus flexible control, impersonal versus interpersonal control, mass versus professional depicts the dimension of service process type. Dimensions of strategy are depicted by low or high emphasis on cost leadership strategy and a low or high emphasis on differentiation strategy. The dimension of life cycle stage is envisioned by growth versus mature stage. A high emphasize on a cost leadership strategy and a mature strategy is hypothesized to individually lead to forms of bureaucratic management control. High emphasis on a differentiation strategy and a professional service process type are expected to lead to forms of non-bureaucratic management control. The hypotheses are based on the assumption that a certain strategy is always linked to management controls with a fixed set of characteristics. The argument is furthermore grounded in the notion that not all companies apply management controls to strategy have highest performance (Channell and Langfield-Smith 1998). The results provide support for three conclusions: (1) with regard to

the service process type results indicate that mass service organizations apply more bureaucratic management controls than professional service organizations, (2) cost leaders apply more bureaucratic management controls than differentiators, and (3) for the life cycle stage the results indicate that organizations in the mature stage of their life cycle apply more bureaucratic management controls than organizations in the growth stage of their life cycle.

2.2.2. Strategic Planning and Management

According to Saroj (2006) using quantitative method study with descriptive statistics, the findings of the generic strategy of Nepalese commercial banks has been divided for two main areas of business: deposit and lending. The different branches of the same commercial banks at the different geographical location are adapting different strategy. Around fifty two percent branches of commercial banks are concentrating on differentiation strategy and 47.4 percent are following focus strategy to attract the depositors. In case of lending, majority of branches (52.6 percent) of such banks are adapting differentiation strategy followed by focus (42.1 percent) and cost leadership (5.3 percent).

According to Doan (2008) using qualitative methods study, the company called Electra results from the merger in 2001 of four competitors which were established in the 1920s. According to the results from interviewees (Holding management controller, Electra's director, and Tertiary director), the main strategic issue at that time was to conquer the market. The volume strategy was dominant, while the profit was nearly ignored. Moreover, both for motivation and for commercial reasons, the choice had been made to keep the historic brand names of the different companies, often considered as their precious goodwill.

According to Metkaet.al (2006) implications of MCS in the formulation, implementation and monitoring of strategies were investigated. Ideally, the role of strategy is dynamic, involving managers in continually assessing the way combinations of environmental conditions, technologies and structures enhance performance. MCS has the potential to aid managers in this process by assisting them in formulating a strategy related to markets and products, required technologies and appropriate structures. This study's basic conclusion is that MCS influence the implementation and monitoring of strategies, providing feedback for learning and information to be used interactively to formulate strategy further. Few studies in MCS have investigated these issues (Simons, 1995, 2000), rather, most have been restricted to identifying MCS that are appropriate for different strategic models (Chenhall 2003). Therefore, the findings of the paper fill this void. This study upgrades the existing theory in that it not just establishes a relationship between contextual (in our case strategy) and MCS variables, but also considers how this relationship impacts organizational performance. The research shows that the combination of performance-driven behavior and regular use of MCS leads to improved results.

Directions for future research stem from the paper's findings as well as from missed opportunities that indicate opportunities for future research. It would be worthwhile to conduct a longitudinal study on a wider sample of companies to study how and why they change their strategic orientation and the use of MCS and how this has impacted their decision-making, actions and performance management. This study can combine case-study as well as survey methods. The advantage of the present study is that it provides an impetus for future researchers to address these issues and to move beyond existing models of control

and begin to systematically explore the different roles served by accounting in the management of change.

According to Joni (2009) using mixed methods study of several findings emerge from the study. First, the control packages of the business units were found to be virtually akin to each other but, however, equally functional in the face of different contingencies. Second, the packages seemed to rely more on informal and “organic” controls as opposed to formal and “mechanistic” controls. Third, whilst cultural controls were argued to provide a contextual frame for other controls, reward and compensation controls were asserted to remain relatively separate from other package elements. Planning, cybernetic, and administrative controls, on the other hand, appeared to be tightly linked in practice. Finally, the business units’ MCSs packages were argued to be of assistance in fostering organizational ambidexterity.

According to Sinikka (2007), using Mixed methods of study for achieving the objective of MCS in small business context found that strategic-oriented information relating to long-run planning, monitoring of external environment, more sophisticated cost accounting as well as capital budgeting practices (i.e. capital investment calculations and analyses, long-run budgets, market surveys and analyses, scenarios and forecasts relating to strategies, innovations and environment, ABC (Activity based costing), target costing, customer costing, life-cycle costing) are not so commonly adopted, even though over 50% of firms state that they are involved somehow in that kind of planning and analyses. These kinds of lower adoption rates are also in line with the findings of Laitinen (2001a) on the adoption and use of sophisticated costing techniques in technology firms.

While there are numerous business strategies, Langfield-Smith (2007) suggests that there are only two primary business strategies: firstly, business strategy A (harvest, cost leadership and defender) and secondly business strategy B (build, differentiation and prospector). Business strategy research aims to identify the MCSs that fit (or match) these two business strategies (or at least one component of each business strategy). These findings highlight two relationships between business strategy and MCSs. The reliability of these findings is questionable because the studies used to compile these findings were based on qualitative and quantitative research methods, carried out in different time periods and conducted in different countries. As a result, Otley (1999) advocate that studies should examine organizations holistically that are simultaneously examine the three aspects of business strategy, multiple MCSs categories, and performance.

According to the findings of Fredrik Nilsson (2002) shows that the classification of the business strategy of the acquired companies just before the acquisition and after it indicates, there were differences, though relatively minor, in the overall average scores of the four business units. However, both interview and the archival data showed significant differences in the business strategies of the four firms. In view of the differences in the quantitative and qualitative data, additional interviews were conducted to gain a better understanding of the empirical manifestations of the variable under study.

The additional interviews showed tended to underestimate the differences between the firms with a differentiation strategy and those with a cost-leadership strategy.

2.2.3. Budgeting System

Abernethy and Brownell (1999) study the moderating role of style of budget use on the relation between strategic change and performance. The intensive role of accounting practices during strategic organizational changes is explored. Based on the recognition accounting as a vehicle for interaction and learning, the researchers hypothesize a reduction of disruptive performance effects caused by organizational changes of budgeting is used interactively. The theoretical assumption is that when people interact by discussing budgets, they create a shared vision which in turn can improve performance. Survey data is obtained from 63 Australian hospitals. In order to support the hypothesis, analysis should show that organizations with a greater emphasis on interactive use of budgets perform better. The construct of strategic change is operationalized using the definitions of strategy introduced by Miles and Snow (1978). Styles of budget use are classified according to Simons (2000) budget system use classification. Multiple dimensions of all three constructs are measured. The analysis reveals that style of budget use is a moderating factor of the relation between strategic change and performance. This leads to the conclusion that the relation between strategic change and performance is more positive when the style of budget use is interactive compared to when it is diagnostic.

According to the scholar Hartmann (2000) using quantitative study method the result of budget that there is positive relations between emphasis (on pressure of managers) and managers' budgetary performance whereas Hopwood (2002) using similar method that is quantitative argued that too much budget emphasis would not only cause disagreement and conflict, but would also be ineffective. In fact, although a number of debates on the impacts

of top managers" involvement on organization performance have been initiated a long time ago, the results are often contradictory (Besson et al. 2004).

2.2.4. Cost Accounting and Service Pricing

According to Sinikka (2007), using mixed methods of study to achieve the objective of MCS in small business context, found that practices and information relating more to internal efficiency and control issues (e.g. pricing based on variable costing and contribution margin, quality improvement analyses, profitability and satisfaction analyses of customers, efficiency of production, project follow-ups, budgets and variance analysis) seem to be moderate adopted (81%–89% of firms). These results on budgeting and quality issues differ from the findings of Reid & Smith (2002), who report lower adoption rates on these kinds of practices in small micro firms in the UK. However, these results are quite comparable to Laitinen (2001) on small technology firms. Furthermore, variable costing seems to have still a strong position in Finnish firms. Roslender and Hart (2003) presented ten case studies of companies and found there was limited evidence that strategic management accounting techniques, such as attribute costing, strategic cost analysis, and lifecycle costing were being used or understood by managers.

2.2.5. Organizational Decision Making and Objectives

According to Heidi et.al (2006) qualitative methods study to achieve MCS in Energyco plays an important role in several steps of the decision process. First it appears to have assisted in the identification and clarification of problems. Simons (2000) argues that the first step in the decision process is extremely important to understand because some issues may be given full attention while others are neglected. Also, the quality of the solution can often depend on the

way in which a problem is represented. Because the MCS includes information on leading and lagging indicators, potential problems can be identified early on and managed proactively; rather than after already experiencing financial troubles, for instance. The MCS has helped to overcome a „firefighting“ style of dealing with strategic issues and appears to have allowed a more systematic method for making decisions to solve them. The theme in the following quote was echoed by all three members of the Executive Team interviewed, and similar responses were given by the general managers and regional general managers regarding their role.

Another issue in decision making is also the limits to rationality, due to complexity and incomplete information (Simon 1997). The MCS presents a much wider scope of information on aspects of Energyco performance, and allows managers to consider the impact of a decision on more than one area.

The final point is that the MCS led to a balancing process when making decisions, and this appears to be its strength in overcoming the conflict between multiple objectives. It has done this formally by providing the framework for Board and Executive level discussions, and presents the information in a way which shows the potential impact of decisions on all strategic objectives. It has also played an informal role as it has in a sense engrained the values of the organization in the minds of those decision makers, and as such has helped to overcome the „silo“ effect at the highest level, leading to a more balanced personal approach.

2.2.6. Performance Measurement

The researcher, Saroj (2006), using quantitative method study with descriptive statistics by taking a variable Performance Measurement found that all commercial banks in Nepal by

comparing actual performance with predetermined target of their branches showed that 65.4 percent respondents feel their actual performance is compared with predetermined target and remaining do not know whether their actual performance is compared with standard or not.

The managers of different commercial banks still desire to evaluate the performance of their banks and branches on the basis of net profit margin. After net profit margin they tend to support ROE, ROI, EVA and others (including the degree of Non-performing assets/NPA) respectively.

Malina and Selto (2004) describe a case study using qualitative and quantitative approaches at a large U.S. equipment manufacturer, focusing on efforts of the organization to model drivers for performance of its distribution system. To this end a framework of performance measurement attributes, based on prior research is created. Eight desirable attributes of performance measures are identified; diverse and complementary, objective and accurate, informative, more beneficial than costly, causally related, strategic communication devices, incentives for improvement, and supportive of improved decisions(Malina and Selto 2004).

The study is structured around four research questions, addressing the role of measure attributes and their relations to management control and strategy. Empirical data for qualitative analysis is collected through interviewees, company documents and performance data. Company documents serve as data for quantitative analysis. Results of the study indicate that adoption of performance measures depends on the organizations strategic orientation, as it influences the importance of individual attributes. The study reveals that the organization adopting a conservative strategy only abandon a performance measure that fits the strategy when it has an abundant amount of negative attributes.

The findings of Saroj (2006) using quantitative methods of study through descriptive statistics explored that the degree of competition in Nepalese commercial banking sector is very high. The majority (76.9 percent) managers of the branches of the commercial banks of Nepal feel intense competition. The commercial banks of Nepal are competing mainly on service followed by the cost and other factors respectively.

2.2.7. Compensation and Rewards

According to the findings of Saroj (2006) by applying quantitative methods of study shows that the compensation and rewards such as salary/benefit/promotion given to Nepalese commercial banking sector, is mostly determined by performance followed by education, experience, relationship, and other factors respectively. Regarding additional benefit for better performance (performance higher than the standard), 53.8 percent responded they get additional benefit for better performance. Seventeen percent respondents say they don't get any additional benefit for better performance and 28.2 percent did not provide any comment on this dimension.

Majority of commercial banks are providing bonus to their employees out of profit. The amount of bonus is based on the amount of salary the employees are getting. It indicates that the bonus is not based on the outstanding performance of an employee or a group of employees.

Side by side the bank encourages employees to learn new skills. As per the researcher, at present all commercial banks are encouraging their employees to discharge better performance and enhance educational qualification and attain trainings. It is supported by the response provided by managers and employees of such commercial banks. The majority of

employees (77.3 percent) working in Nepalese commercial banks responded that they generally get leave/deputation sanctioned from their bank to attain training related to their job. It also supports that the commercial banks are encouraging employees to learn new skill and knowledge.

From the finding of Doan (2007) by using qualitative methods of study and purposive sampling technique, the result of compensation systems were purely objective- and formula-based. The delegation directors and profit center managers had an annual bonus equally based on their annual sales and margins. A bonus was given when the performance was above 100 percent of the targets and was maximum when 120 percent of the targets were achieved. The targets were based on those inscribed in the annual budget.

2.3. Conclusion and Knowledge Gaps

Banking industry is high-risk business but not necessarily high profit industry. It is quite difficult to manage risk and return in banking industry. The internal management system in some of the commercial banks of Ethiopia is inebriated from traditional management system of government. The pyramid shape organizational structure of some banks caused adverse effect in their business development. In any institution human resources, which is not listed in balance sheet but very important intangible assets? Modern economy entered into information age. Competitive business environment in banking industry also caused lateral movement of human resources (Saroj 2006).

The traditional management theory could not completely fit the operational environment in banking business in Ethiopia. In this context, this paper attempts to find some hints from the well-developed theory to get some new ideas.

The accounting literature emphasizes the role of MCS as an organizational mechanism that supports strategic change (Simons 1995), but empirical studies have not addressed the way in which management uses the MCS to engage in strategic change directly. A reason for this lack of evidence is that studies on the MCS-strategy relationship have typically modeled strategy as a determinant of management accounting system, rather than as consequence of the management accounting system (Naranjo-Gil & Hartmann 2006). However, Luft and Shields (2003) point out that management accounting is not easily classified as only a dependent or only an independent variable – it tends to be implicated in a more complex way in the unfolding of events as both cause and effect of changes.

So far various researchers tried to examine on this particular topic. However, there is a gap in the literature due to the absence of studies, specifically in the Ethiopian context, of the application of MCS. In order to fill the identified gap knowledge concerning the application of MCS in general, and in particular concerning study of major management control component not studied yet together with the specified topic, the researcher ties to undertake the study to replicate knowledge by using mixed methods of study which the previous researcher Saroj 2006 only considers qualitative method and provide additional information by considering of the missed components MCS not studied together with the topic by the previous researcher so as to increase the level of understanding about the application of MCS here in Ethiopia by focusing commercial banks which is operated in Ethiopia specifically functioned at AA.

Chapter Three

Research Design and Methodology

The preceding chapter has indicated that the literature on major components of MCS under the perspective of theoretical starting point, empirical evidence and knowledge gaps. Specifically from developing countries" perspective, Ethiopia in particular, it has been shown that there is no comprehensive study on the application of MCS with regard to banking sector.

The purpose of this chapter is to present the underlying principles of research methodology and the choice of the appropriate research method for the thesis. The chapter is arranged as follows. Section 3.1 presents discussion and rationale for choice of approach .Then, the following five section is organized as sources of data (section 3.2), sampling methods (section 3.3), instruments of data collection (section 3.4), procedures of data collection (section 3.5), and methods of data analysis (section 3.6)

3.1. Discussion and Rationale for Choice of Approach

In order to achieve the main objective of this research, a mixed methods approach (both quantitative and qualitative) were used. The purpose of using such a mixed methods approach was to gather data that could not be obtained by adopting a single method and for triangulation so that the findings with a single approach could be substantiated with others

wherever possible (Yesgat 2009, p.12). To address the application of MCS in ECBs, survey with semi-structured interview and questionnaires¹ were employed.

This method is selected on the assumption that it helps to gather enough information on the issue under study. According to Best and Kahn (1999), survey method is more effective to investigate the phenomena in assessing the performance in the natural setting. In addition, it is used to obtain pertinent and precise information regarding the study subject. A survey design provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population. Thus the survey research method was applied to express the current phenomenon of a situation and give prediction depending on the findings of the research. In addition, surveys gather data at a particular point in time with the intention of describing the nature of existing conditions, or identifying standards against which existing conditions can be compared, or determining the relationships that exist between specific events (Louis et al. 2005, p.169). The survey is, thus, cross-sectional, with the data collected at one point in time due to the time allotted for the research. However, the inclusion of semi-structured interview is to gather information about the views of bank Managers and officials from all banks.

3.2. Sources of Data

To obtain concerning the application of MCS, the researcher employed both primary and secondary data sources for the study. The primary data were collected through questionnaires by setting self-administered question in person and semi-structured interview. Questionnaires were administered to employees, officers and managers of each bank. Semi-structured

¹ Most of the questions are adopted from (Sinikka 2007)

interviews were also be conduct with the bank Managers and officers in order to grasp important information that may not be fully secure through questionnaire. Secondary data were gathered from various documents, brushers, annual reports, directives, and various books written on issues related to the topic.

3.3. Sample Design

Currently, Ethiopia Commercial banks hold a total of 25,038 employees in the banking arena in the territory of Ethiopia. Even if there are large numbers of branch offices at regional and district level, the researcher focuses on the area of commercial banks which are currently operating in Addis Ababa. Malhotra (2007) support that sample of over 200 respondents in a survey study is likely to give an acceptable degree of accuracy. Also, systematic sampling technique permits

analysis of possible selection bias or error (Sher and Trull, 1996).The researcher applied stratified sampling technique so as to obtain the required sample size which is 210 on the basis of the establishment date .Accordingly, the banks categorized as eldest, older, and younger bank. Those bank which are categorized as the eldest bank (Commercial Bank of Ethiopia and Development bank of Ethiopia), as the older bank (Construction and Business bank, Dashen, Awash, United, Wegagen, Abyssina, NIB), and as the younger bank (Bunna, Berhan, Cooperative bank of Oromia, Oromia international bank, Lion, Zemen). Thus, the researcher selected 70 samples from each stratum using systematic random sampling to give equal chance for each department (which mainly focus Corporate planning and development, senior risk management advisor, controller, loan /credit department, international banking, human resources and logistics, finance department); whereas purposive sampling were

employed for department officers and managers since their job is directly related to management practices. The researcher did not go beyond this sample size because of the assumption that increasing the number of sample size more than the specified doesn't increase additional information rather it is duplication of information and leads unmanageable. Furthermore, for determination of the above sample size the researcher is restricted by time and money.

3.4. Instruments of Data Collection

With regards to instrument for data collection, the researcher employed questionnaires, unstructured record review to collect manuals, annual reports, directives, policies and records of various training programs and Key Informants Interview (KII) to collect relevant data from managers of the banks. This semi-structured interview was used for shaping the procedure of other data collection methods.

Questionnaires was, thus, used as the main instruments to collect data from eldest, older and younger banks and used closed and open ended with contents of questions measuring several constructs: Application of MCS in the banking industry of Ethiopia. Closed ended questions was included to shape the information in the way that researcher needs, but if all be open ended the researcher may deviate his idea towards the response of the respondents without touching the objectives. The questionnaire was preferred to other methods of data collection hoping that it may provide an opportunity for obtaining reliable and valid information from more number of respondents. Semi-structured interview is important to obtain information with regard to issues that required clarification such as directives, annual reports, policies and

records of various training programs and vital information that is not expected to access using questionnaires; and it was used concurrently with the design of the questionnaire.

To increase the clarity of the questions for respondents understanding and to ensure the appropriateness of the item, a pilot study was carried out on employees of bank.

Accordingly, the questionnaires were distributed to 6 respondents (2 each of eldest, elder and younger bank and check the understanding of the respondents for each question. Therefore, the feedback to the item regarding the prevailing situations of the study was found to be very important to the validity of the questionnaires for the study. The items in the questionnaires were grouped in to two parts. The first part contains question items related to respondent's characteristics and the second part comprises of variables related to the study.

3.5. Procedures of Data Collection

After the sample had been identified, first contact was made with the administrative affairs head of the banks. Then with the necessary permission, the researcher contacted list of employees including manager of the bank and department officer. In the second round activity, pilot test was conducted to enhance the transparency of the questions for the study and lastly, questionnaires were distributed to the respondents of sampled areas.

3.6. Methods of Data Analysis

Based on the nature of the data collected through questionnaires, interview, and documents, the following procedures and statistical tools were employed. Data was checked for consistency and completeness on daily basis then data was coded, checked, and entered to

computer. Finally, it has been processed and analyzed by Statistical Package for Social Sciences (SPSS) version 19 for windows. To analyze the data, different kinds of statistical methods including descriptive statistics, and inferential statistics (simple and multiple regressions) were used. Furthermore, descriptions were made based on the results of the tables and figures using mean value, percentage, rank order and standard deviation. The data collected through interviews and documents were analyzed qualitatively by descriptive statements. The results that were obtained from the interviews used concurrently to strengthen the analysis of the questionnaires.

According to Malhotra (2007) using descriptive survey method helps the researcher in picturing the existing situation and allows relevant information using appropriate data collecting instrument. Moreover, simple and multiple regression were employed to identify and predicting the relation and contribution for the study objectives.

The regression has been developed from the hypothesis set with the support of theoretical background. Finally, the results of both descriptive as well as inferential results were presented by appropriate figures and tables. Thus, the following linear regression is developed as:

$$Y = \beta_0 + \beta X + e$$

The left-hand variable, Y , represent the dependent variable in the model, where as X represent the explanatory (independent) variable in the estimation model, β_0 is the constant, β represent the coefficient and e is the error term.

Therefore, the model for the simple regression, built in line with the hypotheses 3 (H3) of the study, is given as follows:

$$\mathbf{PM} = \beta_0 + \beta_1 (\mathbf{SPM}) + e \dots\dots\dots (1)$$

Where:

PM= Performance Measurement

SPM= Strategic Planning and Management

The model for multiple regression is developed by combining hypothesis 1 (H1) and hypothesis 2 (H2) as follows;

$$\mathbf{MCS} = \beta_0 + \beta_1 (\mathbf{SPM}) + \beta_2 (\mathbf{PM}) + e \dots\dots\dots (2)$$

Where:

MCS= Management Control System

Chapter Four

Data Presentation, Interpretation and Analysis

This chapter deals with the data presentation, interpretation and analysis of the study. It has three parts. The first is background of the respondents; the second part is about the major components and its application of MCS; and the third part is correlation, regression and barriers to use MCS.

To achieve its objectives a total of 210 questionnaires were prepared and distributed to officials of ECBs. Out of these questionnaires, 183 were filled and returned. The rest 27 questionnaires were unreturned. Therefore, the rest 183 questionnaires were valuable for further analysis.

To analyze the survey data, the researcher used descriptive along with inferential statistics (correlation and regression). The first and the second parts of the paper were analyzed by using descriptive statistics such as frequencies, percentages, mean value, standard deviation, weighted value and rank. The third part of the paper was also analyzed using correlation and regression. The researcher used correlation to show their relationship among the PMs, SPM, and MCS. Simple and multiple regressions were conducted in order to know the contribution of the predictor variable and the criterion variable.

Part I

4.1. Background of the Respondents

Description of the characteristics of the target population gives some basic information about the sample population involved in the study. From the data collected and tabulated, the following significant characteristics of respondents have been obtained.

Table 4.1: Characteristics of the respondents

Variable	Variable categories	Frequency	Percentages
Sex	Male	118	64.48%
	Female	65	35.52%
	Total	183	100.0
Age	<25	16	8.74
	25-35	98	53.56
	36-50	66	36.06
	>50	3	1.64
	Total	183	100
Educational background	Grade10/ 12 complete	0	0
	Diploma holder	20	10.93
	Degree holder	159	86.89
	Masters holder and above	4	2.18
	Total	183	100

As displayed in table 4.1 above, 118(64.48%) of the respondents were male, 98 (53.56%) were between 25 and 35 years of age, and 159(89%) of them were having first degree and above.

Part II

4.2. Questions Pertains to MCS

This section merely deals with the following basic elements of MCS such as; planning and control, SPM, budgeting system, cost accounting and service pricing, decision making; PM and compensation and benefit plan practice of ECBs.

4.2.1. Planning and Controlling Practice of Ethiopian Commercial Banks

Table 4.2: Planning and controlling practice of ECBs

The bank plans and controls	Choice item	Frequency	Percent	Cumulative percent
Monthly or quarterly income statements	Not used	1	0.5	0.5
	Very seldom	6	3.3	3.8
	At times	70	38.3	42.1
	Quite often	35	19.1	61.2
	Systematically	71	38.8	100.0
	Total	183	100	
Working capital and its parts (deposits with banks; customer, demand, and saving deposits	Not used	-	-	-
	Very seldom	7	3.8	3.8
	At times	24	13.1	16.9
	Quite often	82	44.8	61.7
	Systematically	70	38.3	100.0
	Total	183	100	
Cash flow statements of the financial year describing sources and uses of earnings and capital	Not used	2	1.1	1.1
	Very seldom	4	2.2	3.3
	At times	36	19.7	23.0
	Quite often	60	32.8	55.7
	Systematically	81	44.3	100.0
	Total	183	100.0	
Branch reports and operations	Not used	-	-	-
	Very seldom	1	0.5	0.5
	At times	35	19.1	19.7
	Quite often	59	32.2	51.9
	Systematically	88	48.1	100.0
	Total	183	100.0	

Source: Survey data and researcher's own computation.

Regarding the planning and controlling practice related to the monthly or quarterly income statement of commercial banks(CBs), around 71(38.8%) of the respondents revealed that the banks systematically use planning and controlling practice as their normal operation. Another 70 (38.3%) of the respondents confirmed that the banks plan and control monthly or quarterly income statements 'at times'. Whereas, some 35(19.1%) and 6(3.3%) indicated that the banks plan and control their monthly or quarterly income statements 'quite often' and 'very seldom', respectively. Finally, only 1(0.5%) of the respondents reported that the practice of planning and controlling monthly or quarterly income statements is not used at all.

Referring to planning and controlling practices that pertains to working capital and its parts like deposit with banks (customer, demand and saving deposits), 82(44.8%) of the respondents disclosed that the practice is used 'quite often'. Some 70 (38.3%) of the respondents indicated that the practice of planning and controlling activities related to working capital and its parts is made 'systematically'. On the other hand, 24(13.1%) and 7 (3.8%) of the respondents asserted that the practice is made 'at times' and 'very seldom', respectively.

As shown in table 4.2 above, there is no bank where the planning and controlling practice with regard to working capital and its parts is not implemented or used. Even, Access Capital in the article of banking sector review 2010 reported that there is a growth of deposits as it is compared to the year 2009. This shows that banks run and facilitate their deposit so as to achieve their target. As per the report of Access Capital, the current year deposit growth rate of 28 percent is not much lower than the average annual deposit growth rate seen in the past five years (which was 31 percent). Given the lending restrictions imposed by the central bank

during the year, the increase in banks' lending was of course not as fast as the growth of deposits but still managed to rise by 21 percent (from Birr 17.7 billion to 21.4 billion).

With respect to the planning and controlling practice of ECBs in line with the cash flow statement, which mainly describes sources and uses, the respondents disclosed their attitude. Accordingly, 81 (44.3 %) of the respondents said that the planning and control practice in the banks arena for cash inflow and out flow is used 'systematically' as a normal routines. Another 60 (32.8%) of the respondents confirmed that the practice is used 'quite often'. Whereas, 36(19.7%) and 4(2.2%) of the respondents reported that the planning and control practice with respect to cash inflows and cash outflows is applied 'at times', and 'very seldom', respectively. Finally, only 2(1.1%) of the respondents asserted that the planning and control practice relating to cash flow (cash inflows and cash outflows) is not at all implemented.

Regarding branch reports and operations, under the perspective of planning and controlling during a financial year of the banks, even if each of ECBs head offices are placed in the capital , AA, there are operations of the banking activities at branch levels out of AA. Here with respondents' description in planning and control practice of the branch reports and operations summarized in the above table 4.2.

As it is displayed on the above table 4.2, regarding the planning and controlling practice of branch reports and operations, the majority of the respondents 88 (48.09%) revealed that follow-up and forecast is applicable as a normal routines, 59 (32.24%) used 'quite often', 35 (19.13%) used 'at times' and only 1 (0.55%) used 'very seldom'. It is very clear that the choice item 'not used' is not selected by any of the respondents.

To sum up, the planning and controlling practice of ECBs is described by average of the listed questions for it and revealed that the range lies between 1.50 to 4.00 (i.e. from `very seldom` to `systematically`). But the average results of the variable (i.e. planning and controlling) shows that more than `quite often` which is mean value of 3.1366. The standard deviation of the result 64.66% shows that the variation of the actual values from the mean. This explanation is supported with the following table.

Table 4.3: Bank Plan and Control

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Bank plan and control	183	1.50	4.00	3.1366	0.64657
Valid N (list wise)	183				

Source: Survey data and researcher's own computation.

4.2.2. Generic Strategy of Ethiopian Commercial Banks

A discussion with the respective banks managers shows that the generic strategy of ECBs has been divided for two main areas of business: deposit and lending. Even if these are the prominent strategy for the banks, their application of it varies from area to area so as to increase the market share. The issue is further elaborated on table 4.4 as follows.

Table 4.4: The Range which the Banks are using Generic Strategy

Criteria	1	2	3	4	5	Total	Weighted ² value	Mean Value	Rank
Differentiation strategy	12	27	37	48	59	183	664	3.63	1
Focus strategy	6	18	94	41	24	183	608	3.32	3
Cost leadership strategy	7	30	63	54	29	183	617	3.37	2

Source: Survey data and researcher's own computation.

Even if the banks are applying the strategies, the degree or rank of using within it varies. As per the information obtained from the respondents, differentiation strategy is ranked as first with a mean value of 3.63. Cost leadership strategy placed in the second rank and followed by focus strategy. The investigator noted that differentiation strategy is implemented in line with providing unique service to their customers. This is also supported by the interview with the officials of the bank. According to the interviewees, since the directives and policies are given by NBE, all banks apply the interest rate fixed by this central bank. Hence, in order for the banks to have large number of customer and penetrate the market (i.e. higher market share) the banks solely use different strategies such as providing unique service for instance withdrawal of the telegraphic transfer from any of the bank's branches. This enables customers to withdraw the money in the nearby branch. In addition to differentiation strategy, the ECBs use focus strategy so as to specialize in one of the major activities such as lending. In this respect, the interviewee added that even if banks are operated under the

² Where the Likert type scale given for strategic generic strategy where the variable given value on table above stands for 1=Not used, 2=Very seldom, 3=At times, 4= quite often, 5=systematically. This value is given to give meaningful information for the criteria not used.

supervision of the central bank of Ethiopia (NBE), for instance, the interest rate for lending is similar across the banks. Therefore, currently commercial banks attract customers mainly through their internal management system. One of the interviewees said that even if the regulation or policies usually offered and ordered by the ultimate power of NBE, the banks have a room to provide low cost service by intensively considering the organizational structure. This means that the bank can be able to provide service at low service charge if and only if the unnecessary activities and bureaucracy is removed.

Table 4.5: Strategic Planning and Management with respect to Analysis

Criteria	1	2	3	4	5	Total	Weighted value ³	Mean Value	Rank
Benchmarking reports & analysis	8	41	51	56	27	183	602	3.29	3
Market share analysis and forecasts	8	40	46	57	32	183	614	3.35	2
Competitor analysis & forecasts	12	45	60	54	12	183	558	3.05	5
Customer analysis & forecasts	12	62	42	45	22	183	552	3.02	6
Personnel analysis (performance, satisfaction)	10	33	63	56	21	183	594	3.25	4
Analysis of business strengths & weaknesses	6	21	81	49	26	183	617	3.37	1

Source: Survey data and Researcher's computation

³ Where the Likert type scale given for strategic planning and management where the variable given value on table above stands for 1=Not used, 2=Very seldom, 3=At times, 4= quite often, 5=systematically. This value is given to give meaningful information for the criteria not used.

Table 4.5 shows that weights of MCS with respect to their rank. It is very clear that the ECBs make the analysis of business strengths and weaknesses with a mean value of 3.37 as the prior activities among the alternatives, which is ranked as first. This is immediately followed by market share analysis and forecasts with a mean score of 3.35. That means, the ECBs make market share analysis so as to obtain competitive advantage. Even the interviewees said that market share analysis is usually made by the bank in order to know their status. This idea is supported by Access Capital, which ranks the market share of Ethiopian banks with the parameter of deposits, loans, average assets, average equity and profit. This enables to work ahead to best of the bank in territory of Ethiopia as well as abroad.

The third rank; which the input of the respondent given value from the alternatives is benchmarking report and analysis, which score a mean value of 3.29. This means that the banks which operated in Ethiopia benchmarks reports and further procedure from the existing as well as from banks abroad. The value also shows that there is frequent benchmarking of reports analysis so as to have better performance and understanding the working arena. Even a discussion with the manager of the control department in one of the recently established banks revealed that there is consistent frame of report among the banks. In addition, the working procedures; including the structure of the departments are similar across the banks. This shows evidence that the banks benchmark among themselves and there is also clear evidence under article 8 of Proclamation No. 592/2008 of banking business proclamation that the National Bank shall, in its annual report, publish the list of licensed banks. It shall also publish, in newspapers of wide circulation, any additions to or cancellation from the said list. The above explanation further supported by Directive No. SBB/21/96. Reports shall be submitted to the Supervision Department of the NBE within twenty days after the end of the

period for which the data are reported except the reserve and liquidity requirement reports which shall be submitted in accordance with Directives No. SBB/14/96 & SBB/15/96, respectively, in the form and manner as given by NBE. This Directive shall enter into force as of 20th day of November 1996. This further elaborates that each and every bank should report their financial statement according to the frame or guidelines given by the central bank of Ethiopia (NBE).

The fourth item with its mean value of 3.25 is personnel analysis. In this respect, the banks are playing in its role to evaluate their employees' performance as well as their satisfaction. From the input of the respondent, the analysis with regard to personnel is the usual practice of the ECBs. The interviewee with Bank manager said that banks evaluate their employees' performance using different parameters such as discipline, cope up with the new issue, capability and interest to work with. Even the annual reports of the majority of sample CBs ascertain state the fact that the Banks sustainable growth is very much dependent on its human capital. It has been successful in providing various in-house and external trainings to a considerable number of staff, with a wide range of capacities through continuous human resource development programs. Making good use of the educational assistance given by the Banks so as to increase their performance and rely on the bank. This and other rewards in the banks are usually given to the employees based on their year of experience in the banks.

In line with the competitor analysis and forecasts, the ECBs are playing pivotal role in achieving its competitive advantage since similar privileges and rule is given to all banks by the NBE. To support this idea, article 6 of Proclamation No. 592/2008 states that fulfill, before commencing operation, sound information management and internal control systems, risk management policies and procedures, and human resource organization and such other

essential obligations to carryout banking business as determined by the directive to be issued by the National Bank. This enables the bank to use different means to address their service to the targeted customer. One of the managers in the respective CBs favoured this idea and clearly stated during the interviewee that the existing and the upcoming banks use different strategy to attract their customers. In connection with this, an interviewee sited Zemen bank as one of the Ethiopian banks indicated that to open a new account with the bank the client is required to make a minimum deposit of birr 25,000; and withdrawing of money is possible through ATM service. Related to this idea, the target interviewee said that Zemen bank is mainly targeted those who are wealthy. This means that even if different regulations and rules were set by NBE, so as to stay in the market the specific strategies for which each bank follows may vary. In the competition environment, it is simple and clear to make competitor analysis and forecasts so as to achieve competitive advantage by having unique skill and resources (such as new technology which is not in the hand of others).

The last criterion under strategic planning and management is customer analyses, which score a mean value of 3.06. This means that ECBs make analysis to know about their customer satisfaction and behavior as well in the range of at times. In line with this issue the interviewees in the respective CB branch manager, explore that there is suggestion box to hear and apply the comments and feedback given by the customer; and all the banks operated in Ethiopia believe that customers are king. They also further pointed out that in order to have a large market share, the level of customer satisfaction and their behavior should be intensively analyzed and the summary of the comments given by the customers should also be put in to practice.

Based on table 4.5, banks, on average, are using a total of 6 assorted MCS practices, at least 'sometimes' if not even 'very often' or 'systematically' integrated into their normal routines (mean value of 2 or greater). All listed items which results mean value of 3 and above. From this point of view, these results indicate that banks have included in their MCS also several other practices than only traditional financial accounting – like statutory annual accounts and are also using them fairly regularly.

The usage rates alongside the adoption ranks seem to give a deeper understanding of the intensity and commitment to the use of MCS practices in banks. Table 4.5 also indicates that, in total, all items highly adopted, are also highly used among banks.

4.2.3. Budgeting System

The budget is one of the main tools utilized in the planning, control and cost management decision making process undertaken within the organizations. Hence the budgeting system in the banking sector by using survey study through questionnaire to the target respondents in line with the question whether the bank uses budget follow-ups, at least quarterly, and variance analysis, the inputs of the respondent explore in the following table.

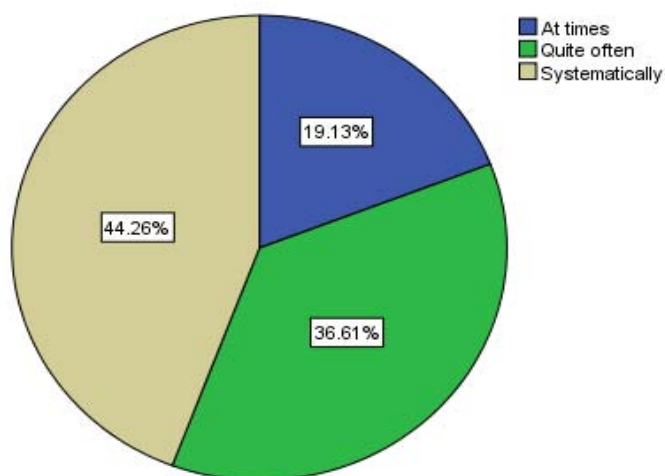
Table 4.6: Budget Follow-ups, at least Quarterly, and Variance Analysis

Selected choice	Frequency	Percent	Cumulative Percent
Very seldom	4	2.2	2.2
At times	42	23.0	25.1
Quite often	85	46.4	71.6
Systematically	52	28.4	100.0
Total	183	100.0	

Source: Survey data and Researcher's own computation

The table above shows the frequency of which the CBs are using the budget follow up for cash flow. As displayed from the above table, more than 95 % of the respondents confirm that the CBs are follow up their budget and make analysis to know how much deviation results from the expected one so as to know the usage portion and additional wants.

Figure 4.1: Budget for Branch Expansion



Source: Survey data and Researcher's own computation

The above figure 4. 1 describes that the CBs are frequently open branch banks so as to increase the market share⁴. Looking the above figure the ECBs are aggressively rush to have branch banks. Even if the given alternatives includes 'not used' and 'very seldom', the respondents do not mark these alternatives to explore how CBs are intensively open branch banks. The majority of the respondents i.e. 44.26 % marked that ECBs in line with branch expansion as it is a normal routine. The remaining 36.61% and 19.13% of respondents marked the branch expansion 'quite often', and 'at times', respectively.

Moreover, the CBs are participating in other sector by contributing their efforts in the economic development. Therefore, the respondents in this regard marked that 20.8%, 36.1%, 24%, 13.7% and 5.5% for the choice item 'not used', 'very seldom', 'at times', 'quite often', and 'systematically', respectively. There is also budget for their capital structure in order to alleviate the liquidity problem. The majority which is around 75% of the respondents said that the ECBs have a budget for their capital structure from the range of 'at times' to 'systematically'.

⁴ **Market shares:** Market shares in different sectors show the dominance of some of the oldest and largest private banks. Indeed, reflecting its large size, Dashen Bank has the largest market share in five sectors, providing 35 percent of all manufacturing lending by private banks, 28 percent of total transport lending, 26 percent of construction lending, 25 percent of domestic trade and services lending, and 19 percent of total personal lending. In only a few sectors is the market leadership position held by others: by Awash in the case of total export loans (25 percent), by NIB in agriculture loans (29 percent), and by United in Import related loans (21 percent). sectors, providing 35 percent of all manufacturing lending by private banks, 28 percent of total transport lending, 26 percent of construction lending, 25 percent of domestic trade and services lending, and 19 percent of total personal lending. In only a few sectors is the market leadership position held by others: by Awash in the case of total export loans (25 percent), by NIB in agriculture loans (29 percent), and by United in Import related loans 21 percent (Access capital 2010).

Table 4.7: Budget for Investing in other Sector and Capital Structure

Variable	Choice item	Frequency	Percent	Cumulative percent
The bank budget for investing in other sector	Not used	38	20.8	20.8
	Very seldom	66	36.1	56.8
	At times	44	24.0	80.9
	Quite often	25	13.7	94.5
	Systematically	10	5.5	100.0
	Total	183	100	
The bank budget for their capital structure (equity and liabilities)	Not used	14	7.7	7.7
	Very seldom	35	19.1	26.8
	At times	59	32.2	59.0
	Quite often	49	26.8	85.8
	Systematically	26	14.2	100.0
	Total	183	100	

Source: Survey data and Researcher's own computation.

The annual reports of the majority CBs showed that the banks are investing in other sectors such as in insurance companies, and government treasury bills. Even the interview with one of the Corporate Planning officer of ECBs revealed that banks are on the verge of participating in different sectors such agricultural, manufacturing sector and other sectors. With regard to the capital structure, when interview is undertaking with one of the officials of the bank said that even if banks are doing a lot on the capital structure so as not face a liquidity problem, currently with letter send by NBE compel private lenders (including private banks) to purchase government bonds equivalent to 27 percent of their annual loans to help fund development in the country. Under the central bank directive, five-year National Bank bonds will be bought by lenders at the end of each month. He also added that the

securities will offer a coupon of 3 percent and the interest which the bank pays for the depositor is 5%, hence there is a minimum loss of 2% while the money is revolving. State-owned banks including Commercial Bank of Ethiopia, the country's biggest lender, will be exempt as they routinely finance long-term projects.

4.2.4. Cost Accounting and Service Pricing

Table 4.8: Cost Accounting and Service Pricing

For determining the cost and price of service, the bank:-	Choice item	Frequency	Percent	Cumulative percent
Calculates service-level costs at each stage of activities up to customer receive it	Not used	46	25.1	25.1
	Very seldom	22	12.0	37.2
	At times	74	40.4	77.6
	Quite often	28	15.3	92.9
	Systematically	13	7.1	100.0
	Total	183	100.0	
Calculates cost at each centers	Not used	59	32.2	32.2
	Very seldom	36	19.7	51.9
	At times	30	16.4	68.3
	Quite often	39	21.3	89.6
	Systematically	19	10.4	100.0
	Total	183	100.0	
Calculates target costing (price and target profit are known, so planning is used for reaching allowed service costs)	Not used	8	4.4	4.4
	Very seldom	34	18.6	23.0
	At times	46	25.1	48.1
	Quite often	62	33.9	82.0
	Systematically	33	18.0	100.0
	Total	183	100.0	
Calculations of branch costs	Not used	15	8.2	8.2
	Very seldom	21	11.5	19.7
	At times	35	19.1	38.8
	Quite often	65	35.5	74.3
	Systematically	47	25.7	100.0
	Total	183	100.0	

Source: Survey data and Researcher's own computation

The calculation of service level costs at each stage of activities up to customer receive it helps to know the cost incur at each stage and simple to determine the service charge. Though there is room to calculate the cost at each stage, the CBs yet under the concentration of applying it at times whose respondent revealed that 40.4%. The other 25.1%, 15.3%, 12% and 7.1% respondents marked 'not used', 'quite often', 'very seldom' and 'systematically', respectively. Looking the respondents output, the calculation of cost is not that much done in CBs. This issue also further supported with the interviewees of the branch manager of the CBs. They mentioned that even if the employees⁵ at bottom level undertakes the assigned activities, the price to charge is given by the top managers and board level.

In support of the above mentioned issue, the majority of the respondents which is 51.9 % show that the CBs are not used and practice the cost center. The remaining respondents (49.1%) revealed that the banks used cost center to know the costs incur at each department. Thus, this indicates that there is gap even if a room to calculate cost at each center.

On table 4. 8, the respondents revealed their attitude for calculation of target cost and price so as to obtain the target profit. In this regards, the majority of respondents which is 33.9% revealed that banks are using it at the level of 'quite often'. The remaining 25.1%, 18.6%, 18% and 4.4% of the respondents marked the choice given with 'at times', 'very seldom', 'systematically', and 'not used', respectively. In this respect one of the interviewee said that the bank not only at the head office level but also at the branch level forecast up coming years by stating different strategies and he also added that this is usually done by looking the past experience. In order to get the target profit, the cost should be properly controlled.

⁵ Employees at bottom level are those who have information about the cost incur to provide service (Access Capital, 2010)

Hence using appropriate technology enables to have the target profit. This also further explained by Access Capital; which the common critique of Ethiopian banks as technologically backward has been valid for quite some time, and remains so to some extent, but many changes are taking place in this area both from initiatives by the central bank (a national payment system is soon to be operational providing a real-time and electronic inter-connection among all banks) and from initiatives by individual banks. Within a year, all banks will have full-fledged core banking systems, which will mean that all their branch operations will be automated, thus simplifying customer transactions and making it possible to move away from the heavily paper-based system of the past. Modern banking services such as ATM services (now provided by Dashen, Wegagen, and Zemen banks as well as the state-owned CBE), Internet Banking (provided by United Bank and Zemen Bank) and SMS banking (provided by United and Berhan banks) are increasingly becoming available. Moreover, additional technology-based services such as mobile banking are being launched. With these innovations, the sector is becoming much more technologically in tune with banking services available in neighboring countries and even the wider world.

Finally, the question forwarded for the target respondents was with respect to the calculation of branch costs. Accordingly, the majority of the respondents which is 80% marked at a range of 'at times' to 'systematically'. This means that the CBs before opening their branch they calculate the maximum possible costs to incur. In this respect with the interviewees of the banks officials said that head office banks calculates the costs that will be incurred for the branch so as to know the benefits received in the future. These activities are made by the bank not only at the time of opening new branches but also during the operation. The

investigator finds that the majority of the bank are easily explore the costs incur and revenue earned from it.

4.2.5. Decision Making Procedures of Ethiopian Commercial Banks

The bank makes decision based on investment benefit, policies or directives given by NBE, the strategic plan formulated, market survey, comments given by the employee and customers and the target set by the bank. The average of the aforementioned base of decision making which is presented in the following table.

Table 4.9: Descriptive Statistics of Decision Making

Variable	N	Range	Minimum	Maximum	Mean	Std. Deviation
Decision Making	183	2.50	1.50	4.00	2.6776	0.60563
Valid N (listwise)	183					

Source: Survey data and Researcher's own computation

The above table describes that the mean value (i.e. 2.67) which is interpreted as on average the total population is marked the decision making with respect of the above base results show that the CBs use more than 'at times' since the value given for choice 'at times' is 2. The investigator understands that there is a room for upgrading the heights of decision in the proper way. Even the standard deviation, which is 60.56% shows that the variation of the actual mark value of the respondents to the choice item from the expected value (mean value =2.6776). with the interviewees of the respective CBs officials said that the central bank of Ethiopia has the ultimate power in the supervision of all banks with respect to the banking activities even if the specific bank evaluate the investment benefit, there may have rules given by NBE. For this the interviews mentioned that credit cap or restriction given by the

central bank of Ethiopia⁶. The guidelines issued by NBE in 2003, shows that the board of directors is responsible for reviewing and approving a bank's credit risk strategy and policies. Each bank should develop a strategy that sets the objectives of its credit-granting activities and adopts the necessary policies and procedures for conducting such activities. This and other strategies formulated by the banks enable them to achieve their objectives.

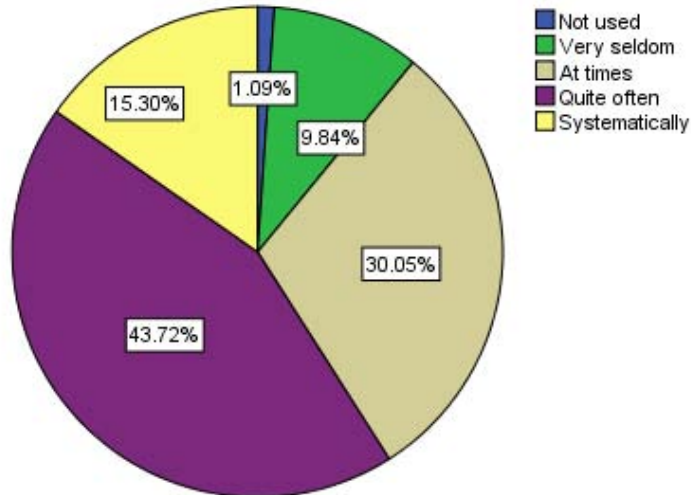
In line with the decision for comments given by the employees and customers, the officials of the CBs said that the banks are collecting the suggestions given by the employee as well as the customers and made decisions by the branch in which the power is in hand, whereas the power which cannot in the hands of the branch manager and officer as well will transfer to the board of directors to judge and pass possible decisions by making vote through which.

4.2.6. Performance Measurement

One of the criteria for measuring the financial performance of the firm is by comparisons of financial ratios to industry averages and competitors ratios. In this respect, 43.72% of the respondents of the ECBs confirmed that the banks are evaluating their financial performance against the industry average and competitors ratios used fairly frequently. The succeeding outcomes shows that the frequency of using the financial ratios of which 30.05% used at times, 15.30% used as normal routines, 9.84% used at very seldom and the remaining 1.09% of the respondents marked as if the bank not used the comparisons with regard to industry average and competitors ratios.

⁶ Given lending restrictions imposed by the central bank during the year, the increase in banks' lending was of course not as fast as the growth of deposits but still managed to rise by 21 percent which is from Birr 17.7 to 21.4 billion (Access capital ,2010)

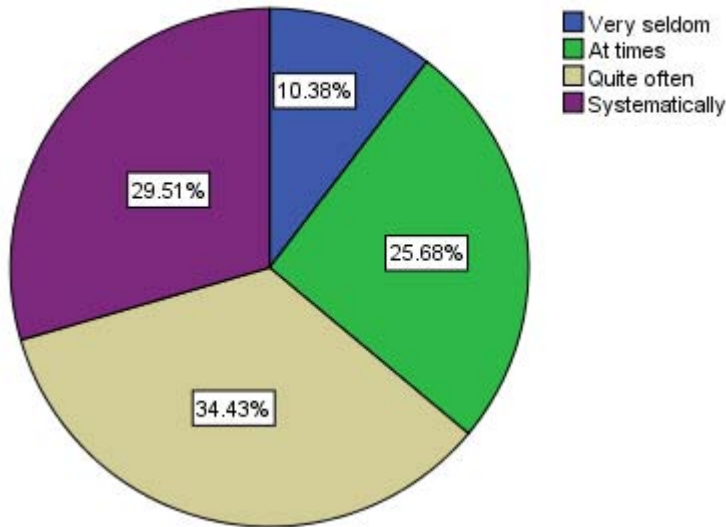
Figure 4.2: Comparisons of Financial Ratios to Industry Averages and Competitor's Ratios



Source: Survey data and Researcher's own computation

The figure above displayed how frequently the banks use the financial ratios to evaluate the financial performance of the banks and their branches. In connection with this issue, an interview with branch manager of the CB disclosed that by taking the audited financial statement from the central bank of Ethiopia, banks evaluate their performance with the industry as whole. He also added that not only specific bank but also due to the competition environment access capital disclose the performance of the bank according to return on asset and return on equity.

Figure 4. 3: Comparison of Actual Performance with Pre-determined Target



Source: Survey data and Researcher`s own computation

With regard to the practice of comparison of actual performance with the predetermined target, as depicted in figure 4.3, 34.43 %, 29.51%, 25.68%, and 10.38 % of the respondents asserted that CBs compared the actual performance with predetermined one with the range of `quite often`, `systematically`, `at times` and `very seldom`, respectively. All CBs compare actual performance with predetermined target of their branches frequently. Coming to the individual level, 90% of the respondents feel that their actual performance is compared with predetermined target at the range of greater than or equal to `at times` and the remaining marked `very seldom` for the practice of comparison of actual performance with pre-determined one.

Table 10 below portrays the performance of the CBs evaluated by using the financial information such as return on investment (ROI), return on equity (ROE), net profit margin, and economic value added (EVA).

Table 4.10: Performance Evaluation Criteria in ECBs

Criteria	1	2	3	4	5	Total	Weighted value ⁷	Mean Value	Rank
Return on Investment (ROI)	10	4	48	83	38	183	684	3.74	3
Return on Equity (ROE)	10	1	46	93	33	183	687	3.75	2
Net profit margin	-	7	62	67	47	183	703	3.84	1
Economic Value Added (EVA)	7	41	67	59	9	183	571	3.12	4

Source: Survey data and Researcher's own computation

The mean value shows that how frequent the commercial banks use the criteria to evaluate their performance. Among the variable mentioned, net profit margin, which is the prior rank that the CBs used as their means to evaluate their performance. The managers of different CBs still desire to evaluate the performance of their banks and branches on the basis of ROE, ROI, and EVA respectively. To sum up, the findings of this descriptive statics are in line with the findings

⁷ Where the Likert type scale given for performance measurement where the variable given value on table above stands for 1=Not used, 2=Very seldom, 3=At times, 4= quite often, 5=systematically. This value is given to give meaningful information for the criteria not used.

of Saroj (2006). This is further supported by Access Capital on the article of banking sector review 2010 which stands to evaluate the performance of CBs. Accordingly, the performance of the bank with respect to their rank are explored using net profit margin, ROE and ROI.

4.2.7. Compensation and Benefits

According to Saroj (2006), employees in any organization work for reward, and most important reward is money, but individuals expect more than wages or salary from their employers. In Ethiopian commercial banking sector, salary/benefit/promotion is mostly determined by education and training followed by experience, performance, relationship, and other factors which are numerically expressed as the number of respondents that are 59%, 39.34%, 12%, 2.73% and 2.18%, respectively. Even with the interview with the officials of the CBs, additional benefit given by the bank differed with the range of the salary and the status of the employees stands for. They also added that the bank does not yet consider the performance of employee so as to give additional benefits such as fuel allowance, house allowance and other benefits.

Majority of CBs are providing bonus to their employees out of profit except some of the younger banks. The amount of bonus is based on the amount of salary an employee is earning, others such as not committing non disciplinary action, relationship with the top manager, performance of employee which is numerically presented as 91.37%, 4.91%, 2.48% and 1.24% of the respondents, respectively. The major ways of giving bonus to the employees are based on the salary getting. The researcher identifies giving bonus based on the salary usually does not encourage those who are outstanding in performance.

Encouraging employees to learn new skills: The other dimension which the ECBs are playing their role on encouraging employees to discharge better performance and enhance educational qualification and attain trainings. This issue is pointed out during the interview with the officials that the annual report of the bank shows how bank trying to scale up the heights of qualification and knowledge of employees. For this, the investigator confirmed that the bank really does a lot in this regard. But the researcher view out this encouragement is made through the experience or service offer to the bank. During the interview one of the interviewee mentioned that banks are on the verge to evaluate the performance of their employees so as to continue and sponsor for their further study and training as well.

Part III

4.3. Correlation Analysis

Table 4.11:- Correlation Coefficients

	MCS	PM	SPM
MCS	1		
PM	0.762***	1	
SPM	0.783***	0.575***	1

***. Correlation is significant at the 0.01 level (1-tailed).

To find the association of the variables or determinants“, Pearson product moment correlation coefficient was used. Besides, the result of the correlation shows positive relation among themselves. Correlation coefficient helps to define the direction of the relationship of the variables between (-1 and 1) and helps us to detect the strength of their relationship. All correlations between items are positive and significant at 1% level.

Thus it seems that when one of these practices is used, it is very likely that the other practices will also be applied in firms and vice versa. Moreover, the correlation matrix shows that the model may feasible and applicable, because the matrix has correlations greater than 0.3, but not too high ones, for example, over 0.9 to cause a likely problem of multicollinearity between items (Hair *et al.* 1998).

4.4. Regression Analysis

Table 4.12:-Regression result (PM: dependent variable)

Variable	Coefficient	Std error	t-statistics	P-value
Constant	1.430	0.136	10.516	0.000
SPM	0.575	0.056	9.454	0.000***

$R^2 = 0.331$

Adj $R^2 = 0.327$

*** Significant at 1%

As shown on table 4.12, the simple regression result depicted that the association between performance and strategic planning and management is positively and statistically highly significant at 1% level (p-value = 0.000). Besides, 33% of the variation in performance is

explained by SPM. Thus, the hypothesis stated as there is a positive relationship between the intended strategy and performance of the firm is supported. This result is in line with the findings of Sinikka (2007).

Table 4.13:-Regression result (MCS=dependent variable)

Variable	Coefficient	Std error	t-statistics	P-value
Constant	0.786	0.079	9.940	0.000
SPM	0.515	0.031	11.499	0.000***
PM	0.466	0.034	10.421	0.000***

$R^2 = 0.759$, $\text{Adj } R^2 = 0.756$, S.E of regression=0.26425, F-Statistics= 282.787,

Prob(F-statistics)=0.000

*** Significant at 1%

Table 4.13 describes that SPM, and PM are positively and statistically highly significant at 1% level (where p-value= 0.000). Moreover, 75.9% of the variations of the dependent variable (i.e. MCS) is explained by the independent variables (i.e. SPM and PM). This explains that the independent variables, SPM, and PM, have significant impact on the MCS of ECBs since it is very clear that the overall model is significant at 1% (F-statistics=282.787 and prob(F-statistics=0.000)). This finding supports hypothesis 1 (H1) which intends that there is a positive relationship between a strategy and use of comprehensive MCS practices. Thus, the findings are in line with (Sinikka 2007). This is also supported by Bhimani (1994) and states that the trend in the future might be that especially the use of strategic-oriented

practices and information would increase alongside the possible increase in the use of more comprehensive MCS practices in the firms.

Finally, according to Chenhall (2003) lack of human capital and physical resources are the practical barrier to the use and further development of their MCS. In order to understand better the backgrounds of the MCS of the banks and to get some empirical support either for or against these statements above, one question in the survey was designed to focus on the possible barriers to the use of MCS practices and information. The barriers suggested during the interview with CBs officials indicated that inadequate skills and knowledge about the use of MCS practices and information; lack of human resources and time; insufficient cost-benefit relation in the usage of MCS information; lack of suitable computer applications, computers and required skills for the use of information technology; insufficient use of information technology. Respondents were also asked to site serious barrier among the listed one. Overall, it seems that banks suffer mostly from the lack of various human resources regarding the use of more efficient MCS and their information. In other words, the interviewees indicate that they have too little staff, which additionally does not have the time nor the needed skills for a more comprehensive adoption and use of MCS practices and information. The findings indicate that besides the suitable applications for MCS, banks also seem need guidance to their technical implementation and adoption as well as to the interpretation and use of MCS information. So, the results are in line with the findings of (Sinikka 2007).

Chapter Five

Summary of Findings, Conclusions and Recommendations

This part of the study tries to summarize and conclude the key findings which arose out of the study and pass possible recommendations as remedies to alleviate the existing and observable potential hurdles.

5.1. Summary of Major Findings

This part of the study tries to recapitulate the key findings which arose out of the study.

- ❖ ECBs are frequently planning and controlling their activities such as monthly or quarterly income statements; working capital and its parts; cash flow statements and branch reports and operations. On the average the planning and controlling practice which score the mean value of 3.1366 in fact there is 64.66% deviation of the actual values from the expected one.
- ❖ The generic strategy of Ethiopian banks has been divided for two main areas of business: deposit and lending. Even if these are the prominent strategy for the bank, their application of it varies from area to area so as to increase the market share. The Ethiopian commercial banking sector is very competitive. The commercial banks are competing mainly in service. In order to stay in the market and become competent, ECBs have been adapting differentiation strategy. This strategy is also followed by cost leadership strategy and focus strategy, respectively.
- ❖ The ECBs made analysis in the prioritized order of business strengths and weaknesses, market share and forecasts, benchmarking reports and analysis, personnel analysis, competitor analysis and forecasts; and customer analysis and forecasts, respectively.

- ❖ The majority of the target respondents (95 %) revealed that CBs follow up their budget and make analysis to know how much deviation results from the expected one so as to know the usage portion and additional wants.
- ❖ To increase the market share, CBs rushed to have more branch banks. For accomplishing this, banks set budget. Regarding the individual level in connection with the aforementioned, 80.87 % marked the level usage from quite often to systematically. Moreover, the CBs are participating in other sectors by contributing their share in the economic development of the country. The annual reports of the majority CBs showed that the banks are investing in other sectors such as in insurance companies, and government treasury bills.
- ❖ Though CBs budget for their capital structure, due to the intervention by the NBE compel private lenders (including private banks) to purchase government bonds equivalent to 27 % of their annual loans to help fund development in the country. But this has been done at a loss of 2% which is the difference of interest paid to the depositor is 5% and coupon rate stated on the bond is 3%.
- ❖ It is not much done with the calculation of service level cost at each stage of activities up to customer receive by the CBs. The majority of the respondents (51.9 %) show that the CBs are not used and practiced the cost center.
- ❖ CBs make decision based on investment benefit, policies or directives given by NBE, the strategic plan formulated, market survey, comments given by the employee and customers and the target set by the bank. The mean value of decision making is 2.67 out of a score value of 4. Even though NBE intervenes in its own aspect, the banks can be

tremendously go through it to achieve the objective and goals of the bank; and upgrading the heights of decision in the proper way.

- ❖ The majority of the CBs are measuring their financial performance of the firm by comparing of financial ratios to industry averages and competitors' ratios. Regarding this, 89.07% of the respondents explore the usage rates ranging from 'at times' to 'systematically'.
- ❖ All CBs compare actual performance with predetermined target of their branches frequently. Coming to the individual level, 90% of the respondents believed that their actual performance is compared with predetermined target at the range of greater than or equal to 'at times' and the remaining marked 'very seldom' for the practice of comparison of actual performance with pre-determined one. The target of branch banks and individual level is frequently monitored. The managers of different CBs have been evaluating the performance of their bank mainly on the basis of the traditional tools in the rank order of net profit margin, ROE, ROI, and EVA, respectively.
- ❖ In Ethiopian commercial banking sector, salary/benefit/promotion are mostly determined by education and training followed by experience, performance, relationship, and other factors. In addition, the amount of bonus given to the employees is based on the amount of salary they are earning. ECBs are encouraging employees to upgrade their knowledge and skill as the benefit of employees is based on the experience or service offered to the bank, they provide paid leave to participate in training and for further education.
- ❖ The association between performance and strategic planning and management is positively and statistically significant. Hence, the strategies formulated have impact on the performance of the bank. In addition, SPM, and PM are positively and statistically

highly significant. This explains that the independent variables, SPM and PM, have significant impact on the MCS of ECBs.

- ❖ The major barriers to use and develop further their MCS in the banking sector of Ethiopia are inadequate skills and knowledge about the use of MCS practices and information; lack of human resources; insufficient cost-benefit relation in the usage of MCS information; lack of suitable computer applications, computers and other required skills for the use of information technology; insufficient use of information technology. Currently, ECBs are highly suffered from the lack of various human resources regarding the use of more efficient MCS and their information.

5.2. Conclusions

- ❖ ECBs are doing a lot with the planning and controlling activities with respect to income statement, working capital and its parts; cash flow statement; and branch reports and operations. This will in turn increase the level of profit as well as helps to achieve the banks goals and objectives.
- ❖ In order to stay in the market, banks are developing different strategies. The prominent strategy that ECBs follow mainly differentiation strategy among the alternatives. This is because of common law is given to all of the banks by NBE.
- ❖ ECBs are not sufficiently utilized the calculation of cost within the responsibility center even if there is a room to calculate cost at each center across the departments.
- ❖ It is the usual practice for ECBs to know their status by comparing actual performances with the predetermined one.
- ❖ Since the ECBs are giving benefits including bonus other than outstanding performance of the employee, it will influence on the going concern and profit of the bank.

- ❖ Due to the intervention of NBE compel the banks to purchase the bond at a loss of 2%, this may lead a liquidity problem in the future.
- ❖ Though a lot of efforts to use MCS, there is serious problem of human capital. This is considered as one of the barriers to use MCS.

5.3. Recommendations

ECBs encountered some drawbacks in applying MCS. So as to alleviate these drawbacks, the following recommendations are forwarded.

- ❖ **Human capital:** lack of human capital is one of the prominent barriers to use and apply MCS, the researcher recommends banking institutional sector to strengthen the knowledge of candidates as well as the existing employees. In order to increase the use of MCS, it is better outsourced services in the area of MCS their annual accounts and statutory financial reports. Thus it might be a very natural solution to extend this outsourcing also to consist of more comprehensive MCS services for the emerging needs of banks. Another solution is implementing balanced scorecard to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.
- ❖ **Benefit entitlement:** in order to assure going concern and get more profit, the bank should encourage outstanding employees in performance by setting aside the benefit. The performance of employees and their level can be conformed through peer evaluation horizontally, customer comments nearby official's evaluation.

- ❖ **Liquidity problem:** even if this problem is created due to the intervention by NBE, the bank should strengthen working in other activities like investing in other sector in order to compensate the negative margin of bank during intervention made by NBE compel to purchase bond at a coupon rate of 3%. Besides, the bank should take initiation to create liquid market (money market); an important investment option because they are a safe and liquid investment. Since the primary benefit of a money market fund is high liquidity and enable the investors can withdraw their money more quickly
- ❖ **Responsibility center:** the ECBs have a room to establish responsibility centers such as revenue centers; expense centers; profit centers; and investment centers. Hence, the researcher recommends banks to use these centers so as to determine the service price with the level of cost incurred at each departments or activities. These all center usually either decrease the cost incur or increase the profit of the bank without increasing the selling price of the service charge.

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Appendix A

Addis Ababa University
College of Business and Public Administration
Department of Accounting & Finance
School of Graduate Study

Dear Participant,

This questionnaire is designed to conduct a research on the topic *‘The Application of Management control system (MCS) in Ethiopian Commercial banks’*. The purpose of the study is for the partial fulfillment of the requirement of MSc degree in Accounting & Finance. For the successful accomplishment of the study, the response of employees of the bank will have pivotal role by being used as valuable input for the study. So, you are kindly requested to genuinely fill the questionnaire.

Thank you in advance for your cooperation!

Instructions:-

- Writing your name is unnecessary.
- Circle or put “✓” mark as per the questions required in the box or answer in the space provided.

Part One: Respondent Profile

1. Sex ☐ Male ☐ Female
2. Age (Years) ☐ below 25 ☐ 25-35 ☐ 35-50 ☐ above 50
3. Educational Level ☐ 10/12 grade complete ☐ Certificate ☐ Diploma ☐ Degree ☐ Above Degree

Part Two: Questions related with the topic

Use of MCS in Supporting Business Management

Next, there are listed reports of various MCS practices and techniques that can be used to support business management in banking industries. Do you use these analyses or reports in your bank? If you do, how occasional (very seldom-quite often) is the use or is it systematic as a part of your normal routines? (Please, circle the most appropriate alternative for each row.)

A. Planning and control during a financial year

The bank plans and controls:	Not used	Very seldom	at times	Quite often	Systematically
1. Monthly or quarterly income statements	0	1	2	3	4
2. working capital and its parts (deposits with banks, customers`, demand, saving deposits) including use of ratios	0	1	2	3	4
3. Cash flow statements of the financial year describing sources and uses of earnings and capital	0	1	2	3	4
4. Branch reports and operations	0	1	2	3	4

B. Strategic planning and management

For strategic plan and management , the bank uses:	Not used	Very seldom	at times	Quite often	Systematically
5. Benchmarking reports and analysis (for example, comparisons to a respective top-firm for learning purposes)	0	1	2	3	4
6. Market share analysis and forecasts	0	1	2	3	4
7. Competitor analysis and forecasts	0	1	2	3	4
8. Customer analysis (satisfaction, behavior etc.)	0	1	2	3	4
9. Personnel analysis (performance, satisfaction etc.)	0	1	2	3	4
10. Analysis of business strengths and weaknesses etc.	0	1	2	3	4
11. Analysis and scenarios for alternative strategies	0	1	2	3	4
12. Differentiation strategy (such as different in service offer, unique service)	0	1	2	3	4
13. Focus Strategy (such as specializing in lending service and etc.)	0	1	2	3	4
14. Cost leadership strategy (such as low cost service, efficiency)	0	1	2	3	4

C. Budgeting system

The bank uses	Not used	Very seldom	at times	Quite often	Systematically
15. Budget follow-ups, at least quarterly, and variance analysis	0	1	2	3	4
16. Monthly or quarterly Budget for Cash flow	0	1	2	3	4
17. Budget for branch expansion	0	1	2	3	4
18. Budget for investing in other sector	0	1	2	3	4
19. Budget for the firm's capital structure(equity and liabilities)	0	1	2	3	4

D. Cost Accounting and pricing

For determining the cost and price of service, the bank	Not used	Very seldom	at times	Quite often	Systematically
20. Calculates service-level costs at each stage of activities up to customer receive it.	0	1	2	3	4
21. Calculates cost at each centers	0	1	2	3	4
22. Calculates target costing (price and target profit are known, so planning is used for reaching allowed service costs)	0	1	2	3	4
23. Calculations of branch costs	0	1	2	3	4

E. Decision making

The bank makes decision based on:	Not used	Very seldom	at times	Quite often	Systematically
24. Investments benefit	0	1	2	3	4
25. Policies or directives given by National Bank of Ethiopia	0	1	2	3	4
26. The Strategic plan formulated	0	1	2	3	4
27. Market surveys and other marketing reports alike	0	1	2	3	4
28. Comments given by the employee and customers	0	1	2	3	4
29. The target set by bank	0	1	2	3	4

F. Performance measurement

The performance of the bank	Not used	Very seldom	at times	Quite often	Systematically
30. Is evaluated by comparisons of financial ratios to industry averages and competitors' ratios	0	1	2	3	4
31. Is evaluated on the basis of shareholder value analysis/Economic value added (EVA)	0	1	2	3	4
32. Is evaluated by comparing actual performance with pre-determined target	0	1	2	3	4
33. Is evaluated on the basis of net profit margin	0	1	2	3	4
34. Is evaluated on the basis of Return on investment(ROI)	0	1	2	3	4
35. Is evaluated on the basis of Return on Equity(ROE)	0	1	2	3	4

G. Compensation and Benefit Plan

36. Salary paid by your bank (Ethiopian Birr Monthly)

- ☐ Bellow 1000 ☐ 1001-2000 ☐ 2001-3000
☐ 3001-4000 ☐ 4001-5000 ☐ above 5000

37. The salary increment and additional benefit given by the bank is based on, select more than one if possible?

- ☐ Performance of employees ☐ Relation with the top Manager
☐ Years of service ☐ other, please specify _____

38. Salary given to the employees of the bank is mostly determined by

- ☐ Performance ☐ Education and training
☐ Experience ☐ Others, please specify _____
☐ Relationship

39. Does the bank provide bonus to the employees out of the profits earned?

- ☐ Yes ☐ No

40. If your answer for Q.No. 39 is yes, what is the base?

- ☐ Performance ☐ Relationship
☐ Salary ☐ others, please specify _____

41. If your answer for Q.No. 39 is No, what is the reason?

Would you like to obtain a summary of the results?

1. ☐ No
2. ☐ Yes, e-mailed to the address:
3. ☐ Yes, posted to the address:

----- End!!!!-----

Appendix B

Addis Ababa University
College of Business and Public Administration
Department of Accounting & Finance
School of Graduate Study

Dear Participant,

This Semi-structured interview is designed to conduct a research on the topic '*The Application of Management control system (MCS) in Ethiopian Commercial banks*'. The purpose of the study is for the partial fulfillment of the requirement of MSc degree in Accounting & Finance. For the successful accomplishment of the study, the response of employees of the bank will have pivotal role by being used as valuable input for the study. So, you are kindly requested to genuinely react the interview questions.

Thank you in advance for your cooperation!

1. How do you express the strategic planning and management of your bank?
2. How do you evaluate budgeting system and related activities in your bank?
3. How the bank calculates the cost incur for service and selling price of the service?
4. What are the bases to make decision for banking activities?
5. How the performance of your bank is evaluated?
6. What are the bases to give additional benefits and rewards?
7. What are the barriers to use of MCS practices and information?

Appendix C

I. Simple Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	0.575 ^a	0.331	0.327	0.57654	0.331	89.378	1	181	0.000

- a. Predictors: (Constant), Strategic planning and management(SPM)
b. Criterion variable: Performance measurement (PM)

Coefficients^a

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics		Correlation
		B	Std. Error	Beta			Tolerance	VIF	
1	(Constant)	1.430	0.136		10.516	.000			
	SPM	0.530	0.056	0.575	9.454	.000	1.000	1.000	0.575

- a. Dependent Variable: Performance measurement (PM)

II. Multiple Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	0.871 ^a	0.759	0.756	0.26425	0.759	282.787	2	180	0.000

- a. Predictors: (Constant), Strategic planning and management (SPM), Performance Measurement(PM)
b. Criterion variable: Management control system (MCS)

Coefficients^a

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics		Correlations
		B	Std. Error	Beta			Tolerance	VIF	
1	(Constant)	.786	.079		9.940	.000			
	PM	.355	.034	.466	10.421	.000	.669	1.494	0.762
	SPM	.361	.031	.515	11.499	.000	.669	1.494	0.783

- a. Dependent Variable: Management control system (MCS)