

**MANAGEMENT CONTROL SYSTEM AND ITS IMPLICATIONS TO THE
FIRM PERFORMANCE: CASE OF COMMERCIAL BANK IN TANZANIA**

**By
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**A Dissertation Submitted in Partial Fulfillment of the Requirements for the
Award of the Degree of Master of Science in Accounting and Finance (MSc-
A&F) of Mzumbe University Dar es Salaam Campus College.**

2014

CERTIFICATION

We, the undersigned, certifies that we have read and hereby recommend for acceptance by the Mzumbe University, a thesis entitled; *Management Control System and Its Implications to the Firm Performance: Case of Commercial Bank in Tanzania*, in partial fulfillment of the requirements for award of the degree of Master of Science in Accounting and Finance (MSc-A&F) of Mzumbe University

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DEDICATION

I would like to take this opportunity to dedicate this work and express my heartfelt gratitude to my Supervisor who played great role in working out this report. Thank you for being patient with me all the time: Also to my family for their moral and material support all the time of doing this nice work.

LIST OF ABBREVIATIONS

BFIA	-	Banking and Financial Institution Act
BSC	-	Balanced Scorecard
CRDB	-	Cooperative and Rural Development Bank
MCS	-	Management Control System
ROE	-	Return on Equity
URT	-	United Republic of Tanzania

ABSTRACT

The study was on the Management Control System and Its Implications to the Firm Performance: Case of Commercial Bank in Tanzania. The study investigated the factors influencing bank performance, non financial MCS measurement promotes bank performance and the internal factors that influence MCS. The study involved (30%) Males and (70%) Females. The data collection methods were questionnaires and personal interview. The statistical methods used was CAMEL ratios.

The study revealed that both banks are financially viable as both have adopted prudent policies of financial management. Both the banks have managed their capital adequacy ratio well above the minimum standard of 10%. The average leverage ratio in case of CRDB was more (1.746) compare to Stanbic bank was (0.828). The CRDB bank has been able to maintain the ratio of Net NPAs to Net advances at 3.42%. The Stanbic bank has been more efficient by maintaining the average ratio of Net NPAs to Net advances at 1.760%. Similarly, the average loan loss cover maintained by Stanbic bank (9.52%) is more than that of CRDB bank (8.288%). The findings as well noted the measures of innovation and employee involvement were not perceived to be as important as customer service and market standing this is a concern. It was also revealed that there was a strong importance-measurement gap for certain factors. That is, although top executives believe that certain nonfinancial factors are highly important, a large number of managers are not capturing data on these measures. However, it was revealed that the leading factor for management control system was the introduction of new technology, capacity to undertake action, the capacity to undertake action is essential in firm performances. Firm size appears to be an important factor in the use of management control systems and strategy to change.

The study concluded that the environment in which internal control operates has an impact on the effectiveness of the control procedures. In fact it is institutions control environment which embodies the principles of strong internal control. It was recommended that the regulatory authority should come in and homogenize prices of such activities in order to protect bank clients from being exploited.

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CHAPTER ONE

INTRODUCTION

1.1 Background Information

This chapter presents the background to the problem, statement of the problem, research questions, and objectives, scope of the study, significance of the study, rationale and organisation for the proposal.

1.2 Background to the Problem

Today's economy has changed rapidly. As a consequence, each company must adapt to change strategy methods and tools for the management to ensure competitiveness and even more importantly to keep the company survive and succeed in the end. Therefore, there should be mechanisms or measures in the action that will assist in the administration of the company to achieve sustainability. The main purpose of management control systems (MCS) is to monitor decisions throughout the organization and to guide employee behavior to desirable ways in order to increase the chances to achieve organization's objectives, including organizational performance (Langfield-Smith, 1997; Kallunki et al., 2010). MCS can be defined as a tool designed to assist the manager's decision-making consisting of both formal and informal forms of controls (Chenhall; Zhao, 2003; Chenhall and Euske, 2007). In Henri (2006), the definition includes planning systems, reporting systems, and monitoring procedures that are based on information use. Interestingly, MCS is a broad concept consisting of many elements and used for varying purposes. Mahama (2006), and Malmi and Brown (2008) define management controls to include all of those organizational arrangements and actions designed to facilitate the achievement of performance goals with the least unintended consequences. MCSs are generally conceptualized to have two dimensions; namely, performance evaluation and socialization of organizational members.

Firms need to establish control tools to help managers make right decisions. The strong competition due to market globalization and technological change are forcing firms to develop management control system. Management control system will

become a tool to achieve sustained success of firms by helping directors to make decisions in daily operation and providing good strategies of the business (Chenhall, 2003). In the context of an acute competitive environment, practices can have very dysfunctional effects on the decision making processes and evaluation at the various levels of management. Various forms of dysfunctional behaviors have been previously identified and MCS research identified some key terms/concepts such as budgetary slack, managerial short term orientation, manipulation of performance measures specific to particular control systems or contexts (Chow et al., 1996). However, MCS represents a logo of survival in organization costly and time-consuming to install and operate (Sandino, 2007). Several researchers have focused on the role of MCS design, environment to implement MCS etc., but this paper will focus only on MCS. Taken all together, this discussion implies that MCS would foster control systems to exist in all spheres of the operations of the organization and necessary in the part of the process of management in extra effort on behalf of their organization, which consequently would lead to higher levels of firm success. In other words, managerial capability would mediate the relationship between MCS and firm success because MCS is one such system in which the top management also ties its hand. Unless the performance is as per the objectivity of MCS, no one could be rewarded despite the willingness of the top management. Consequently, everything would be converted in the high level of productivity (Nilniyom, 2009). Therefore, MCS plays an essential role in development (Abernethy et al., 2004) by assisting organizations in observing nation-wide accountabilities (Chenhall, 2003).

However, in the early 1990s developing countries in Africa began to focus on the improvement of MCS and public finance, in particular on budget and expenditure management reforms (Guenter, 2002). Mainly as a response to concerns from the donor community, governments started to critically review the existing systems and processes. As a response to inadequate and outdated systems, a recommendation was the introduction of integrated MCS and financial management systems (FMS) along the experience of developed countries in the '70s and '80s (integration of different functions of public finance on the basis of a uniform technical platform) (Guenter, 2002).

In the Tanzanian context, MCS and business records management can be traced back before AD 1000 in the coastal areas of Tanzania. Trade in the coastal areas of Tanzania had traceable business contacts with Egypt, India, China, Assyria, Phoenicia, Arabia, Greece and Rome (Magole 2002). When missionaries, hunters and explorers came, after the fifteenth century, they, managed, controlled and recorded whatever they saw and experienced in respect to social-cultural life of indigenous people as well as their economic activities.

Although the history of business MCS in Tanzania is a long one, the Tanzania Banking sector has developed recently since bank reform in early 1990`s (Gwaula , 2013). Many commercial banks are currently offering a number of innovative products. Therefore an appropriate MCS for performance measurement system is required to gauge the performance of these commercial banks. In most cases commercial banks in Tanzania put much emphasis on the use of ratio analysis in gauging the efficiency and its performance (Christopher, 2010). Approaches that deal with non financial measurement systems however to a great extent have been forgotten in measuring the performance of commercial banks. However, the combinations of both non financial and financial measurement systems are to be used to understand whether the goals and objectives were achieved in efficient and effective manner. This study is motivated by the fact that most commercial banks in Tanzania put much emphasis on financial measurements to measure firm performance and forget about non financial measurement systems.

CRDB bank limited where is one of the areas of study will be carried out is a private commercial bank. The Bank was established on July 1st 1996 to succeed the former Cooperative and Rural Development Bank (CRDB), which was a public institution with majority of shares held by the Government of the United Republic of Tanzania (URT, 2004). The succession was a result of the liberalization of the banking industry in Tanzania. The liberalization which followed the enactment of the Banking and Financial Institutions act (BFIA) of 1991 and Government's policy to divest its interest in the sector prompted a recapitalisation of the Bank to levels stipulated by the BFIA (1991). Since its establishment, CRDB has been competing

with several other commercial banks in Tanzania with a focus on quality standards and their related cost information.

Stanbic Bank which is also area of study is a division of Standard bank, a member of the Standard Bank Group, based in Johannesburg South Africa. Was adopted as a trading name in 1992 when the Standard Bank Group acquired the operation of ANZ Grindlays Bank. Stanbic Bank in Tanzania came into being in May 1995 when the operations of Meridien Biao Bank were acquired by the Standard Bank Group. In his assessment of MCS changes and his description of the internal MCS in CRDB and Stanbic bank, the researcher will partly draw on balanced scorecard model, since it will enable him to explain MCS change on the basis of a non financial and financial measurement system and number of influencing variables (Innes & Mitchell, 1990). In order to collect evidence on the use of new management control systems attention will be paid to recent innovations in MCS techniques in the both banks.

1.3 Statement of the Problem

It is well accepted that MCS can be used as a control tool by work groups on all levels (Chee and Wim, 2006). However, factors such as bank strategy, the type of technology, and structural as well as environmental issues may have an influence on bank performance and the degree to which non-financial performance measurements are being used (Ittner and Larcker, 1998). CRDB Bank has witnessed an improved performance with significant growth in customer deposits especially from government institutions and a growing customer base as well as an increasing loan portfolio. The interest income grew by TZS 73.3 billion to TZS 261.7 billion while the net interest income rose to TZS 206.2 billion in FY 2013 compared to TZS 153 billion recorded in 2012. The bank's net interest income after loan impairment charges increased to TZS 179 billion in 2013 from TZS 122.2 billion in 2012 (CRDB Annual Report 2013). The situation is quite different from Stanbic bank Tanzania.

In Tanzania, there is still a lack of adequate understanding of how new MCS operate in firm profit. According to Kameo (2010), the majority of the research works have examined the MCS using traditional systems and they found that traditional system

were still considered to be beneficial in several firms, hence making new systems not valuable. Many studies are still relying on financial ratios to measure the performance of firms(Davydenko, 2011; Deger and Adem 2011; De-Young and Rice 2004; Guenter, 2002; Gwaula, 2013). The idea of integrating financial ratio with a non financial measures to evaluate the performance of the firm is still scanty. Based on that, the focus of this study is to provide a comprehensive picture of the process of MCS nonfinancial measurement for commercial banks performance in Tanzania , focusing on CRDB and Stanbic. In this regard, wide knowledge would be very important for future intervention. It is therefore important to examine the degree to which CRDB and Stanbic bank identify particular nonfinancial performance factors as important in order to widen our experience and narrow the knowledge gap in the area.

1.4 Objectives of the Study

1.4.1 Main Research Objective

This study aims at examining the extent to which non financial MCS measurement promote bank performance.

1.4.2 Specific Research Objectives

The following specific objectives are formulated to contribute to meeting the overall objective:

- (i.) To determine factors influencing bank performance
- (ii.) To investigate non financial MCS measurement promotes bank performance
- (iii.) To assess the internal factors that influence MCS

1.5 Research Questions

1.5.1 Major Research Question

The major research question for the study is: How does nonfinancial MCS measurement promote bank performance?

1.5.2 Specific Research Questions

The following specific research questions are formulated in order to get data for answering the major research question.

- (i.) What are the determinants factors that influence bank performance?
- (ii.) What are non financial MCS measurement promotes bank performance?
- (iii.) What are the internal factors that influence MCS?

1.6 Scope of the Study

The study will be done at CRDB and Stanbic bank in Dar es Salaam, the commercial city of Tanzania. The banks has two highest organs which are managing direction and deputy managing direction, the banks also have eleven departments' namely: department of finance and administration, department of retail clients and marketing, department of credits, department of internal audit, department of treasury, department of international banking and institutional clients, departments of operations, secretariat department and human resource department. All these departments were covered in the study. The main focus was on the managerial and chief of departments out of whom a sample was preferred.

1.7 Significance of the Study

First, this study is important because its findings will assist the top management of CRDB and Stanbic bank to promote its MCS so that the firm achieves its goals and objectives effectively and efficiently.

Second, the findings will also benefit policy makers in drafting policies for the commercial banks in Tanzania.

Third, it will supplement the existing literature on MCS and its implications on firm performance

Fourth, this research will benefit bank sector bank since many of them from their inception to now have been using the time traditional MCS for measuring its performance. The research therefore will aim at looking at non financial MCS to ensure that firm performance is promoted and enhanced.

Fifth, studies on MCS and its implications to firm performance in CRDB and Stanbic bank are scanty which makes it difficult to have enough empirical literature

1.8 Organization of the Research

The rest of this study is organized as follows: Chapter two explores the relevant literature, theoretical perspectives, empirical parts and conceptual framework. The research methodology is put in details in chapter three of the study. Chapter four discusses and analyses the data and finally comes chapter five that conclude and provide policy implications of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presented the theoretical party of the study, theories of the study, empirical studies and conceptual framework

2.2 Conceptual Definition

2.2.1. Management

Management in all business and organizational activities is the act of getting people together to accomplish desired goals and objectives using available resources efficiently and effectively (Otley, 2013). Management comprises planning, organizing, staffing, leading or directing, and controlling an organization (a group of one or more people or entities) or effort for the purpose of accomplishing a goal. Resourcing encompasses the deployment and manipulation of human resources, financial resources, technological resources, and natural resources.

2.2.1.1. Management Control System

The word control has numerous meanings and different connotations, many of which are not applicable to the field of management (Carenys, 2012). According to Anthony (1964 cited in Carenys, 2012) management control system is the process of assuring that resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives. This means that the concept of control in organisation appear to be related to the existence of certain objectives or ends in all organisations , thus it is used for creating the conditions that motivate an organisation to obtain predetermined results. On the other hand one can say that it is a system which gathers information to evaluate the performance of different organisational resources like human, physical and financial. This system provides useful information for managers to do their duties. This information helps organization in performance (Otley, 2007). in his study, he distinguished the management control system from strategic planning and operational control.

Management control (MC) itself is defined in many ways such as: a combination of tools and process that influence on actors behaviours within an organization to achieve organizational objectives and it encompasses formal control systems as well as informal personal and social controls (Spekle, 2001 cited in Hamed and Habibollah, 2008).

According to Malmi (2005 cited in Hamed and Habibollah, 2008) management control system consists of devices and systems that managers use to ensure that their employees' decisions and behaviours are consistent with organization strategies and objectives with excluding decision-support system. He argued that MCS is an integrated system and needs to assess organization from every angle therefore controlling organization actors' behaviours from accounting or managing aspect cannot obtain a comprehensive system.

Based on the nature of this study , the researcher adopted the definition by Simons (1995) who defines MCS as the formal , information based routines and procedures managers use to maintain or alter patterns in organisational activities. The definition was adopted due to the following reasons: First, it enables the researcher to address the internal and external contexts of firms. Second, it encourages the integration of the financial and non financial performance measures and takes into account the wider participation and empowerment of employees. Third, it allows the possibility of observing MCS practice in the wider socio-economic contexts of Tanzanian organisations. Management controls (MC) can be sub-divided into two most important sub categories: The first category involves output controls or results controls, in which specific outcomes are measured, monitored and compared against expectations. This will enable corrective action to be undertaken as and when needed. This category also includes administrative controls or action controls that involve formal rules, standard procedures and manuals and monitoring compliance.

The second category involves behaviour controls, personnel controls and social contracts. This category involves controls such as values and norms, along with group interaction to maintain them, selection and placement of personnel with the

required skills and attitudes, work design and allocation, and observation of the work behaviour of personnel. These two categories are not mutually exclusive, and may complement and reinforce each other in an effective management control system (Cunningham, 1992). In addition, management accounting systems are also an integral part of management control systems. Management accounting is associated with output or administrative controls because of the emphasis on measurements and outputs, especially in the budgeting process.

2.2.1.2 Factors influencing bank performance

Factors affecting commercial banks' performance according to profitability are broadly categorized into two; internal and external factors, (Sehrish et al., 2011). Internal factors are mainly influenced by a bank's management decisions and policy objectives (Staikouras and wood, 2004), whereas external factors focus on industry-related and macroeconomic variables reflected in the economic and legal environment where banks operate (Athanasoglou et al., 2006). Liquidity risk as a factor may arise from the possible inability of a bank to accommodate decrease in liabilities, since it becomes hard to raise funds for increasing demand for loans. This implies that Liquidity risk is a serious factor that has an impact on the performance of commercial banks. It needs further investigation in country specific situations. Loan loss provision to total loans is an indicator of asset quality in commercial banks. This implies that an increase in non-performing loans leads to increase in loan loss provision and ultimately a negative impact of profitability, and hence an increase in credit risk.

Capital adequacy refers to the sufficient amount of banks equity to absorb any shock that a bank may experience (Ong and Teh, 2013). Empirical studies of; Havrylchuk et al., (2006); Iannotta et al., (2007); Pasiouras and Kosmidou, (2007); Athanasoglou et.al, (2008); Alexiou and Sofoklis (2009) and Garcia-Herrero et al., (2009) showed a positive impact of capital on bank profitability. On the other hand, studies of Hoffmann, (2011), showed a significant negative impact of capital on bank profitability. The contradicting empirical evidence suggests that higher capital ratio leads to lower profitability. The implication of the reviewed studies is that setting up

high regulatory capital may have negative effects on profitability and ultimately bank performance.

Bank operating expenses should be considered as a determinant and prerequisite for improving bank performance, since expenditures are controllable expenses and if efficiently managed can contribute positively to the performance of commercial banks. The experience from South Eastern Europe banks is that SEE banks lacked substantial competence in expenses management to the extent of failing to pass over the increased costs to customers so that banks maintain their profits (Athanasoglou et al., 2006). In addition, Interest expenses are part of bank expenses which implies that the higher the interest costs, the lower the rate of return on equity, which means that interest expenses are bank expenses which should be managed efficiently to improve on bank profitability. The inference from the reviewed literature shows that deposits constitute a cheap and stable financial source of funding compared to other alternatives such as equity capital and borrowed capital (Bank of Uganda, 2010).

The implication is that higher funding costs have a negative impact on bank profitability. Consequently, capital structure is among the main determinants of bank performance (Molyneux and Thornton, 1992; Chaudhry et al., 1995 and Goddard et al., 2004). The impact of growing bank's size on profitability can be positive up to a certain limit, beyond which the impact becomes negative on profitability (Eichengreen and Gibson, 2001). Diversification through non-interest income enhances bank profitability (Chiorazzo et al., 2008). However, other studies by; Acharya et al., (2000); De-Long (2001) indicated that greater diversification of the bank dealings does not necessarily transform into increased bank profitability, but may instead reduce profits, therefore optimum level of non-interest income activities must be set. The impact of inflation on bank profitability depends on whether inflation has been fully and correctly predicted by bank managers (Perry, 1992).

Although net income gives an idea of how well a bank is doing, it suffers from one major drawback. It does not adjust for the bank's size, thus making it hard to compare how well one bank is doing relative to another. A basic measure of bank

profitability that corrects for the size of the bank is the return on assets (ROA). Secondly, because the owners of a bank must know whether their bank is being managed well, ROA serves as a good method to identify it.

$$\mathbf{ROA} = \text{Net profit after taxes} / \text{assets}$$

The return on assets provide information on how efficiently a bank is being run because it indicates how much profits are generated by each dollar of assets.

However, what the bank's owners (equity holders) care about most is how much the bank is earning on their equity investment. This information is provided by the other basic measure of bank profitability, the return on equity (ROE).

$$\mathbf{ROE} = \text{Net profit after taxes} / \text{equity capital}$$

There is a direct relationship between return on assets (which measures how efficiently the bank is run) and the return on equity (which measures how well the owners are doing on their investment). This relationship is determined by the equity multiplier (EM), the amount of assets per dollar of equity capital.

$$\mathbf{EM} = \text{Assets} / \text{Equity capital}$$

ROE can also be expressed as a multiplication of ROA and EM

$$\mathbf{ROE} = \mathbf{ROA} * \mathbf{EM}$$

This formula tells us what happens to the return on equity when a bank holds a smaller amount of capital (equity) for a given amount of assets. For example, X bank has \$100 million of assets and \$10 million of equity, which gives it an equity multiplier of 10 (= \$100 million / \$10 million). The Y bank, in contrast, has only \$4 million of equity and \$100 million of assets, which gives it an equity multiplier of 25 (= \$100 million / \$4million).

Another commonly used measure of bank performance is called the net interest margin (NIM). NIM is the difference between interest income and interest expenses as a percentage of total assets.

$$\text{NIM} = (\text{Interest income} - \text{Interest expenses}) / \text{Assets}$$

One of the bank's primary intermediation functions is to issue liabilities and use the proceeds to purchase income earning assets. If a bank manager has done a good job of asset and liability management such that the bank earns substantial income on its assets and have low costs on its liability, profits will be high. How well a bank manages its asset and liabilities is affected by the spread between the interest earned on the bank's assets and the interest cost on its liabilities. This spread is exactly what net interest margin measures. If the bank is able to raise funds with liabilities that have low interest costs and is able to acquire assets with high interest income, the net interest margin will be high and the bank is likely to be highly profitable. If the interest cost of its liabilities rises relatively to the interest earned on its assets, the net interest margin will fall, and bank profitability will suffer.

2.2.1.3 Measures of Non financial Bank performance

Non-Financial performance measures, measure the non-financial aspects of the firm. Examples of non-financial performance measures are measures such as workforce development, product quality, customer satisfaction, on time delivery, innovation measures, attainment of strategic objectives, market share, efficiency, productivity, leadership and employee satisfaction (Datar, Kulp, and Lambert, 2001; Ibrahim and Lloyd, 2011; Ittner, Larcker, and Rajan, 1997 cited in Pim , 2012). Non financial measurement systems may be used to overcome the shortcomings of the financial measures and to identify the drivers of performance (Malmi and Brown, 2008).

Research shows that the importance of non financial measures is increasing; in a number of countries they are widely being applied (Bhimani, 1994). Other examples of non-financial measures adopted in different countries are based on issues such as inventory turnover, throughput, quality, innovativeness, economic value added,

benchmarking, the balanced scorecard and working conditions (e.g. Abdel-Kader and Luther, 2004; Chenhall and Langfield-Smith, 1998). Research conducted by Langfield-Smith (1998) shows that banks that use product differentiation strategies benefit from both new MCS techniques and non-financial information.

Examples of nonfinancial measures of customer satisfaction relating to quality include the following:

- a) The number of defective units shipped to customers as a percentage of total units of product shipped;
- b) The number of customer complaints;
- c) Delivery delays (the difference between the scheduled delivery date and date requested by customer);
- d) On-time delivery rate (percentage of shipments made on or before the promised delivery date);
- e) Customer satisfaction level with product features (to measure design quality);
- f) Market share; and
- g) Percentage of units that fail soon after delivery.

Examples of nonfinancial measures of internal-business-process quality:

- (i.) The percentage of defects for each product line;
- (ii.) Process yield (rates of good output to total output at a particular process);
- (iii.) Manufacturing lead time (the amount of time from when an order is received by production to when it becomes a finished good); and
- (iv.) Number of product and process design changes

Customer-response time is how long it takes from the time a customer places an order for a product or a service to the time the product or service is delivered to the customer. Manufacturing lead time is how long it takes from the time an order is received by manufacturing to the time a finished good is produced. Manufacturing lead time is only one part of customer-response time. Delays in delivering an order for a product or service can also occur because of delays in receiving customer orders and delays in delivering a completed order to a customer.

$$\text{Customer response time} = \text{Order receipt time} + \text{Order manufacturing lead time} + \text{Order delivery time}$$

Since this research will focus on the organisation that applies build, quality oriented strategies and regulations, the researcher will adopt the non financial measurement system even though financial measurement will also be applied. Non financial measurement system will be applied due to the following reasons:

First, many managers feel traditional financially oriented systems no longer work adequately. Since they believe that with financial measurement systems there is too much emphasis on financial measures such as earnings and accounting returns and little emphasis on drivers of value such as customer and employee satisfaction, innovation and quality (Merchant and Van der Stede, 2007). Non-financial measurement is a closer link to long-term organizational strategies. Financial evaluation systems generally focus on annual or short-term performance against accounting yardsticks (Malmi and Brown, 2008). They do not deal with progress relative to customer requirements or competitors, nor other non-financial objectives that may be important in achieving profitability, competitive strength and longer-term strategic goals.

Second, critics of traditional measures argue that drivers of success in many industries are “intangible assets” such as intellectual capital and customer loyalty, rather than the “hard assets” allowed on to balance sheets (Malmi and Brown, 2008). Although it is difficult to quantify intangible assets in financial terms, non-financial data can provide indirect, quantitative indicators of a firm’s intangible assets.

Third, non-financial measures can be better indicators of future financial performance. Even when the ultimate goal is maximizing financial performance, current financial measures may not capture long-term benefits from decisions made now. Non-financial data can provide the missing link between these beneficial activities and financial results by providing forward-looking information on accounting or stock performance. For example, interim research results or customer

indices may offer an indication of future cash flows that would not be captured otherwise.

Finally, the choice of measures should be based on providing information about managerial actions and the level of “noise” in the measures. Noise refers to changes in the performance measure that are beyond the control of the manager or organization, ranging from changes in the economy to luck (good or bad) (Lex, 2009). Managers must be aware of how much success is due to their actions or they will not have the signals they need to maximize their effect on performance. Because many non-financial measures are less susceptible to external noise than accounting measures, their use may improve managers’ performance by providing more precise evaluation of their actions. This also lowers the risk imposed on managers when determining pay.

2.2.1.4 Internal Factors that Influence MCS Change

Innes and Mitchell (1990) state that MCS change involves the interaction of several variables, for example the availability of an adequate accounting staff, computing resources, and the degree of authority that a firm ascribes to the accounting function. These variables relate to conditions favourable to MCS change. Other variables are associated with factors that in fact Influence MCS change. These are competitiveness of the market, production technology, and the product cost structure. Finally, there are conditions that are directly connected with MCS change. The variables associated with these conditions are, for example, the loss of market share, a new accounting staff member or a decrease in the firm’s profitability. According to the contingency theory, organizational design and MCS practices are affected by contingency factors (Sharma and Nandan, 2000; Fisher, 1995; Otley, 1980). An effective design, which matches internal organizational elements with contingency factors (Burrell and Morgan, 1979), is believed to lead to an effective business performance (Langfield-Smith, 1997; Otley, 1980). In this study the researcher uses the following factors as relevant predictors of MCS change: competition, size, the capacity to change, the introduction of new technology, and change of strategy. In addition, we include the institutional factor ‘capacity to undertake action. MSC change can be viewed from

two perspectives. The first is MCS change in relation to the entire spectrum of changes within a firm at a given period of time (Damanpour, 1987, Daft and Becker, 1978; cited in Libby and Waterhouse, 1996), and the second refers to the extent to which MCS change is being integrated into business operations (Downs and Mohr, 1976).

Size: Firm size appears to be an important factor in the use of management control systems. Large enterprises use MCS quite extensively, whereas smaller firms are less inclined to do so (Chiu, 1973; Savage, 1966: cited in El-Ebaishi 2003). The costs associated with MCS innovation are considerable. It should therefore not be surprising that cost is the major impediment for introducing new MCS techniques (Libby and Waterhouse, 1996). Size is generally defined as the number of employees working in an organization.

Organizational capacity to learn: The introduction of innovations in MCS techniques mainly depends on whether the enterprise has sufficient know-how to implement them (Cohn and Levinthal, 1990), and if not, whether it is capable of providing the necessary training, or whether it is in the position to hire skilled employees . Another condition for a successful implementation of new MCS techniques is the full support of senior management and a sufficient degree of commitment on the part of the organization as a whole. Public firms are generally considered less efficient than private enterprises. This can be explained by the nature of public sector management, involving a lower degree of incentive and interest alignment (Kumar, 2004). In addition, it is argued that managers of public enterprises have fewer decision-making responsibilities, and so they do not require elaborate management control systems.

The introduction of new technology: The introduction of new technologies has changed the structure of manufacturing costs. New technologies, such as computer-integrated manufacturing systems, indicate that the proportion of variable direct labour and inventory costs is declining. The speed of an operation is no longer determined by how fast an operator can work, but by the type of automation and

manufacturing system used (Dhavale, 1996). And since the traditional cost control systems are mainly focussed on variance analysis, aggregation of costs and inventory do not provide management with the proper information about resource consumption. In addition, they may fail to give the proper information about the manufacturing performance achieved on the basis of new technological processes (Bruggeman & Slagmulder, 1995; Kaplan, 1994; Gosse, 1993). That is why new MCS techniques, such as , life-cycle costing, target costing, and benchmarking, are clearly gaining momentum (Granlund & Lukka, 1998). These techniques provide better approach to resource management and are focussed on the customer (e.g., Chenhall & Langfield-Smith, 1998a; Elnathan 1996).

Strategy changes: According to Govindarajan and Shank (1992), in order to make MCS effective they have to be matched with a suitable strategy. Achieving success in a dynamic business environment requires strategies aimed at quality improvement, flexibility with respect to customers' requirements as well as a reduction in lead times, inventories and production costs (Lucas, 1997: cited in Sulaiman , 2004). In addition, Anderson and Lanen (1999) examined the relationship between the competitive strategies of firms and MCS change after the 1991 Indian liberalisation process. They argue that MCS change accompanies other organizational changes, and that the traditional systems are used in qualitatively different ways. Chenhall and Langfield-Smith (1998) and Callahan and Gabriel (1998), however, show a direct relationship between high business performance and the introduction of new MCS techniques, such as quality improvement programmes, benchmarking, balanced performance measures in firms that emphasise product differentiation strategies. Modern MCS techniques are focussed on differentiation priorities such as quality, delivery and customer service, whereas the traditional systems are more finance-oriented. Strategies focussed on the requirements of the customer are usually combined with empowerment of the lower staff (Chenhall and Langfield-Smith, 1998b).

Capacity to undertake action: This factor includes issues such as the development of skills, the availability of resources, the influence of power, management attitude and

institutional isomorphism. The capacity to undertake action is expected to play an important role in MCS change. The ability to cope with the dynamic and constantly changing internal and external forces has become a key determinant of organizational survival and gaining competitive advantage (Greenwood and Hinings, 1996). In this context, the neo-institutional theory provides a model of change that enables one to link the organizational context with intra-organizational dynamics. An important factor in intra-organizational dynamics is the capacity to undertake action. Closely connected with this factor are the elements 'availability of skills' and '*resources*'. Another element that is expected to improve this factor is former experience of the organization with change processes (Amburgey, 1993).

Generally, groups in an organization vary in their ability to influence organizational change due to their power differential. With respect to MCS change the support and involvement of top-management is imperative (Bruns and Kaplan, 1986). In the case of small privately owned firms, Young (1987) suggests that the owner/manager's personal behaviour highly influences the enterprise's strategic course and ultimately its success. This behaviour actually reflects the owner/manager's power to determine the direction of the firm, developing as a result of his/her unique influential position (Collins and Moore, 1970). The manager's perceptions also influence the organizational task processes. For example, the owner or the manager is the one who dictates the decision criteria regarding issues such as product and service quality. And he or she may be either a good or an inadequate budgeter or negotiator, may spend too much or too little time on developing new ideas, or be extremely focussed on particular processes while neglecting others (Young, 1987).

2.3 Performance Measurement Models

Phenomenon like firm performance deal with the relationships among and between people groups within the organisation and involves a continuous sequence of interactions in which perspectives or models are either shared or ignored, and actions and reactions are coordinated. Therefore, from this basis, there are various perspectives and conceptions about firm performance measurements, but for the sake of this study, here below are selected some models.

Performance measurement is the process of collecting, analyzing and/or reporting information regarding the performance of an individual, group, organization, system or component on financial and non financial indicators that managers use to evaluate their own or their unit's performance or the performance of their subordinates (Tuomela , 2005 cited in Hamed and Habibollah, 2008). It can involve studying processes / strategies within organizations, or studying engineering processes / parameters /phenomena, to see whether output are in line with what was intended or should have been achieved. Examples of well known performance measurement models are as follows:

Tableau de Bord: This has been in use in some way or another since the late nineteenth century. Tableau de Bord are not limited to financial indicators, but also developed in the context of the mission and vision into a set of objectives from which key success factors are identified and then transformed into a series of quantitative key performance indicators.

The Performance Measurement matrix: This categorizes measurement as being cost or non cost and internal or external. Key to model is the use of the key metric approach and then determines and decomposes method. This involves decomposing departments into functional equivalents and assessing how the departments support the business

The strategic measurement and reporting technique (SMART) pyramid: this also supported the need to include internally and externally focused measures of performance and added the notion of cascading measures down the organisation so that measures at department and work centre level reflect the corporate vision as well as internal and external business objectives

The results and determinants frameworks: This model classifies measures into two basic types, those that relate to results (competitiveness, financial performance) and those that focus on the detriments of those results (quality, flexibility, resource utilisation and innovation). A particular strength of the results-determinants framework is that it reflects the concept of causality.

The input-Process-Output-Outcome framework: This process model creates links between five stages in a business process and the measures of their performance. These stages are defined as input, processing systems, outputs, outcomes and goals. The model assumes that a linear set of relationships between these stages, with each previous factor determinant the next

The strategic balanced scorecard: The strategic development of the balanced scorecard builds on Kaplan and Norton's 1992 model but incorporates lead and lag indicators which yield two directional cause and effect chains. This process implies that strategy is translated into a set of hypotheses about cause and effect. The strategic balanced scorecard is not just a strategic measurement system but also a strategic control system

The performance prism: This consists of five integrated facets which identify areas for organisations to address: stakeholder's satisfaction, strategies, process, capabilities and stakeholder contribution. The critical and unique aspect of the performance prism is the reorganisation of the reciprocal relationship between the stakeholder and the organisation.

2.4 Empirical studies

To develop a successful performance measurement system, managers must clearly understand the interests of the stakeholders (customers, employees, and investors), the strategic objectives of the company or organisation, and every aspect of the company's or organization's business processes. Only then can they be assured that the performance measurement system includes the right factors, both nonfinancial and financial. Long-term commitment to the system is required to assure that the factors are measured, understood, and used. The result can be a performance measurement system that is clearly linked to strategy, is dynamic, and is action-oriented.

With regard to empirical studies, many studies are still relying on financial ratios to measure the performance of banks in Tanzania, only handful of studies has extended the idea of integrating financial ratio with a non parametric method to evaluate the

performance of the banks, more over many studies have concentrated on measuring efficiency of banks and less weight is put on effectiveness which is also very important in evaluating the achievement of the organization`s objectives. A number of studies have directed their attention to the studies of efficiency and its determinants. On performance determinants many studies used financial ratios such as ROA, ROE and NIM as dependent variables. Kumar, S and Gulati (2009) applied Data Envelopment Analysis (DEA) to compute efficiency and effectiveness of the Individual banks scores for the period of one year, (2006/2007), the overall performance scores have been obtained by taking the product of efficiency and effectiveness scores. Using the two stage model the following inputs were used in their analysis, in the first stage the input variables of efficiency were fixed asset, labour and deposit while the output were loaned and advances and investment, however these outputs were used as inputs in the second stage analysis of effectiveness, on the other hand the output of the second stage analysis were net interest income and noninterest income. The findings of this study indicate high efficiency does not stand for high effectiveness in the Indian PBS industry further more positive strong correlation has been observed between effectiveness and performance scores, this is in contrast with the study by Karlaftis, 2004 which indicates that strong positive correlation is between efficiency and effectiveness. The other study in Taiwan by Chien-Thea Ho, Dauw-Song Zhu, (2004) the study used innovative Data Envelopment Analysis that separate efficiency and effectiveness to obtain the overall performance of 41 listed companies of Banking Corporation. The results of the analysis indicate some companies were efficient in one hand but inefficient on the other hand, this indicates poor correlation between efficiency and effectiveness.

On the other hand, Gwaula (2013) on his study on measuring efficiency, effectiveness and performance of Tanzanian commercial banks, using the DEA model, he found that the relationship between efficiency, effectiveness and performance differ from one year to another among the banks in Tanzania. With efficiency scores exceeds both effectiveness and performance scores. He also found that there was no significant correlation between efficiency and effectiveness.

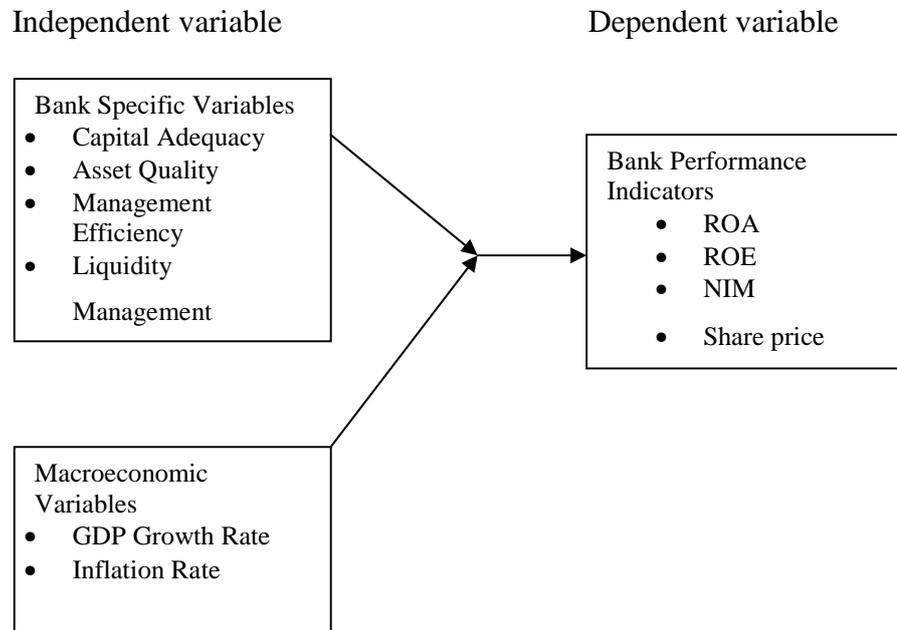
Gwaula (2013) found that most commercial banks had lower scores in both effectiveness and performance in the year 2008, thereafter showing an increasing trend in the year 2009 in efficiency, effectiveness and the overall performance. A similar trend was observed in his first analysis of efficiency. The lowest performance score experienced through the period of study is 2008 (0.365) while the highest performance scores were in 2006 (84.7). Generally his results indicate most commercial banks were efficiency but less effective.

2.5 Conceptual Frame Work

Firm performance depends heavily on internal measurement control systems. This research adopted an researcher own conceptual construct of conceptual frame work. This conceptual framework comprises three sets of variables: dependent, moderating and independent variables. Independent variables includes: capital adequacy , asset quality, management efficiency and liquidity management . This is achieved by the presence and proper functioning of all the predefined independent variables in relation to each category of the organisation's objectives. Proper functioning of independent variables provides reasonable assurance of proper functioning of dependent variable which is bank performance with the following indicators: ROA, ROE and NIM.

The literature presented in this section describes the influence of internal factors on MCS change. It is claimed that there is a positive relationship between the improvements of MCS practices and the increase in firm performance. The relation among MCS practices, internal factors, and firm operation and performance is depicted in Figure 2.1

Figure 2.1: Conceptual Framework



Source: Researcher construction (2014)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The research methodology is a way to systematically solve the research problem. It entails various steps that are adopted in studying a research problem along with the logic behind them (Kothari 2004). This chapter describes the methodology that was used to carry out this study. The chapter describes the type of the study, area of the study, study population and sample size, sampling techniques, types and sources of data, data collection methods, validity issues and data analysis methods.

3.2 Research Design

A research design has been defined as the detailed blue print used to guide a research study toward its objectives (Aakar, 2002 cited in Adam and Kamuzora, 2007). The function of the research design is to provide a paradigm where relevant evidence can be collected with minimum expenditure of time, efforts and money. This study used a descriptive quantitative case study design as a means of investigation focusing on CRDB and Stanbic banks. The reasons for this option of design is to get detailed understanding of the phenomena and statistical performance measurement and incentives and the developments in the CRDB and Stanbic banks.

3.3 Area of the Study

Area of study refers to the geographical location covered by the study which is usually stated in terms of the country, state, education, political or administrative zone local government area (Osundu, 2004). As already stated the study were conducted at CRDB and Stanbic banks in Dar es Salaam Tanzania.

3.4 Study Population

According to Nachmias, (2008) population is the aggregate of cases that conform to some designated set of specifications. The populations of the study comprised of the Chief Executive Officers/General Managers, Human resources and other workers

from available banks in Tanzania which included NBC bank, ECOBANK, EXIM bank, and Standard chartered bank, ADB bank, Stanbic bank and CRDB bank.

3.5 Units of Analysis

The units of the analysis of this study were employees of CRDB and Stanbic bank.

3.6 Sample Size

Sampling can be defined as a process of selecting a number of individuals or objects from a population such that the selected group contains elements representative of the characteristics found in the entire group (Kombo & Tromp, 2009). The purpose of sampling is to select a group of people or things or areas that can be studied. Instead of studying the entire population, which can be impractical and unnecessary, one can carry out a credible study using a sample selected from the target population (Yin, 1994).

To select CRDB and Stanbic banks, the researcher used purposive sampling to be the representative sample of banks in Tanzania. For the purpose of this study, two categories of samples were used: in depth interview and survey sample. Interview sample consisted of 2 Managing directors, 2 deputy managing directors, 2 finance and administration, 2 retail clients and marketing department and 2 human resource managers. In total the interview sample included 10 respondents. As is clarified below, the interview sample was purposively selected. The selection of 10 respondents (interview sample) is consistent with the logic of qualitative sampling and analysis that deal with small samples with a view to making detailed analysis of the study problem.

Questionnaire sample consisted of 20 CRDB bank staff and 20 Stanbic bank staff. The selection of this sample size is consistent with the suggestion in social research literature (Clegg, 1982) that a sample of at least thirty respondents is large enough to allow valid statistical analyses. Unlike interviews, questionnaire survey works with large samples. This represents a quest to collect evidence from a large numbers of respondents. On the other hand, Yin (1994) argues that evidence from a large number

of cases or respondents is often credible and compelling. Consequently, the total study sample included 50 respondents. Table 3.1 summarizes the proposed study sample.

Table 3.1: Composition of Study Sample

Type of sample	No. of respondents
Survey sample	
Managing director	2
Deputy managing director	2
Department of HRM	2
Department of finance and administration	2
Department of retail clients and marketing	2
Total	10
Questionnaire sample	
CRDB bank staff	20
Stanbic staff	20
Total	40
General Total	50

Source: Field Study, 2014

3.7 Sampling Techniques and Procedures

Probability and non-probability sampling were used for this study. These two approaches are described below.

3.7.1 Probability Sampling: Simple Random Sampling

Probability sampling is an approach to sampling whereby each element of the population has an equal chance or probability of being selected into sample (Yin, 2003). Probability samples are regarded to be representative of the populations from which they are drawn. Conclusions made by studying such samples can be generalized to their larger populations or universes of origin. There are many

probability sampling techniques. Examples are systematic, proportionate and simple random sampling (Kombo and Tromp, 2009).

For the purpose this studies simple random sampling (SRS), which is a basic probability approach to sampling (Bailey, 1982), was used. This approach was used to CRDB and Stanbic ban staff. Based on Kothari (2004) advice, SRS involved assigning numbered slips of paper to all individuals or elements featuring in a sampling frame. For the purpose of this study, sampling frames was lists of staff present at the banks on the day of data collection. The numbered slips of paper was put in container and thoroughly shuffled to avoid selection or reduce bias and one slip of paper was blindly selected at a time. This process was repeated until the envisaged sample size was reached. The persons whose names matched the selected slips of paper were included into the questionnaire sample.

3.7.2 Non-Probability Sampling

Non probability sampling does not follow the logic of probability sampling described above. Instead, the investigator involves in a study the people he/she believes can provide information needed to address the reach objective and questions. Purposive and snowball sampling are the main approaches associated with non-probability sampling (Bailey, 1982). Purposive sampling involves including respondents into sample based on their assumed or perceived resourcefulness in terms of their potential to provide required information (Kothari, 2004). For the purpose of this study, this sampling procedure was used to select the managing director, deputy managing director, department of finance and administration, department of retail clients and marketing, department of credits, department of HRM. It is believed that mentioned people are likely to give more details about the situation under investigation in the CRDB and Stanbic banks due to their experience in working in that area .

3.8 Types and Sources of Data

To assess the performance implications of strategic performance measurement the researcher used two sets of variables: (1) managers' responses regarding their

satisfaction with the performance measurement system, and (2) publicly-available information on the bank's accounting and stock market performance. The researcher included the satisfaction measure to allow comparisons of the results of this study to other performance measurement studies using satisfaction as their dependent variable. Normally, three questions were used to measure a bank's satisfaction with its measurement system: (1) how well the system meets expectations (1=has not met expectations to 6=exceeded expectations); (2) how well the system compares to the respondent's concept of an "ideal" system (1=not at all ideal to 6=very close to ideal); and (3) overall satisfaction with the system (1=not at all satisfied to 6=completely satisfied). The study used both primary and secondary data sources. These techniques are discussed below:

3.8.1 Primary Data Collection Sources

According to Elhouse (cited in Rwegoshora 2006), primary data are those which are collected for the first time and are thus original in character. In this study, both survey and in depth interviews as the major data collection instruments will be used. This is because the information which will not be captured through questionnaires will be then supplemented by in depth interviews.

3.8.1.1 Survey

Two instruments were developed in order to conduct a survey of executives of CRD and Stanbic bank. The only difference between the two instruments were the format of the performance measures (BSC format or unformatted). The instrument provides performance measures for a fictional bank unit. In the first part of the instrument, subjects were asked to assess the bank-unit performance and to assess the importance of each measure in assessing bank-unit performance. The overall bank-unit performance reflected in the subject's response to question 1 which asked the subject to determine performance on a Likert-type scale from 1 to 10. The importance on each of the 20 performance measures was also assessed on a Likert-type scale from 1 to 10. The variable that was utilized to represent the percentage of performance measures perceived to be important was calculated by summing, for each subject, the

number of measures with an importance score of 6 through 10 and dividing by the total number of performance measures.

After answering questions on performance measures, the subjects asked five questions designed to measure the perceived risk in the assessment of bank performance. The risk variables were assessed on a Likert-type scale containing six possible responses. The scoring of these questions was done on a 7 point scale where a score of 4 were assigned in case the question was omitted. A high score means the subject perceives a high amount of risk.

3.8.1.2 In Depth Interviews

In depth interview was also used to test the attitude and correctness of the subject (Rwegoshora, 2006). This method can be used through personal interviews and if possible through telephone interviews. The structured interviews were used to supplement questionnaire during the exercise of gathering data. All interviews were tape recorded in order to have accuracy and consistency of the data collected. This method of data collection was used for 5 CRDB and 5 Stanbic respondents.

The reason for choosing this method is that the researcher has had a face to face contact with the interviewees and this aimed at going beyond the questionnaires to receive explanations about the issues raised in them. Besides, the interviewer had access to control the environment which made the questions to be answered to the researcher's satisfaction. The method cleared up any misunderstanding of questions immediately, also helped observe nonverbal behaviour, and assessed the validity of the respondent's answers. The method was also being used due to its importance during data interpretation when linking responses obtained from questionnaires and real situation observed during the interview.

3.8.2 Secondary Source of Data

Documentation

It could be very difficult to get vivid examples and data that are valid without having a look at what has been documented about the study under investigation (Kothari, 2004). To this end, an attempt was made to review various documents that might

help to shade some light on the question of management control system and its implication on workers performance. Target sources included minutes of management control system meetings, workers performance reports, management reports, news papers, annual financial reports, strategic plans and also previous research reports on the issue under study.

Since useful documents can be misleading or simply inaccurate or archaic, caution was exercised in the sense that documentary data are critically examined and compared with evidence from in depth interview and questionnaire data.

3.9 Validity and Reliability Issues

Validity and Reliability are terms that are closely related. Maxwell (1996 cited in Makombe, 2006) defines the term validity as the correctness or credibility of a prescription, explanation, interpretation, account or conclusion. In this regard, MacClung (1988 cited in Makombe, 2006) states that the study results must be internally and externally valid to make generalizations. Regarding reliability, the concept refers to the degree to which the same results would be obtained in repeated attempts of the same test (Gall and Gall in Ballinger, 2000 cited in Makombe, 2006). In order to ensure the validity of this study the researcher took several measures. In order to have valid descriptions, all in depth interviews were recorded through a recorder and finally transcribed repeating the actual words that were spoken or written. The researcher expected doing so, made the data accurate and complete.

To ensure the reliability of this qualitative research, the researcher ensured that instructions are given to research assistants in order to ask questions exactly as they appear in the questionnaires. Careful examination of data was conducted to ensure the consistency of both the process and the product of the research. This was achieved through the use of combined methods of data collection such as, in depth interviews, questionnaires, and documentary reviews. Thus, the reliability was when a particular technique was applied repeatedly to the same situation and gives the same results each time

3.10 Specification of the model used for the study

The major dependent performance indicators used were Return on Asset (ROA), Return on Equity (ROE) and Net Interest Margin (NIM.) The major determinants (independent variables) were capital adequacy, asset quality, management efficiency and liquidity status which were proxied by selected ratios.

The CAMEL ratios are the popular bank specific factors often used in representing bank specific factors in relation to performance. The CRDB Bank also uses CAMEL ratios to evaluate its performances.

The macroeconomic variables used as independent variables are GDP growth rate and average annual Inflation Rate.) In this study the following baseline model was used:

$$it = a_0 + a_1 CA_{it} + a_2 AQ_{it} + a_3 ME_{it} + a_4 LM_{it} + a_5 GDP_{it} + a_6 INF_{it} + e_{it} \dots \dots \dots (1)$$

Where:

- (i.) it = Performance of Bank i at time t as expressed by ROA, ROE, NIM
- (ii.) a_0 = Intercept
- (iii.) CA_{it} =Capital Adequacy of bank i at time t
- (iv.) AQ_{it} = Asset Quality of bank i at time t
- (v.) ME_{it} = Management Efficiency of Bank i at time t
- (vi.) LM_{it} =Liquidity Ratio of Bank i at time t
- (vii.) $a_1 - a_6$ = Coefficients parameters
- (viii.) GDP_{it} = Gross Domestic Product (GDP) at time t
- (ix.) INF_{it} = Average annual inflation rate at time t
- (x.) e_{it} = Error term where i is cross sectional and t time identifier

The following is an extended model to estimate the moderating effect of Ownership Identity

$$it = o + a_1 (CA_{it} * M) + a_2 (AQ_{it} * M) + a_3 (ME_{it} * M) + a_4 (LM_{it} * M) + a_5 (GDP_{it} * M) + a_6 (INF_{it} * M) + \epsilon_{it} \dots \dots \dots (2)$$

Where:

- (i.) it = Performance of Bank i at time t as expressed by ROA, ROE, NIM
- (ii.) 1 = Intercept
- (iii.) $CAit$ =Capital Adequacy of bank i at time t
- (iv.) $AQit$ = Asset Quality of bank i at time t
- (v.) $MEit$ = Management Efficiency of Bank i at time t
- (vi.) $LMit$ =Liquidity Ratio of Bank i at time t
- (vii.) $a1 - a6$ = Coefficients parameters
- (viii.) $GDPt$ = Gross Domestic Product (GDP) at time t
- (ix.) $INFt$ = Average Annual Inflation Rate at time t
- (x.) $INFit$ = Error term where i is cross sectional and t time identifier
- (xi.) M = Ownership Identity (1=Domestic and 0=Foreign)

On the other hand, based on the nature of this study, the balanced scorecard model was also used to analyse this study. The balanced scorecard was used due to the following reasons: First, it reflects many of the attributes of other measurement frameworks but links measurement to the organisation's vision. It grew out of the realisation that no single of performance indicator can capture the full complexity of an organisation's performance. Second, the balanced scorecard translates the vision of a business into objectives and performance measures in four perspectives: financial, customer , internal-business process and learning and growth . Third, BSC considers the financial indices as well the non-financial ones in determining the corporate performance level and it is not just a performance measurement tool but is also a performance management system.

3.10 Data Analysis Methods

Data analysis is a process of assembling masses of data into meaningful and relevant category by means of coding and eventually assigning meaning to them. Thus the purpose of data collection is to finally interpret and provide meaning to the data collected with the view to answering the research questions and meeting research objectives (Kothari, 2004). Data analysis can also be defined as a process of

organizing or arranging the data collected and providing meaning to the data by means of qualitative and or/ quantitative approaches (Yin,1994).

This study uses both descriptive quantitative and qualitative approach to data analysis. Quantitative data collected via survey analyzed by means of descriptive statistics. This involved the presentation of relevant frequencies tables and even graphs. Qualitative data collected through in depth interviews and documentary review was analyzed by means of thematic analysis. This approach involves summarizing the data and cleaning them to remove irrelevant data, documenting themes emerging from the data in relation to the research objectives and questions. A narrative style (Bailey, 1982) was used to describe the findings by means of quotes and paraphrasing responses given by in depth interview respondents.

3.11 Validity and Reliability Issues

Validity and Reliability are terms that are closely related. Maxwell (1996 cited in Makombe, 2006) defines the term validity as the correctness or credibility of a prescription, explanation, interpretation, account or conclusion. In this regard, MacClung (1988 cited in Makombe, 2006) states that the study results must be internally and externally valid to make generalizations. Regarding reliability, the concept refers to the degree to which the same results would be obtained in repeated attempts of the same test (Gall and Gall in Ballinger, 2000 cited in Makombe, 2006). In order to ensure the validity of this study the researcher took several measures. In order to have valid descriptions, all in depth interviews were recorded through a recorder and finally transcribed repeating the actual words that were spoken or written. The researcher expected doing so, made the data accurate and complete.

To ensure the reliability of this qualitative research, the researcher ensured that instructions are given to research assistants in order to ask questions exactly as they appear in the questionnaires. Careful examination of data was conducted to ensure the consistency of both the process and the product of the research. This was achieved through the use of combined methods of data collection such as, in depth

interviews, questionnaires, and documentary reviews. Thus, the reliability was when a particular technique was applied repeatedly to the same situation and gives the same results each time.

CHAPTER FOUR

PRESENTATION OF THE FINDINGS

4.0 Introduction

This chapter presents a detailed discussion of the study and interpretation around them in line with the specific objectives. The chapter contains description of the respondents' profile, the factors influencing bank performance, the measures of Bank performance and the internal factors that influence MCS.

4:2. The profile of respondents

4:2.1 Number of respondents by Banks and sex

Respondents were asked to indicate the bank that they were working. They were required to select either CRDB Bank or Stanbic Bank. The results were presented in Table 4.1

Table 4.1: Distribution of respondents by street and sex (N=40)

Category	Sex				Total	
	Male		Female		n	%
	n	%	n	%		
CRDB Bank	7	17.5	13	32.5	20	50
Stanbic Bank	5	12.5	15	37.5	20	50
Total	12	30	28	70	40	100

Source: Field Data, (2014)

The findings in Table 4.1 revealed that, Respondents differ on gender. It was revealed that in CRDB, Males were (17.5%) and Females were (32.5%). However, in Stanbic, Males were (12.5%) and Females were (37.5%). In general, it was noted that Males were (30%) and Females were (70%). This findings show that in bank industry, Females are dominant. This implies that many Females likes to work in Bank. This is probably due to the nature of Bank system requires people who likes to be more smart.

4.2.2 Respondent's ages

Respondent's age in working place is an important factor. Therefore, Respondents were required to state their ages from the given options which include; 21-29, 30-39, 40-49, 50-60 years. Results were summaries and presented in Table 4.2

Table 4.2: Respondent's ages (N=40)

Ages	Frequency	Percentage
21-29 years	4	10
30-39 years	18	45
40-49 years	11	27.5
50-60 years	7	17.5
Total	40	100

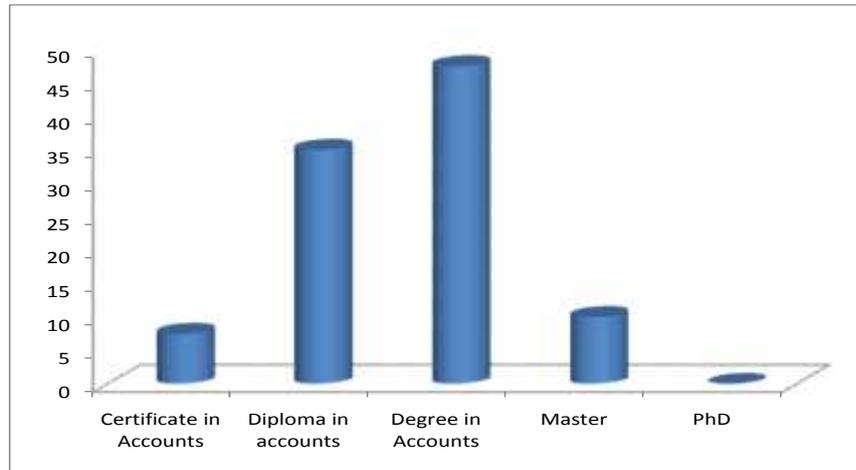
Source: Field Data, (2014)

Results in Table 4.2 revealed that Respondent's ages differ. Results noted that (10%) of Respondents were between 21-29 years, (45%) were between 30-39 years, (27.5%) were between 40-49 years and (17.5%) were between 50-60 years. These findings show that the highest number of Respondents were those with that the age between 30-39 years old. This is the age where most of people are fighting looking for their money. The lowest numbers of Respondents were those of the age between 50-60.

4.2.2 Level of Education

Respondents (Staff of CRDB and Stanbic Bank) were asked to state their highest level of education they had attained. Particularly they were to select from a given list comprising various level of education given. A researcher was interested to know the number of the Employees in relation to their education level. The results were presented in Figure 4.1 where by Y-axis represent percentages of respondents and X-axis represent Respondent's ages

Figure 4.1: Respondent's education



Source: Field Data, 2014

Results in Figure 4.1 show that Respondents differ in education level. It was discovered out of 40 Respondents; (7.5%) had certificate in Accounts, (35%) had Diploma in Accounts, (47.5%) had degree in Accounts and (10%) had Masters. There was no Respondents who had PhD. This findings show that the highest levels of education were indicated by Respondents who had first degree followed by those with diploma in accounts. However, the lowest level observed were those with primary certificate in accounts. This findings show that Banks recruits staff with higher level of education.

4.2.4 Experiences with Banks

Respondent's experiences on working in Banks are essential. Respondents were asked to indicate their working experiences in banks. Therefore, Respondents were asked to select from the less than 2 years, 3 - 5 years, 6- 10 years and more than 10 years. Results were presented in Table 4.3

Table 4.3 Experience with Banks (N = 40)

Experiences with Banks	Frequency	Percentages
Less than 2 years	3	7.5
3-5 years	11	27.5
6-10 years	19	47.5
More than 11 years	7	17.5
Total	40	100

Source: Field Data, 2014

Results in Table 4.3 discovered that Respondent's experiences working in bank differ. It was revealed that out of 40 Respondents; (7.5%) had less than 2 years of working in bank, (27.5%) indicated that had 3-5 years of working in bank, (47.5%) indicated that had 6-10 working in banks and (17.5%) had more than 11 years of working in bank. These findings show that the leading experiences were those who worked for 6-10 years followed by those who had 3-5 years. However, the lowest experiences were observed to be those with less than 2 years followed by those with more than 11 years. This findings show that banks prefer to work with experienced staff. This is true because experienced workers perform better than non experienced workers.

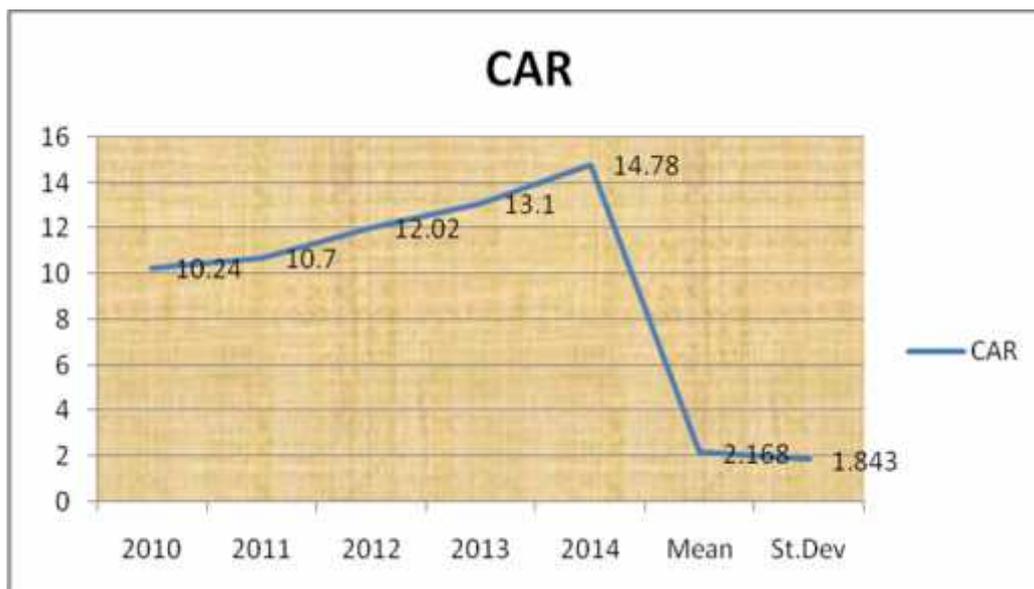
4.3 Factors that influence bank performance

Under objective one, study sought to investigate the factors that influence bank performances. Data from the financial statements of the banks for the period 2010 and 2014 had been analyzed. Determinants of bank performances can be classified into bank specific (internal) and macroeconomic (external) factors. Due to the nature of this study, the descriptive statistic of this part opted to use CAMEL framework bank specific factors. Based on the CAMEL framework, the results and discussions of the first objective were described under the following heads: Capital adequacy analysis, Asset quality analysis, Management capability analysis, Earnings analysis and Liquidity analysis. Results were presented as follows;

4.3.1 Capital Adequacy Analysis

Capital adequacy ratios are a measure of the amount of a bank's capital expressed as a percentage of its risk weighted credit exposures. An international standard which recommends minimum capital adequacy ratios has been developed to ensure banks can absorb a reasonable level of losses before becoming insolvent. Applying minimum capital adequacy ratios serves to protect depositors and promote the stability and efficiency of the financial system. The capital adequacy ratios of CRDB Bank and Stanbic Bank were presented in presented in Figure 4.2 (CRDB Bank) and Table 4.9 (Stanbic Bank)

Figure 4.2: Capital Adequacy Ratio of CRDB



Source: Annual Financial Reports (2010-2014)

An introspection of the figure 4.2, reveals that the capital adequacy ratio of the CRDB bank in the last five years have been well above the norm of commercial bank of Tanzania (CBT) that is 8% level. This ratio has been increasing year after year 10.24% in the year 2010 and 14.78% in the year 2014. The average of the five years also is good 12.16% which seems quite consistent as standard deviation being only 1.84. The results in Figure 4.2 are partly consistent with those of Vincent (2013) in his study on determinants of financial performance of commercial banks in Kenya.

Vincent (2013) found that the average capital ratio of Commercial Banks in Kenya was 17.36. The figure is above the 8% statutory requirement set by CBK. This shows that the CRDB bank hold more capital than required.

For computation of the capital adequacy ratio, capital is classified as Tier-1 and Tier-2 capitals. Tier-1 capital comprises the equity capital and free reserves, while Tier-2 capital comprises subordinated debt of 5-7 year tenure. The higher the capital adequacy ratio (CAR), the stronger the bank. However, a very high CAR indicates that the bank is conservative and has not utilized the full potential of its capital. The position of capital adequacy of the CRDB bank has been measured with the help of Capital Adequacy Ratio (CAR), Leverage ratio and Net worth protection.

Table 4.4: Capital Adequacy Ratios of Stanbic bank

	Capital Adequacy Ratios	2010	2011	2012	2013	2014	Mean	Standard Deviation
A	Capital Adequacy Ratio	17.44 %	15.46 %	16.48 %	16.88 %	15.15 %	16.282 %	0.961
B	Leverage Ratio	1.21 7	0.90 7	0.70 6	0.59 6	0.70 2	0.828	0.246
C	Net worth protection	28,7 86	39,5 39	49,0 90	55,7 25	52,5 36	45136	10968

Source: Annual Financial Reports (2010-2014)

Results in Table 4.4 revealed that the regression result presented above for both CRDB and Stanbic bank reveal that not only do capital adequacy and asset composition have strong positive relationships with bank profitability, they also impacts significantly on bank profitability. This argument is not consistent with Hoffmann (2011) who found the negative impact of capital assets ratio among US banking sector over the period of 1995-2007.

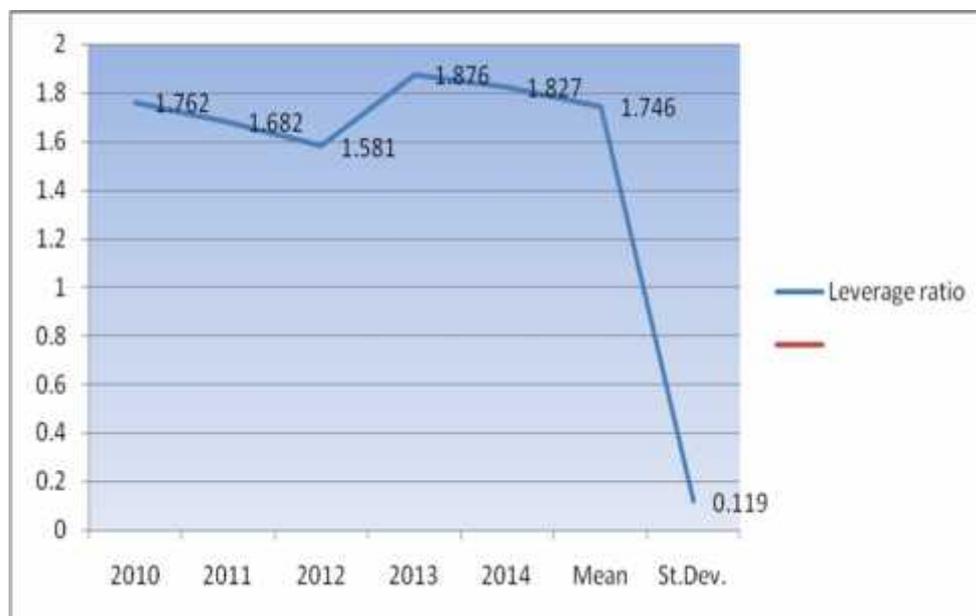
The position of capital adequacy of the Stanbic bank has been measured with the help of Capital Adequacy Ratio (CAR), Leverage ratio and Net worth protection. An introspection of the table 4.1 reveals that the capital adequacy ratio of the Stanbic bank in the last five years has been well above the norm of CBT that is to say 8% level, although decreasing year after year 17.44% in the year 2010 and 15.15% in the year 2014 . But still it is comfortably much above the minimum stipulated standard. The average of the five years also is good (16.28%) which seems quite consistent as standard deviation being only 0.961.

Similarly, the leverage ratio (Total outside liability to shareholders funds) also shows a bit weak sign as the ratio declined from 1.21 in 2010 to 0.90 in 2011 and has gone down in the subsequent years. The mean value of the leverage ratio is 0.82 with 0.246 standard deviation. So far as Net worth protection (Net worth to Non-performing assets) is concerned, the ratio has been all along rising during the period under study with 28786.493 in 2010 to 52536.343 in 2014 with the mean value 45136. To maintain the capital adequacy, the bank has mobilised capital from the stock market. Thus the bank has been able to maintain the confidence of investors and depositors. Also the bank continued its efforts to reduce its non-performing assets. Which has strengthened its capital base as otherwise too many loss making efforts would have eroded the capital position of the bank.

Leverage Ratios for CRDB Bank and Stanbic Bank

A leverage ratio is meant to evaluate a company's debt levels. The most common leverage ratios are the debt ratio and the debt-to-equity ratio. Figure 4.3 and Table 4.4 presented the leverage ratio of CRDB and Stanbic Bank respectively.

Figure 4.3: Leverage Ratios for CRDB



Source: Annual Financial Reports (2010-2014)

Results in Figure 4.3 revealed that on the leverage ratio shows that in 2010 there were a decline from 1.76 to 1.68 in 2011, but has picked up in the subsequent years. However, the mean value of the leverage ratio is 1.74 with 0.119 standard deviation

Table 4.5: Asset Quality Ratios for Stanbic Bank

S.No	Asset Quality Ratios	2010	2011	2012	2013	2014	Mean	Standard Deviation
a	Net NPA to Net Advances	2.45%	1.88%	1.58%	1.48%	1.41%	1.760%	0.425
b	Loan Loss Cover	8.691%	11.552%	5.110%	10.374%	11.902%	9.52%	2.77

Source: Annual Financial Reports (2010-2014)

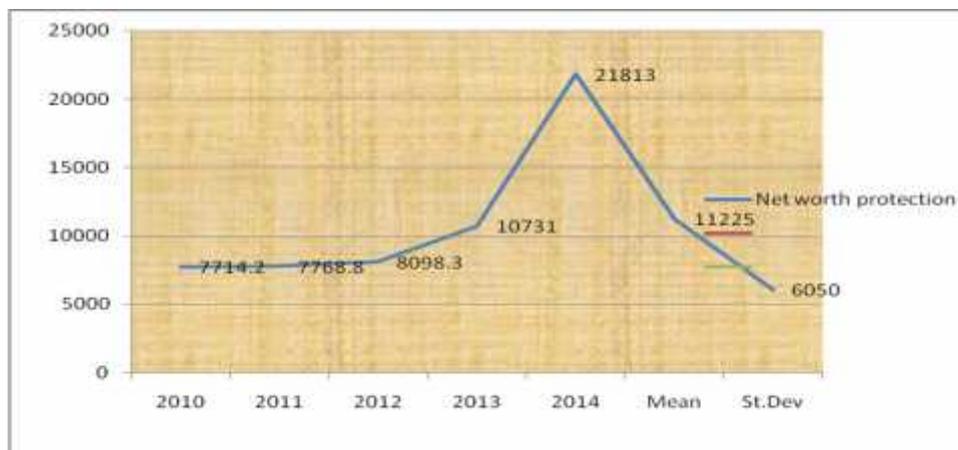
The analysis in table 4.5 reveals that the Stanbic bank has been successful to manage its NPAs. The Net NPAs which were 2.45% of total Net advances of the bank in

2010 have come down to 1.41% in 2014. This has been possible by using various strategies by the bank. The bank continued its efforts to reduce its non-performing assets. With the strenuous efforts and enhanced recovery drive, the bank has been able to further reduce its NPA level. Thus the bank has been successful to manage the Net NPA to Net Advances at an average of 1.76%. To be secure and safe, the bank has been maintaining the provisions for NPAs. It has been in a position to consistently maintain such provision with 8.691% of Gross NPAs in 2010 with an average of 9.52% having standard deviation of 2.77. In this way, the asset quality position of the bank seems quite good as the loan loss cover for NPAs has been provided prudently.

Net worth Protection

The net worth ratio states the return that shareholders could receive on their investment in a company, if all of the profit earned were to be passed through directly to them. Thus, the ratio is developed from the perspective of the shareholder, not the company, and is used to analyze investor returns. The ratio is useful as a measure of how well a company is utilizing the shareholder investment to create returns for them, and can be used for comparison purposes with competitors in the same industry. Figure 4.4 presented the net worth of CRDB Bank and Table 4.4 presented the net ratio of Stanbic Bank.

Figure 4.4: Net worth Protection



Source: Annual Financial Reports (2010-2014)

Figure 4.4 so far shows that Net worth protection (Net Worth to Non-Performing assets) is concerned. The ratio has been all along rising during the period under study with 7714.235 in 2010 to 21813.839 in 2014 with the mean value 11225. To maintain the capital adequacy, the bank has mobilized capital from the stock market. Thus the bank has been able to maintain the confidence of investors and depositors.

Table 4.6 Management Capability of Stanbic bank (Growth in Various Parameters)

S. No		2010	2011	2012	2013	2014	Comp. growth rate
a	Advances	47,62.89,58	64,23.88,51	80,10.94,95	92,84.93,62	1,15,17.14,13	24%
b	Deposits	1,11,68.08,26	1,29,11.11,17	1,46,74.89,96	1,86,61.38,38	2,16,44.97,27	14%
c	Business	159,30.9,784	193,34.9,968	226,85.8,491	279,46.3,200	331,62.1,140	16%
d	Total Expenses	8,84.4,829	11,49.6,214	11,60.8,345	11,94.5,257	12,75.7,917	7%
e	Operating Profit	2,72.7,951	4,61.2,419	5,53.7,241	6,28.4,207	3,55.4,660	5%
f	Net Profit	1,67.56,19	2,59.80,09	3,37.75,09	4,06.33,00	1,15.06,90	1%
g	E.P.S	34.83	53.94	70.07	84.22	23.72	1%

Source: Annual Financial Reports (2010-2014)

The Management capacity has also been explained in the table 4.11 with the help of various productivity ratios, like expenditure to Income ratio, credit deposit ratio, asset utilization ratio, diversification ratio, earnings per employee and expenditure per employee. The ratio of expenditure visa viz to income which was 0.764 in-2010 has gone slightly up to 0.782 in 2014, explaining thereby that for every Tsh generated as income only 0.76 which were incurred as cost in 2010 and so on. The mean value of this ratio is 0.71, with minor standard deviation of 0 .051 is an encouraging fact. The credit deposit ratio which was 0.426 in 2010 has slightly improved to 0.532 in 2014 with the mean value 0.48 shows its consistency during the period under study. However, the asset utilization ratio which was 0.090 in 2010 has

shown a declining trend as it has come down to 0.066 in 2014, but the mean value of the ratio remains by and large consistent. So far as diversifying the business from fund based to fee based, the Stanbic bank has not achieved good performance in the last two years as the ratio of non-interest income to total income has decreased from 6.97% in 2010 to 5.02% in 2014. This ratio is highly skewed, with the average of 12.25% having a standard deviation of 5.75.

Assets Quality Ratios for CRDB and Stanbic Bank

Table 4.6: Assets Quality Ratios for CRDB Bank

	Asset Quality Ratios.	2010	2011	2012	2013	2014	Mean	Standard Deviation
a	Net NPA to NET Advances	6.74%	5.32%	3.86%	0.98%	0.20%	3.42%	2.79
b	Loan Loss Cover	9.415%	9.452%	9.497%	8.587%	4.490%	8.288%	2.156

Source: Annual Financial Reports (2010-2014)

The analysis in table 4.6 reveals that the CRDB bank has been successful to manage its NPAs. The Net NPAs which were 6.74% of total Net advances of the bank in 2010 have come down to 0.20% in 2014. This has been possible by using various strategies by the bank. The bank has been able to manage the Net NPA to Net Advances at an average of 3.42%. To be secure and safe the bank has been maintaining the provisions for NPAs as per norms fixed by CBT. It has been in a position to consistently maintain such provision with 9.415% of Gross NPAs in 2010 with an average of 8.28% having standard deviation of 2.156. In this way the asset quality position of the bank seems good as the loan loss cover for NPAs has been provided prudently.

The results in Table 4.5 are not consistent with those of Nsambu (2014) who found that asset quality had a significant negative impact on financial bank performance measured by ROA in Uganda. On the side of Tanzania, Net interest margin to total assets has a positive and statistically significant impact on returns on assets for domestic commercial banks. This implies that, domestic commercial banks

in rely mostly on interest income as their main source of business income. The results are consistent with findings of Burki and Niazi, (2006), who indicated that, there was a relationship between interest income and earning assets for foreign commercial banks in Pakistan.

Management Capability Ratios for CRDB Bank

The performance of Management capacity is usually qualitative and can be understood through the subjective evaluation of Management systems, organization culture, and control mechanisms and so on. However, the capacity of the management of a bank can also be gauged with the help of certain ratios of off-site evaluation of a bank. The capability of the management to deploy its resources, aggressively to maximize the income, utilize the facilities in the bank productively and reduce costs (Purohit, 2003). This can be evaluated with reference to the following ratios given in tables. Results were presented in Table 4.7 and 4.8 for CRDB and Stanbic Bank respectively

Table 4.7: Management Capability Ratios of CRDB Bank

S. No	(3) Mgt. Capability Ratios	2010	2011	2012	2013	2014	Mean	Standard Deviation
a	Expenditure to Income Ratio	0.857	0.806	0.734	0.676	0.732	0.762	0.071
b	Credit- Deposit Ratio	0.499	0.535	0.530	0.537	0.585	0.540	0.032
c	Asset Utilization Ratio	0.104	0.104	0.101	0.094	0.080	0.094	0.008
d	Diversification Ratio	11.719%	12.821%	14.313%	19.360%	16.532%	14.95%	3.05
e	Earnings per employee	79.514	97.199	142.791	188.427	241.752	149.9	66.5
F	Expenditure per employee	976.983	1063.23	1088.15	1109.08	1273.52	1102.2	108.2

Source: Annual Financial Reports (2010-2014)

Table 4.7, shows that the CRDB bank advances have registered a compound growth rate of 24% and a growth rate of 14% is observed in case of deposits, with the total business marking a growth of 16% p.a. A further analysis of the Table 4.5 reveals that management has been successful to manage a compound growth rate of 5% and 1% in its operating profits and Net Profits and keeping the total expenses under control, as the expenditure only grew at a growth rate of 7% p.a. In the similar way, the efficiency of the management is explained by the growth of earning per share which grew at about 1% of compound growth rate.

Table 4.8: Management Capability Ratios of Stanbic Bank

S. No	(3) Mgt. Capability Ratios	2010	2011	2012	2013	2014	Mean	Standard Deviation
a	Expenditure to Income Ratio	0.764	0.713	0.677	0.655	0.782	0.718	0.051
b	Credit-Deposit Ratio	0.426	0.497	0.545	0.497	0.532	0.502	0.045
c	Asset Utilization Ratio	0.090	0.109	0.102	0.085	0.066	0.092	0.014
d	Diversification Ratio	6.979%	15.961%	16.750%	16.550%	5.028%	12.25%	5.75
e	Earnings per employee	258.982	400.001	474.902	573.507	167.421	375.0	163.2
f	Expenditure per employee	1367.052	1770.009	1632.219	1685.992	1856.237	1662.3	185.6

Source: Annual Financial Reports (2010-2014)

The trend in the productivity of employees so far as earnings are concerned has gone down. The earnings per employee were 258.98 in 2010 which has gone up to 573.50 in 2013, however, declined to 167.42 in the year 2014, with the mean value 375.0. Similarly, the expenditure per employee has gone up from 1367.05 in 2010 to 1856.23 in 2014 which needs to be taken care of if the banks wants to be successful in the long run.

Earning Ratios of CRDB Bank

Profitability ratios measure a company's ability to generate earnings relative to sales, assets and equity. These ratios assess the ability of a company to generate earnings,

profits and cash flows relative to relative to some metric, often the amount of money invested. They highlight how effectively the profitability of a company is being managed. Table 4.9 and Table 4.10 presented the profitability ratio of CRDB Bank and Stanbic Bank respectively.

Table 4.9 Earnings (Profitability) Ratios Of CRDB Bank

S. No.	(4) Earnings Ratios	2010	2011	2012	2013	2014	Mean	Standard Deviation
1	R.O.A	0.729%	0.771%	0.976%	1.083%	1.117%	0.936%	0.177
2	R.O.E	13.027 %	12.793%	14.970%	5.043%	13.427%	13.850%	1.078
3	(a) Spread ratio	0.306	0.300	0.357	0.375	0.395	0.350	0.043
	(b) Net Interest Margin	0.032	0.031	0.036	0.035	0.031	0.034	0.005

Source: Annual Financial Reports (2010-2014).

Table 4.9 shows that the return on assets which is equal to Net profit to working funds has significantly gone up from 0.729% to 1.117% in the year 2010 to 2014, with the mean value of 0.93% having consistency, as the standard deviation is 0.177. However, the return on shareholders' funds (R.O.E) has by and large remained constant with the mean value of 13.85%. In this way it seems the profitability of the bank is quite satisfactory. A further analysis of the table 4.9 reveals that the spread that is interest earned on loans minus interest paid on deposits has been constantly rising from 0.306 in 2010 to 0.395 in 2014, with the mean value of 0.35 having a standard deviation of 0.043. Similarly, the contribution of the spread visa viz to total earning asset has slightly shown a down trend from 0.032 in 2010 to 0.031 in the year 2014, with the mean value of 0.03.

Table 4.10 Earnings (Profitability) Ratios of Stanbic Bank

S. No.	(4) Earnings Ratios	2010	2011	2012	2013	2014	Mean	Standard Deviation
1	R.O.A %	1.317	1.767	2.111	1.916	0.470	1.498	0.633
2	R.O.E %	21.30	25.36	25.413	24.175	6.566	20.57	8.00
3	(a) Spread Ratio	0.308	0.272	0.307	0.340	0.365	0.320	0.037
	(b) Net Interest Margin	0.028	0.029	0.031	0.029	0.024	0.028	0.004

Source: Annual Financial Reports (2010-2014)

Table 4.10 shows that the return on assets which is equal to Net Profit to working funds has gone down from 1.317% to 0.470% in the year 2010 to 2014, with the mean value of 1.49% having consistency, as the standard deviation is 0.633. However, the return on shareholders funds (R.O.E) has by and large remained constant with the mean value of 20.57%. In this way, it seems the profitability of the bank is quite satisfactory. A further analysis of the table 4.10 reveals that the spread that is interest earned on loans minus interest paid on deposits has been constantly rising from 0.308 in 2010 to 0.365 in the year 2014, with the mean value of 0.32 having a standard deviation of 0.037. Similarly, the contribution of the spread vis a viz to total earning asset has slightly shown a down trend from 0.028 in 2010 to 0.024 in the year 2014, with the mean value of 0.02.

Liquidity Ratios of CRDB Bank

Table 4.11: Liquidity Ratios of CRDB Bank

S. No.	(5) Liquidity Ratios	2010	2011	2012	2013	2014	Mean	Standard Deviation
A	Liquid Assets to total Assets Ratio.	0.095	0.087	0.093	0.086	0.064	0.086	0.015
B	Govt. & other Securities to total Assets. (Investment to total Assets)	0.392	0.383	0.392	0.409	0.398	0.394	0.011
C	Liquid Assets to Deposits	0.108	0.099	0.106	0.100	0.078	0.100	0.012
D	Investment to Deposits.	0.443	0.436	0.445	0.476	0.488	0.460	0.023

Source: Annual Financial Reports (2010-2014)

Results in Table 4.11 revealed that the investment in government and other securities held by the bank visa viz to total assets are clear indicators of banks liquidity position, as this investment ratio has remained consistent around an average of 0.39. The total liquid assets (combination of the above two ratios visa viz to depositors has brought the fact to the forefront that the bank has the ability to meet any eventuality in case of depositors demand cash/liquid assets, as this ratio has also remained by and large consistent at an average of 0.10 with the standard deviation of 0.012. Similarly, the investment in securities (government as well others) shows a satisfactory position of the bank as the ratio of investment in securities compared to deposits also remained consistent around an average of 0.46 with 0.023 standard deviation.

Table 4.12: Liquidity Ratios of Stanbic Bank

S. No.	(5) Liquidity Ratios	2010	2011	2012	2013	2014	Mean	Standard Deviation
A	Liquid Assets to total Assets Ratio.	0.161	0.133	0.090	0.137	0.129	0.130	0.025
B	Govt. & other Securities to total Assets. (Investment to total Assets)	0.421	0.390	0.400	0.398	0.370	0.396	0.018
C	Liquid Assets to Deposits	0.184	0.152	0.103	0.156	0.146	0.148	0.029
D	Investment to Deposits.	0.480	0.444	0.458	0.452	0.419	0.450	0.022

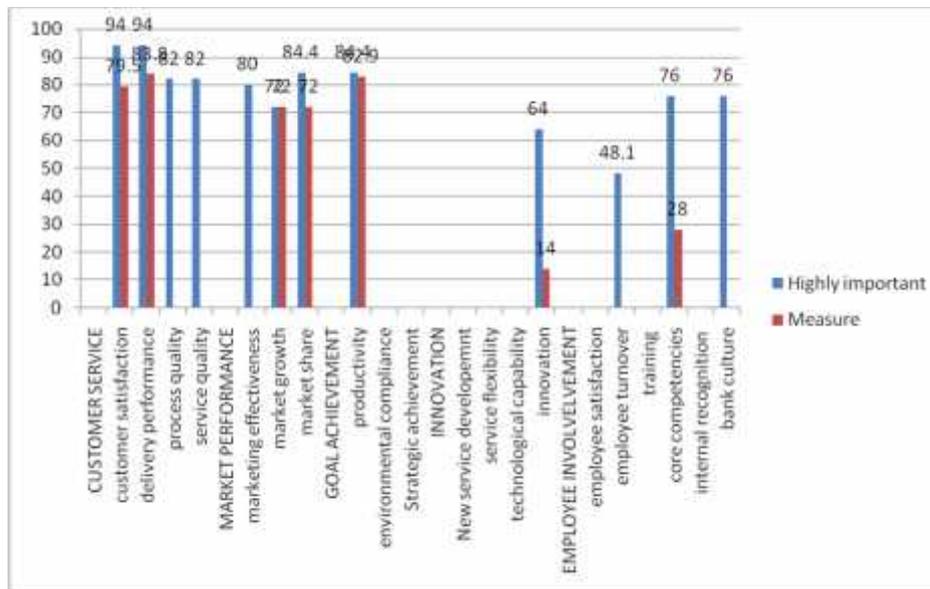
Source: Annual Financial Reports (2010-2014)

Results in Table 4.12 revealed that the investment in government and other securities held by the bank visa viz to total assets are clear indicators of banks liquidity position, as this investment ratio has remained consistent around an average of 0.39. The total liquid assets (combination of the above two ratios visa viz to depositors has exposed the fact that the bank has the ability to meet any eventuality in case of depositors demand for cash/liquid assets, as this ratio has also remained by and large consistent at an average of 0.14 with the standard deviation of 0.029. Similarly, the investment in securities (government as well others) shows a satisfactory position of the bank as the ratio of investment in securities compared to deposits also remained consistent around an average of 0.45 with 0.022 standard deviation.

4.4 Non financial MCS measurement promotes bank performance

Under objective two, study sought to investigate non financial MCS measurement promotes bank performance. Under this objective, the study examined the degree to which both CRDB and Stanbic directors, managers and workers of banks identify particular nonfinancial performance factors as important, whether the banks are measuring important nonfinancial factors, and whether or not banks actually are using nonfinancial performance factor information in their planning processes. The researcher grouped the factors into five general categories: customer service, market performance, innovation, goal achievement, and employee involvement. Results were presented in Figure 4.5

Figure 4.5 Non Financial Measures



Source: Field Work, 2014

Results in Figure 4.5 shows that customer service factors are perceived to be the most important measures. Out of the 50 responding respondents from CRDB and Stanbic bank, 47(94%) rated customer satisfaction and delivery performance/customer service as highly important. Process quality was rated as highly important by 41(82 %) of the responding managers and service quality by 41 (81%) of the 50 respondents. Market performance and goal achievement also are perceived to be highly important categories.

The findings as show that market share in the market performance category was rated highly important by 40(80%) of the responding managers, and productivity in the goal achievement category was rated highly important by 42(84.4%) of the banks. In addition, it was noted that the factors in the innovation and employee involvement categories were perceived to be less important in goal setting. Looking at the individual measures, it was shown that productivity in the innovation category was rated as highly important by only 22 (44.1%) of the 50 respondents from two banks , and employee turnover in the employee involvement category was rated as highly important by only 24 (48.1%) of the 50 responding workers of the two banks.

The results as well show that there is a substantial importance-measurement gap. That is, many managers in banking sector view the nonfinancial performance factors as important are not capturing data on these factors. As one would expect, the importance-measurement gap is greatest for factors that are perceived to be immeasurable or at best difficult to measure. For example, in the employee involvement category, although 38(76%) bank workers rated morale and corporate culture as highly important, only 13(28%) are measuring this factor. There is a similar finding for core competencies 38 respondents (76%) rated the factor as highly important, but only 13 (28 %) are measuring this factor.

The results as well indicates that the categories of innovation and employee involvement received lower overall ratings of importance, it indicated these two categories also have a low incidence of measurement. In particular, the nonfinancial performance factor least likely to be measured is innovation. Although 32(64%) of respondents rated the factor as highly important, only 7(14%) respondents are measuring this factor.

On the other hand, a number of other factors have a high rate of measurement. In the market performance category, 40 respondents (80%) rated market share as highly important, and 36 (72 %) are measuring this factor. Market growth was rated as highly important by 36(72%), and 31 (62%) are measuring this factor. In the customer service category, customer satisfaction and delivery performance/customer service have measurement rates of (79.5%) and 83.8%, respectively. In goal achievement, productivity has a measurement rate of 82.9%.

Based on these findings implies that nonfinancial measures are seen by the respondents from both CRDB bank and Stanbic bank as providing the greatest encouragement for risk taking and innovation and also are more effective at curtailing short-termism and gamesmanship. Surprisingly, subjective measures are seen as being the least effective among the measurement types along these dimensions. A plausible explanation for this is that the strongest weight for performance evaluation is still being placed on financial.

Several studies have shown that performance measures play a key role in a strategy implementation where they have found that there are associations between the choice of performance measures and the type of strategy pursued. For example, studies by Abernethy and Lilis (1995) and Perera (1997) show that bank with service flexibility strategy and customer focused service strategy tend to use more of nonfinancial performance measures and less of cost efficiency-based performance measures. A study by Ittner and Larcker. (1997) discovered that non-financial measures have a positive relationship with innovation oriented strategy, quality-oriented strategy, regulatory requirement and competitive pressures. More recently, Van der Stede (2006) found that banks that emphasize quality in service use more of both objective and subjective non-financial measures.

Generally speaking, what gets measured gets done; this implies that the bank becomes what it measures. This means that if the bank cannot measure something, it cannot control it, while control is essential. This shows that a substantial importance-measurement gap for a number of highly important factors, particularly in the categories of innovation and employee involvement. Many of these factors may be perceived to be immeasurable or difficult to measure. However, the fact is that precise data collection may not be possible; a collection effort that provides even crude data can prove valuable.

4.5 Internal factors that influence the Management Control System

Under objective three, Respondents were asked to on the internal factors that influence of Management control system. Therefore, Respondents were asked to select the leading the internal factors that influence the management control system such as size, organizational capacity to learn, the introduction of new technology strategy changes, capacity to undertake action and other factors. Results were presented in Figure 4.6

Figure 4.6: Internal factors that influence the Management Control System



Results in Figure 4.6 revealed that there are leading internal factors that influence the management control system. It was revealed that out of 40 Respondents; (47.5%) of Respondents indicated the introduction of new technology. The introduction of new technologies has changed the structure of manufacturing costs. New technologies, such as computer-integrated manufacturing systems, indicate that the proportion of variable direct labour and inventory costs is declining. The speed of an operation is no longer determined by how fast an operator can work, but by the type of automation and manufacturing system used. In addition, they may fail to give the proper information about the manufacturing performance achieved on the basis of new technological processes.

The introduction of new technology was followed by capacity to undertake action which was indicated by (17.5%) of Respondents. The capacity to undertake action is essential in firm performances. This factor includes issues such as the development of skills, the availability of resources, the influence of power, management attitude and institutional isomorphism. The capacity to undertake action is expected to play an important role in MCS change. The ability to cope with the dynamic and constantly changing internal and external forces has become a key determinant of

organizational survival and gaining competitive advantage. An important factor in intra-organizational dynamics is the capacity to undertake action. Generally, groups in an organization vary in their ability to influence organizational change due to their power differential. The manager's perceptions also influence the organizational task processes. For example, the owner or the manager is the one who dictates the decision criteria regarding issues such as product and service quality.

The other internal factors revealed include size which was indicated by (15%) of Respondents. The size of the firm is very important on firms performances. Firm size appears to be an important factor in the use of management control systems. Large enterprises use Management Control System quite extensively, whereas smaller firms are less inclined to do so. The costs associated with Management Control System innovation are considerable. Size is generally defined as the number of employees working in an organization.

The strategy to change was indicated by (10%) Respondents. In order to make MCS effective they have to be matched with a suitable strategy. Achieving success in a dynamic business environment requires strategies aimed at quality improvement, flexibility with respect to customers' requirements as well as a reduction in lead times, inventories and production costs. These findings were supported by Sulaiman ,(2004) which showed that Achieving success in a dynamic business environment requires strategies aimed at quality improvement. Modern MCS techniques are focused on differentiation priorities such as quality, delivery and customer service, whereas the traditional systems are more finance-oriented. Strategies focused on the requirements of the customer are usually combined with empowerment of the lower staff.

The findings as well noted that 7.5% indicated the organization capacity to learn. The knowledge of know how is very important in any firm. The introduction of innovations in MCS techniques mainly depends on whether the enterprise has sufficient know-how to implement them and if not, whether it is capable of providing the necessary training, or whether it is in the position to hire skilled employees.

Another condition for a successful implementation of new MCS techniques is the full support of senior management and a sufficient degree of commitment on the part of the organization as a whole. Public firms are generally considered less efficient than private enterprises. These findings were supported by the study done by (Kumar, 2004).

The findings as well revealed that 2.5% indicated other factors such as things, events, or situations that occur that affect the way a business operates, either in a positive or negative way. These things, situations, or events that occur that affect a business in either a positive or negative way are called driving forces or environmental factors. There are two kinds of driving forces; Internal driving forces, and external driving forces. Internal driving forces are those kinds of things, situations, or events that occur inside the business, and are generally under the control of the company. Examples might be as follows; organization of machinery and equipment, technological capacity, · organizational culture, · management systems, · financial management · employee morale. External driving forces are those kinds of things, situation, or events that occur outside of the company and are by and large beyond the control of the company. Examples of external driving forces might be, the industry itself, the economy, demographics, competition, political interference.

CHAPTER FIVE

SUMMARY, CONCLUSION, RECOMMENDATIONS AND POLICY IMPLICATIONS

5.1 Introduction

This chapter is organized into five major sections. Section 5.1 provides introduction to the chapter, section 5.2 highlights the summary of study findings and section 5.3 provides the overall conclusion to the study. Section 5.4 highlights the recommendations and last section 5.5 points out suggestions of areas for further studies.

5.2 Summary of the key findings

The study revealed that the study involved (30%) Males and (70%) Females. The findings as well revealed that (10%) of Respondents were between 21-29 years, (45%) were between 30-39 years, (27.5%) were between 40-49 years and (17.5%) were between 50-60 years. These findings show that the highest number of Respondents were those with that the age between 30-39 years old. This is the age where most of people are fighting looking for their money. It was also noted that the level of education differ from those with certificate in Accounts, Diploma in Accounts, degree in Accounts and Masters. The findings show that Banks recruits staff with higher level of education. It was revealed that (7.5%) had less than 2 years of working in bank, (27.5%) indicated that had 3-5 years of working in bank, (47.5%) indicated that had 6-10 working in banks and (17.5%) had more than 11 years of working in bank. These findings show that the leading experiences were those who worked for 6-10 years followed by those who had 3-5 years. However, the lowest experiences were observed to be those with less than 2 years followed by those with more than 11 years. This findings show that banks prefer to work with experienced staff. This is true because experienced workers perform better than non experienced workers.

Under objective one, the findings revealed that both banks are financially viable as both have adopted prudent policies of financial management. Both the banks have

managed their capital adequacy ratio well above the minimum standard of 10%. The average leverage ratio in case of CRDB was more (1.746) compare to Stanbic bank was (0.828). So far as Asset quality is concerned both the banks have shown significant performance. The CRDB bank has been able to maintain the ratio of Net NPAs to Net advances at 3.42%. The Stanbic bank has been more efficient by maintaining the average ratio of Net NPAs to Net advances at 1.760%. Similarly, the average loan loss cover maintained by Stanbic bank (9.52%) is more than that of CRDB bank (8.288%).

The business (Advances +Deposits) of the CRDB bank and the Stanbic bank have registered a compound growth rate of 14% and 16% respectively. However, the compound growth rate of operating profit has been 24% in CRDB bank and 5% in Stanbic bank. The CRDB has succeeded in diversifying its business from fund based to fee based activities and registered an average income of 14.95% while as Stanbic bank has generated 12.25% from this activity. However, the productivity ratios like earnings per employee and expenditure per employee are more in case of Stanbic bank compare to the CRDB bank. On the other hand, the CRDB bank has generated an average Net Interest margin of 0.034 compare to 0.028 generated by Stanbic bank. However, return on assets is more (1.498%) in case of Stanbic compare to CRDB (0.936%).

Under objective two, it was revealed that based on responses from the top executives and staff members of CRDB bank and Stanbic bank, provide a comprehensive picture of the process of nonfinancial performance measurement. Firstly, measures of innovation and employee involvement were not perceived to be as important as customer service and market standing this is a concern. It was also revealed that there was a strong importance-measurement gap for certain factors. That is, although top executives believe that certain nonfinancial factors are highly important, a large number of managers are not capturing data on these measures. It is clear that some factors are more difficult to measure than others. On the other hand, results of the study suggest a substantial measurement-use gap. That is, a large number of

managers are collecting data that are not being used by managers in the planning process.

Under objective three, it was revealed that there are leading internal factors that influence the management control system. The leading factor was the introduction of new technology. New technologies, such as computer-integrated manufacturing systems, indicate that the proportion of variable direct labour and inventory costs is declining. Other factors revealed include; capacity to undertake action which was indicated by (17.5%) of Respondents. The capacity to undertake action is essential in firm performances. This factor includes issues such as the development of skills, the availability of resources, the influence of power, management attitude and institutional isomorphism. The size of the firm is very important on firms performances. Firm size appears to be an important factor in the use of management control systems. The strategy to change was also revealed as MCS. In order to make MCS effective they have to be matched with a suitable strategy. The findings as well noted that the organization capacity to learn was also included in MCS. The knowledge of know how is very important in any firm. The introduction of innovations in MCS techniques mainly depends on whether the enterprise has sufficient know-how to implement them and if not, whether it is capable of providing the necessary training, or whether it is in the position to hire skilled employees. The findings as well revealed other factors such as things, events, or situations that occur that affect the way a business operates, either in a positive or negative way. These things, situations, or events that occur that affect a business in either a positive or negative way are called driving forces or environmental factors.

5.3 Conclusion

The environment in which internal control operates has an impact on the effectiveness of the control procedures. In fact it is institutions control environment which embodies the principles of strong internal control. Besides giving structure to the internal control system, it provides discipline and protocol. The success of control environment is judged according to the integrity, ethics, and competence of personnel; the organizational structure of the institution. In order for internal controls

to be effective in CRDB Bank and Stanbic Bank, an appropriate control environment should demonstrate following behaviors: Board of directors should reviews policies and procedures periodically and ensures their compliance. Board of directors should determines whether there is an audit and control system in place to periodically test and monitor compliance with internal control policies/procedures and to report to the board instances of non-compliance. Board of directors should ensure independence of internal and external auditors should ensures that appropriate remedial action are taken when instance of non-compliance are reported and that system has been improved to avoid recurring errors/mistakes.

5.4 Recommendations

The regulatory authority should come in and homogenize prices of such activities in order to protect bank clients from being exploited. The policy instruments should allow commercial banks to manage Non-bank financial assets and intermediaries, including insurance products and underwriting. Likewise, policy on bank investments should be put in place since results showed that, there is a significant negative impact of equity to Assets ratio on bank performance over the years. The implication is that bank investments are not worth equity capital employed or the regulatory authority set up a high regulatory capital. Consequently, policy instruments should encourage commercial banks to invest optimally, while from regulatory perspective, policy direction should be directed towards optimum regulatory capital.

5.5 Policy implications

A policy on efficient management should be put in place for bank operational expenses. This should be done by finding ways to obtain the optimal utilization of resources during production of banking products and services. In other word, policy instruments should be able to reduce operational expenses through cost decisions. From a regulatory perspective, commercial bank performance should be based on individual commercial banks' efficiency. Policy on credit risk management should be enhanced in order to improve on Asset quality, thus minimizing non-bank performing assets. Consequently, strong monitoring and control of assets should be

exercised by both bank management and regulatory authority. However, a policy on diversification should be put in place to avoid relying on traditional bank activities. A policy that encourages commercial banks to engage in Non-interest income activities since non-interest income has a positive impact on bank performance.

5.6 Suggested for further study

This study represents general research on the topics of MCS and bank performance. Thus, in-depth focused studies are suggested as further research. The management control approach of Beyond Budgeting is still a less studied field with many possible research angles. Especially interesting is the connection between management control systems and performance management systems. One interesting research topic would be to study this connection and the relationship between performance measurement and incentives at lower organizational levels. A limitation in this thesis might be that the research is conducted at higher managerial levels only. The same research at lower levels might have revealed other issues and challenges.

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QUESTIONNAIRE

Please assist by responding the following questions as honestly as possible. Rest assured that the information you will provide will be treated confidentially and solely for the purpose of this study. Thank you very much for your time and cooperation. We greatly appreciate your contribution for the success of this exercise. Please, circle the statement or phrase that you think is the best answer.

I. Particular profiles

1. Gender

- (i) Females
- (ii) Males

2. Bank

- (i) CRDB Bank
- (ii) Stanbic Bank

3. Your age

- (i) 21-29 years
- (ii) 30-39 years
- (iii) 40-49 years
- (iv) 50-60 years

4. Level of education

- (i) Certificate in Accounts
- (ii) Diploma in Accounts
- (iii) Degree in Accounts
- (iv) Masters.
- (v) PhD.

5. Experience of working in Banks

- (i) Less than 2 years

- (ii) 3 - 5 years
- (iii) 6- 10 years
- (iv) More than 10 years.

II: Factors Influencing Bank Performance

1. Please, what do you think are the factors influencing bank performance?
Please explain.....
2. How would you describe the determinants of the bank performance which you are working with? From 2010 to 2014?
3. Provide profitability ratios for your bank from 2010 to 2014 and provide a brief explanation after each ratio.
4. Please, prepare a trend analysis of financial statements for your bank from 2010-2014.
5. What does the trend analysis prepared in requirement tell you about your bank, please explain.....

III: Measures of Non Financial Bank Performance

Instructions: Please indicate the importance of each of the individual measures to you in your overall evaluation of Division A’s 2003 performance. The scale is 1 – 10 where 1 is not at all important and 10 is very important. Circle the number from 1 to 10 that best indicates your opinion.

1. Customer Satisfaction Index	1 2 3 4 5 6 7 8 9 10
2. Market Share	1 2 3 4 5 6 7 8 9 10
3. On-time Delivery	1 2 3 4 5 6 7 8 9 10
4. Inventory Turns	1 2 3 4 5 6 7 8 9 10
5. Labour Efficiency	1 2 3 4 5 6 7 8 9 10
6. Employee Satisfaction	1 2 3 4 5 6 7 8 9 10
7. Employee Turnover	1 2 3 4 5 6 7 8 9 10
8. Training Hours per Employee	1 2 3 4 5 6 7 8 9 10
9. Process quality	1 2 3 4 5 6 7 8 9 10
10. Service quality	1 2 3 4 5 6 7 8 9 10

- | | | |
|-----|-------------------------|----------------------|
| 11. | Marketing effectiveness | 1 2 3 4 5 6 7 8 9 10 |
| 12. | Market growth | 1 2 3 4 5 6 7 8 9 10 |
| 13. | Bank culture | 1 2 3 4 5 6 7 8 9 10 |
| 14. | Productivity | 1 2 3 4 5 6 7 8 9 10 |
| 15. | Innovation | 1 2 3 4 5 6 7 8 9 10 |

IV: Casual Relationship between Bank Performance and MCS

1. How would you describe the performance of the bank and how it has changed over the years that you have been active in the bank?
2. If the performance has changed, what would you say caused the changes?
Please explain....
3. Is there any casual relationship between bank performance and MCS?

Thank You for Your Cooperation