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**To be  
Unbound**



AN EXPLORATORY STUDY OF MANAGEMENT  
ACCOUNTING  
AND CONTROL SYSTEMS IN A DEVELOPING COUNTRY

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Doctor of Philosophy

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## **Abstract**

This thesis reports on the results of case studies in four commercial banks in Nigeria. The study focuses how management accounting and control systems (MCS) operate in the four banks. The study is motivated by the dearth of literature on management accounting practices in the developing world in general and in Nigeria in specific. The case study approach adopted in conducting the research was useful in exploring the dynamics of the MCS in the organisations. Data was gathered from two sources. First, semi-structured interviews were conducted with managers at the head office, regional office and branches of each bank. The participants were selected from different backgrounds and managerial levels to provide broader understanding of the operations of the MCS. Second, various internal and external documents were reviewed to provide supporting evidence for the interview results.

New institutional sociology (NIS) provided the theoretical framework to understand the results. NIS provided explanations for how the MCS in the four banks were shaped by diverse external and internal factors. The key factors identified as shaping the operations of the MCS were the need to comply with the regulatory environment (*coercive isomorphism*), the need to maintain social and cultural support (*normative isomorphism*) and the need to imitate successful organisations in order to appear legitimate (*mimetic isomorphism*). The study also examines the interplay between the institutional forces, market forces and intra-organisational power relations. This analysis is necessary to overcome the criticism of NIS that it downplays the role of market forces, agency and intra-organisational relations. The findings of the study have implications for understanding the operations of MCS in the developing world.

## **Dedication**

I wish to dedicate this thesis to my beloved sister late Hajiya Maryam.

### **Acknowledgments**

The completion of this thesis brings closure to a very long challenging and interesting journey. It is a personal accomplishment that would not have been possible without the support and encouragement from many people. My heartfelt thanks to: Dr. Stuart Cooper, my main supervisor, for his guidance, wisdom, and support throughout the entire process. Whether in England or Nigeria, he was always available to assist with anything that I needed. His vote of confidence in my ability enabled me to continue during times when I doubted myself.

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The list of people who deserve thanks for their encouragement and support during the compilation of this thesis is extensive. It would be impossible to list all of the individuals, but I will never forget their sincere interest, patience and kindness during this long arduous process.

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## CHAPTER ONE

### Introduction

#### *1.1 Background of the Study*

This research explores how management accounting and control systems (MCS) operate in four commercial banks in Nigeria. The banking industry is one of the most important sectors in Nigeria. According to CBN report (2005) banking industry assets totalled two trillion naira (approximately eight billion pounds sterling) or 53% of gross domestic product (GDP) as at the end of 2001 (CBN, 2005). The Nigerian banking sector has become internationalised in recent years as a result of the deregulation of the sector. The deregulation has led to an influx of foreign banks into Nigeria. One of the prominent bankers in Nigeria commented on the implications of the changes in the banking sector to Nigerian banks as: "Nigerian banks will need to significantly invest to build up capabilities and competencies of their people as well as forge major strategic alliances e.g. with technology and telecommunications companies and foreign banks" (Agusto Industry Report 2003, p.7).

The Agusto Industry Report (2003) noted that while banks are strategically important in the Nigerian economy they are exposed to international best management practices. Some are subsidiaries of international banks such as Citibank and Standard Chartered Bank. The above report recognised that banks need to have strong, professional management and to pay attention to their internal control. It is unequivocal that as the banking sector becomes more internationalised or globalised there will be increasing pressure on banks operating in Nigeria to be more efficient. One of the means through which these banks can enhance their efficiency is management control systems (MCS) (Yan and Gray, 1994).

The ideas of MCS originated from the seminal work of Robert Anthony who drew boundaries between management control, strategic planning and operational control. According to Anthony (1965, p.17) MCS is "the processes by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the

organisation's objectives". Berry et al., (1995) also define MCS as the process of guiding organisations into viable patterns of activity in a changing environment. MCS is thus concerned both with strategic issues (the general stance of the organisation towards its environment) and operational issues (the effective implementation of plans designed to achieve overall goals) (Emmanuel et al., 1997). Anthony (1965) pointed out that the managerial activities of an organisation consisted of planning and control systems and management control was supposed to be a linking process between strategic planning and operational control. MCS embraces the formal and informal processes taken to gain the co-operation of organisational participants and subunits to achieve the objectives of the firm (Marginson, 1999; Flamholtz, 1983; Otley and Berry, 1980; Ouchi, 1979).

All the definitions of MCS provided above emphasised the rational-technical view. From this rational-technical perspective MCS is perceived as aiding decision making by providing information for planning and controlling as well as for identifying and solving problems (Emmanuel et al., 1997). Since the 1980s however researchers have begun to question this rational perspective of MCS for being too restrictive and less concerned with the behavioural aspects of the organisational participants (Whitley, 1999; Berry et al, 1995, Macintosh, 1994; Nandan, 1996; Otley, et al, 1996; Chua et al, 1989; Lowe and Puxty, 1989; Lowe and Machin, 1988; Hofstede, 1978). Whitley argued that:

*In the past few decades, ... the traditional management control systems approach has been severely criticised for being too narrow, for assuming managerial consensus over objectives, for taking worker acquiescence and passivity for granted, and for generating universal – or at least highly general – recipes when it has become increasingly clear that patterns of work organisation differ greatly across sectors, regions, and countries (1999, p.508).*

As a result there is now a growing interest in understanding the socio-political roles of MCS (Burchell et al., 1980; Macintosh and Scapens, 1990; Burns and Scapens, 2000). From this socio-political perspective MCS is perceived as social and political tools that



managers use to bargain for resources and influence organisational processes (Burchell, et al 1980; Awasthi, Chow & Wu, 1998; Baxter and Chua, 2003). Following this argument Lowe and Chua (1983, p.286) provided a much broader definition of MCS as: *“Management control systems is concerned with ensuring the achievement of a negotiated level of welfare for any organisation and its contributors consistent with maintaining boundary conditions for that enterprise, in relation to its environment, such that its long run survival is provided for”*.

Similarly Otley (1996) noted that:

*... The emphasis has moved from a concentration on the individual to a more socially-oriented perspective that is concerned with social systems and their properties, in addition to their impact on individuals. The approach has led to a broadening of concern from the provision of information for regulation (the original meaning of control in many languages) to a concern with the exercise of power, authority and domination, whereby one group can impose its will upon others (p.2).*

Exploring MCS as social and political phenomena need a thorough understanding of its complexity. Interaction and relationships among individuals, groups, and their environment have created different type of social systems such as organisations and institutions (Gupta, et al., 1991). Since organisations and MCS are deeply interdependent with their social context, it is imperative that any study of MCS should be located within its organisational and social contexts (see Burchell et al., 1980; Hopper and Powell, 1985).

This study will examine both the rational decision perspective and the socio-political perspective of MCS in the banks in Nigeria. This analysis is necessary to provide a much broader understanding of how MCS operates in organisations than currently provided in most literature. It would thus be interesting to examine whether in addition to the rational decision making roles, MCS are also implicated in social and political relations.

### ***1.2. Statement of the Problem and Area of Study***

The majority of the research on MCS has been based on organisations from the developed countries. There is thus limited empirical evidence on MCS in developing economies. The applicability of western accounting systems to organisations in developing countries has however been questioned by researchers (see for instance Baydoun and Willet 1995; Hopper et al., 2003). Peasnell (1993) noted that:

*Third world countries are pursuing economic and social policies that are different to those of the developed market economies of the west; they are more concerned with central planning as means of achieving growth, and this affects the price and transaction data which form the basis of accounting systems. More important this raises demands for different kinds of accounting information (pp10).*

Since more than 70% percent of the world population lives in the developing countries, and the majority of the world's natural resources and market opportunities are in developing countries both practitioners and researchers are becoming more interested in understanding their social and business activities (Hassan, 1998). To address the limitations in the literature some studies are now being conducted on how MCS operates in individual developing countries (see for instance Hoque and Hopper 1994, 1997; Uddin and Hopper, 2001; Uddin and Tsamenyi, 2005). These studies have however largely focused on state-owned or former state-owned enterprises. Moreover, there is virtually no published management accounting study on Nigeria.

The purpose of this research is to explore the nature of MCS within the context of a developing country - Nigeria. The study provides empirical evidence on how MCS is used to support day-to-day decision making in four Nigerian banks. Banks play a significant role in the Nigerian economy and therefore provide appropriate choice for the study. Moreover the banking sector has been deregulated and therefore provides the opportunity for studying the changes in MCS. The area of the study is presented in figure 1.1 below. Specifically, the study explores how MCS in the banks is shaped by the institutional, market and intra-organisational forces. Theoretically, the research draws on



the New Institutional Theory of Sociology (DiMaggio and Powell, 1983; 1991). In particular, the study examines how MCS in the banks is shaped by the diverse institutional factors within which the banks operate.

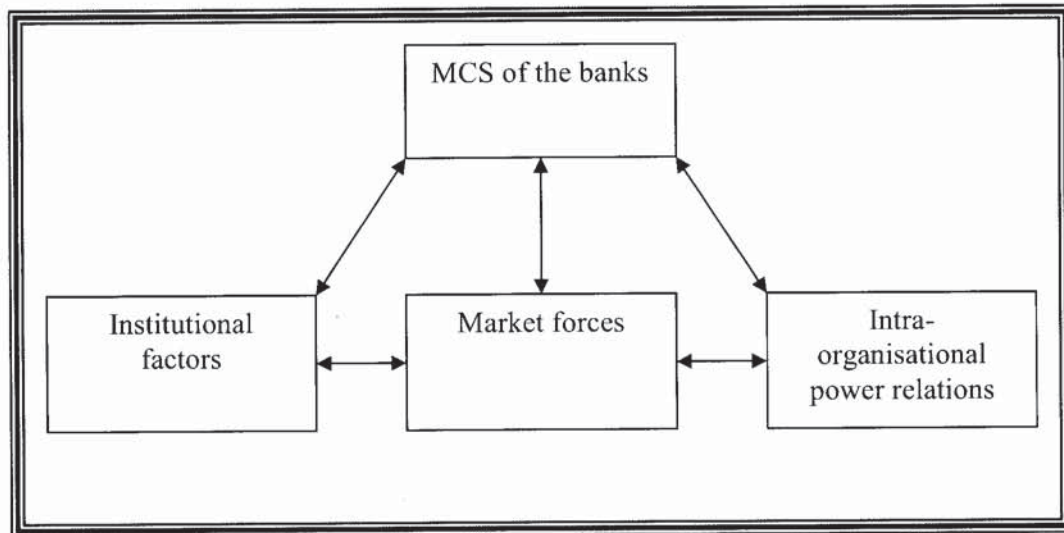


Fig. 1.1 Area of Study

In Figure 1.1, it is argued that MCS play key roles in the decision-making process of the banks. It is, however, argued that the role that the MCS plays in these organisations is shaped by diverse institutional factors (DiMaggio and Powell, 1983), market forces (Powell 1991, Oliver, 1992; Tsamenyi et al., 2006) and intra-organisational power relations (Collier, 2001). Previous studies on LDCs have shown that while organisations in these environments are likely to have MCS, the ways in which these systems operate in practice are different because of differences in the institutional environment. The wider social, economic, political and institutional contexts thus govern the ways MCS operates in LDCS (Hoque and Hopper, 1994; Alam, 1997). For example, Hopper et al., (2003) argued that ethnicity, politics, industrial relations, economic turbulence, and social relations influenced how MCS operated in the three countries they studied – Bangladesh, Ghana and Sri-Lanka. Waweru et al., (2004) identified the environmental changes in the

South African economy arising from government reform/deregulation policy and global competition as shaping how MCS operated in the organisation they studied.

The nature of the institutional environment of LDCs is such that it very often results in MCS being ignored in practice (Hopper et al., 2003). A similar observation has been made by Tsamenyi, et al., (2004) that budgets were ignored in the organisations they studied in Ghana because of the uncertainties in the institutional and economic environment, including high inflation, lack of money, and inadequate accounting knowledge. As a result, the MCS was maintained for the purpose of legitimation rather than for rational decision making as also demonstrated in the study of the national food distribution corporation of Ghana (see, Uddin and Tsamenyi, 2005).

Based on the arguments presented above, it can be argued that the banks are likely to have formal MCS. However how these MCS function in practice is likely to be shaped by the institutional and economic environments, and the nature of the power and political relations in the banks. This argument provides the basis for developing the main research questions as follow:

1. What are the different types of MCS used in the banks?
2. How can the design and uses of the MCS in the banks be explained by the various institutional forces within which the banks operate?
3. How can the design and uses of the MCS in the banks be explained by the economic environment of the banks?
4. How can the design and uses of the MCS in the banks be explained by intra-organisational power relations in the banks?

### ***1.3 Research Objectives and Aims***

The desire to study MCS in banks in Nigeria arose from the ever-increasing role of banks in the Nigerian economy. The financial sector is one of the vibrant sectors in Nigeria. The sector is at the centre of Nigeria's economic recovery and features prominently in the Nigerian government's poverty alleviation strategies. A study that focuses on the

Nigerian banking sector will therefore be useful to local policy makers and the international financial community. The study will be an important step towards analysing and providing a better understanding of the process and implications of banking sector reform in Nigeria.

The study aims to provide empirical evidence on the extent to which accounting information is used to support day-to-day decisions in the banks. While the result of the study is not intended to provide a basis for generalisation, it will provide more insight into organisational accounting practices in the banks and, consequently, create a better understanding of the role of accounting in operational decision making in Nigeria. The study will also contribute to the existing literature on the uses of accounting information in developing countries.

The main objectives of the study are to:

1. Investigate the types and nature of MCS used in the banks to support day-to-day decisions;
2. Explore how the design and uses of MCS in the banks is shaped by diverse institutional forces within which the banks operate.
3. Explore how the design and uses of MCS in the banks is shaped by the competitive environment of the banks.
4. Explore how the design and uses of MCS in the banks is shaped by intra-organisational power relations.

Two main reasons account for the choice of Nigeria for the empirical settings of the study. First, an examination of the literature revealed no previous management accounting research on Nigeria. As mentioned earlier the accounting studies on Nigeria have largely been on financial reporting and auditing. The study is intended to examine the state of MCS in Nigerian organisations. Second, a study of this nature requires access to organisations and research subjects (Laughlin 1987). Conducting the study in Nigeria would facilitate the research process because the researcher understands the social



environment and is able to speak the language of the participants and also shares similar background and experiences.

#### ***1.4 Proposed Research Methodology***

There is an increasing tendency among management control researchers to adopt an organisational perspective and interact with the diverse organisational participants in order to illuminate the dynamics of management control systems (Burchell et al, 1980; Hopper and Powell, 1985). Ryan *et al.*, (2002), further suggested that, these accounting researchers aim at analysing such accounting realities and the way they are socially constructed and negotiated.

Organisational perspective has been widely adopted in accounting research, especially in the field of management accounting. These studies are concerned with understanding the social nature of accounting practice (Ryan *et al.*, 2002) and have focused on studying real world management accounting practices, decisions and settings, with the purpose of analysing, interpreting and understanding them and thus identifying solutions to pragmatic problems (Elharidy *et al.*, 2008).

As argued by Chua (1986) this approach provides opportunities for comprehending accounting in action because of the emphasis on actor's definition of what is being studied and how this phenomenon is woven in a wider social framework. These approaches focus on the everyday life of organisations as they exist, rather than exploring abstract problems and providing artificial solutions by sitting at a distance and using some remote lens (Elharidy *et al.*, 2008); Macintosh, (1994), further argued that the organisational approach aims at producing rich and deep understandings of how MCS is understood, thought of, interacted with and used by managers and employees in organisations.

Hopper and Powell (1985, p. 447) emphasise that an organisational approach provides a better understanding of accounting practices because of its emphasis on how accounting meanings are socially generated and sustained. A similar argument has been made by

Chua (1986), who suggests that this approach offers a way of understanding accounting in its social and political setting.

As a result, the approach adopted followed this perspective where qualitative data will be relied on. In order to examine the role of MCS in the banks in Nigeria the research adopts a case study approach. A case study approach is taken in order to gain detailed understanding of how the MCS work in practice (McKinnon, 1988). Darke *et al.* (1998) suggest that the use of case study in research is useful in newer, less well-developed research areas, particularly where examination of the context and the dynamics of a situation are important.

Additionally, there have been many calls for case studies to be undertaken to study accounting in practice, to gain rich descriptions of actual situations (Kaplan, 1986), and a better understanding of the context and factors which shape contemporary management practices (Parker, 1994). The case study research method is identified as valuable for its potential to reveal a rich and detailed understanding of the functioning of management control and the factors influencing change in organisations (Scapens, 1990). The case study method is adopted for this research for its holistic approach to understanding organisational and accounting change. This is aimed at developing a rich theoretical framework, which is capable of explaining the holistic quality of observed social systems and the practices of human actors (Ryan, Scapens and Theobald, 1993).

It is the assumption of the researcher that MCS are socially constructed and can therefore be understood by relying on the subjective interpretation of the various organisational actors (Burchell, *et al.*, 1980; Hopwood, 1987; Ryan *et al.*, 2002). This research assumes that reality is constructed through individual interactions; hence social practices such as MCS are socially constructed not a natural phenomena.

Strauss and Corbin (1990) suggested that qualitative research is more appropriate where little is known about the phenomenon under investigation or when much is known about a phenomenon in order to gain new perspectives or when it is difficult to obtain

information through the quantitative approach. Given the limited knowledge concerning MCS in Nigerian banks it is believed that qualitative research is the most appropriate methodology to conduct in this study.

The choice of the qualitative approach is also theoretically justified since as argued earlier accounting systems are not natural phenomena but instead they are socially constructed and can thus be changed by the social actors themselves (Ryan *et al.* 2002). This will enable the researcher to focus on understanding the context within which decisions are made and how practitioners perceived and interpret their world (see also Burchell *et al.*, 1980). In effect this approach will enable the researcher to concentrate on issues that concern practicing managers.

A similar argument to the one presented above has been made by Boland and Pondy (1983, p. 225-226) that accounting researchers in organisations “must focus on action in organisational settings...must use case analysis of specific situations...must be interpretive...must step out of actor’s frame of reference, ....in the sense that the actor’s purely subjective interpretation must be transcended.” Qualitative approach is about observing phenomena in its natural setting and reporting them in a systematic way (Atkinson and Shaffir, 1998).

The principal data collection methods for this research are interviews and document analysis. Detailed explanation of the research methodology is provided in chapter five of the thesis.



### 1.5. Structure of the Thesis

The thesis is organised into ten chapters as follows:

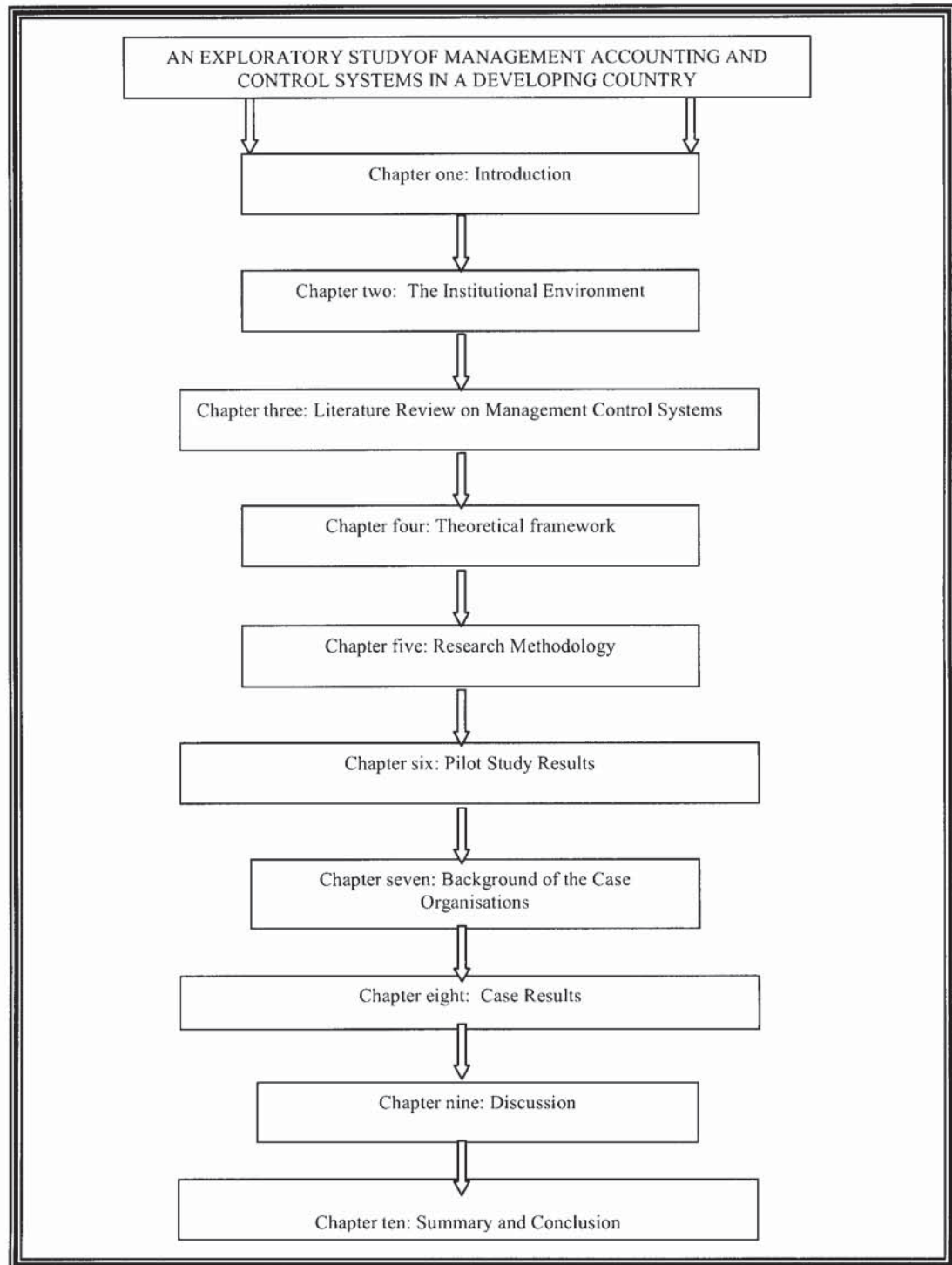


Fig.1.2. Structure of the Thesis

Chapter one, the introductory chapter, describes the background of the study, identifies the specific research problems and research questions, the research aims and objectives, provides a brief overview of the research methodology, and describes the structure of the thesis. Chapter two reviews the Nigeria environment where it discusses among other things, the regulatory, economic, the social and political contexts and cultural environment in Nigeria. The chapter also discusses the nature of the banking sector in Nigeria, including the ongoing reforms in the banking sector.

Chapter three reviews prior research on management control systems (MCS) and their context, highlighting the role of MCS in contemporary organisations. The chapter discusses among other things the foundations of MCS, the roles of MCS, the different types of MCS and their perceived usefulness in different contexts, the elements of MCS, the concept of performance budgeting and MCS in Less Developed Countries (LDCs).

Chapter four presents the theoretical framework of the thesis. The chapter discusses the New Institutional Theory, which is the theory that underlies this study. The chapter also presents arguments for selecting institutional theory as the theoretical framework for the study. Based on the limitations of new institutional theory, the chapter proposes a framework which will incorporate market competition and intra-organisational power relations. Chapter five presents the research methodology, identifying the procedures followed in conducting the study. The chapter discusses among other things the role of methodology in conducting research, the different methodological approaches, case studies as the research strategy, and finally the procedure for selecting the organisations and the participants as well as data collection and data analysis procedures.

Chapter Six presents the results of the pilot study including the background and historical context of the organisation and their MCS. This is then followed by an overview of the performance and current structure of the bank and the MCS that were observed in the bank.



Chapter Seven presents the background of the case organisations and their MCS. The chapter describes among other things the performance and current structure of the banks. Chapter Eight presents the case results of the organisations and their MCS. The key MCS discussed are the performance budgeting system and the performance measurement system.

Chapter Nine discusses the results of the study in line with the theoretical framework proposed in chapter four. The chapter begins by identifying and discussing the likely isomorphic pressures within this environment that can influence the banks. The chapter examines how the findings reported in chapter eight are explained by the institutional forces, market forces and intra-organisational power relations. Chapter Ten, the concluding chapter, provides a reflection on the research methodology, summarises the major findings of the thesis, identifies the contribution of the thesis to the advancement of knowledge and discusses the limitations of the thesis and provides suggestions for future research.

## **CHAPTER TWO**

### **The Institutional Environment**

#### ***2.0 Introduction***

The main objective of this study is to investigate management control systems (MCS) in four banks in Nigeria. This chapter provides an overview of the Nigerian environment. This analysis is necessary to understand the institutional context within which the banks operate. Understanding the institutional context might shed light on the nature and operations of the MCS in the four banks.

The remainder of the chapter is divided into five sections. The next section provides a brief overview of the political and cultural contexts of Nigeria. Following this an overview of the Nigerian Economy is provided. This is then followed by an analysis of the economic reforms in Nigeria. The Nigerian banking sector and its reforms are discussed in the following section after which the chapter summary is provided.

#### ***2.1 The Political and Cultural Contexts of Nigeria***

##### ***2.1.1 Politics***

Nigeria was a British colonial creation. It came into being in January 1914 with the amalgamation of the Colony of Lagos (first annexed in 1861), the Southern Protectorates (established 1885 – 1894) and the Northern Protectorate (pacified by 1903). Hitherto, the British had administered them as separate but related territories. Local involvement in government was introduced as early as 1922 when southern politicians, from Lagos and Calabar, took seats in the central legislative assembly. Their northern counterparts did not have legislative experience until 1947 when a new constitution introduced the principle of regional representation. The 1954 constitution created fully-fledged regional governments, and federal elections were held in 1959 the year before independence (Balewa, 1994).

Nigeria was granted its independence on 1 October 1960, originally with Dominion status. In 1963, Nigeria broke its direct links with the British Crown, and became a Republic within the Commonwealth. According to Falola (1999), the independence constitution provided for a federation of three autonomous regions - Northern, Western and Eastern - each with wide-ranging powers, its own constitution, public service, and marketing boards. The overarching but weaker federal government had powers limited to national issues, including control of the police and army, and economic planning. The political system was derived from the Westminster model. A fourth region – the Mid-West – was created in 1964 to satisfy the demand of the minorities (Balewa, 1994).

In the early 1960s, the inherited regional structure led to a series of crises and conflicts, both within and between the three ethno-centric regions, as competition grew for control over the federal centre (World Fact Book, 2005). Falola (1999) claims that the 1964 federal elections were marred by violence and rigging. Inter-party and inter-ethnic tensions continued leading ultimately to a military takeover in January 1966, led by Igbo officers (Nanae, 2007). Thereafter Nigeria's post-independence history was marked by a series of military interventions in politics: coups, counter-coups, and a civil war (1967-70) when the Eastern Region attempted to secede as the Republic of Biafra (World Fact Book, 2005). Over 1 million died in the conflict. Nigeria has only enjoyed three short periods of civilian rule – 1960-65, 1979-83, and 1999 to the present. The intervening periods, totalling 29 years, saw military governments in place.

In an attempt to break up the power of the regions, and forestall future conflict, the regional structure was dismantled in 1967, and replaced by 12 states (Balewa, 1994). At the same time, the federal centre took back most of the powers to itself, and a new radical revenue sharing formula was established which deprived the new states of most of their derivation funds (Balewa, 1994). Additional states were later created in phases in response to demands from powerful local interest groups – in 1976 the number rose to 19, in 1989 to 21, in 1991 to 30, and in 1996 to 36. No new states have been created since then although pressures for new states are ever present. A new Federal Capital Territory,



at Abuja in the centre of the country, was created in 1976 but it was not fully operational until the mid-1990s.

Nigeria operates an Executive Presidential system of government. This American-style model was first introduced in 1979, during the last period of civilian rule, and retained on the return to civilian rule in 1999 (Lewis, 2004). It replaced the Westminster system which had been inherited at independence. The federal bi-cameral legislature comprises a Senate with 110 elected members and a 360-member House of Representatives. Each of the 36 States has an elected Governor and an elected State Assembly of between 24 and 40 seats depending on the size of the population (Lewis, 2004). All elected offices have a four-year tenure. The third tier comprises 774 Local Government Areas. There is a two-term constitutional limit on the tenure of the President and the State Governors (Lewis, 2004).

### **2.1.2 Culture**

Researchers have identified more than 160 definitions for culture as an extremely subjective construct (Hofstede, 1980; Adler, 1983, 1997; Morris et al., 1998). For the purpose of this study, values, norms, beliefs, customs, morals and knowledge shared by members of a nation are defined as national culture. National culture is another major source of differences between management systems in industrialised and developing countries (Hofstede, 1980). This of course does not necessarily mean that strongly held culture can help a formal group to perform better. The wrong kind of culture may undermine performance (Lorsh, 1985).

Nigeria is a highly pluralistic country and a diverse nation, reflected by its national credo: 'Unity in Diversity', with hundreds of existing ethnic groups and several hundreds different local dialects. Limbs and Fort (2000) for example identified ethnicity, language and religion as the three major contexts that shaped Nigerian business practices. A common trend among the different tribes and peoples, which could have implications for the MCS discourse, is the communal philosophy of life and concern for the less privilege (Amadi, 1982). This trend is rooted in the concept of 'extended kinship', which is

common to all the groups. The family network is very important in Nigeria and almost if not all ethnic group in Nigeria believes that individual responsibility extend beyond the boundaries of immediate family. This practice has been described as Nigeria's form of social security (Limbs and Fort 2000). The authors further suggested that in establishing a firm, the founder represents not only the company but also the family. Therefore in his business judgement the founder balances the demand of business with his responsibility to the extended family, which could be a whole community sometimes.

Key aspects of the social and cultural system in Nigeria are therefore the family unit, kinship system and hierarchy (Toyin, 2001). The members of a single family and their relations with each other make up the family unit which is the basic social unit in Nigeria (Sofola, 1973). The most common residential unit is the joint family, usually consisting of three or four patrilineally related generations all living together and co-operating for social and economic benefit. This can, perhaps, be traced back to the rural, agrarian economy in Nigeria, in which few individuals could achieve economic security without being part of a strong family group which co-operated together (Sofola, 1973). Indeed, the family unit is also seen in the business community with a large number of family run companies. The Nigerian culture expects that one should not only take care of himself, but also of those around him (Sokoya, 1998; Toyin, 2001). For example, the notion of a nuclear family is foreign to the Nigerian culture. The concept of goodness in the culture promotes collectivism (Sofola, 1973). Amadi (1982) argued that this is so imbedded in the culture, to the point that some will suggest that it promotes nepotism.

There is respect for elders and authority, with key decisions made by, usually, the elder males in the family. Not only is there strong kinship ties between immediate members of a joint family, there are also strong kinship ties between members of the extended family (Amadi, 1982). Within this system, as argued by Sofola (1973), the role of the individual is less important than the family as a whole and subordinate to the needs of the family and collective decision making is seen, leading to a highly collective society. The hierarchy is also seen in other organisations such as the civil service and companies. Official position is very important and the basis for prestige. It has been suggested by



Sokoya (1998) that, the Nigerian culture is overtly class conscious and such class consciousness is not only socially acceptable, but also rewarded (see also, Toyin, 2001). Amadi (1982) argues that, power differences can be based on family name, wealth, traditional title and age. In many cases these sources of 'inequality' take precedence over formal authority in the work place. This is especially true of age.

The universal cultural variables identified by Hofstede in relation to Nigeria are supported by the social and cultural values outlined above. Nigeria was identified as having large power distance, high uncertainty avoidance, weak individualism and a long term orientation (Hofstede, 1994) and, as described above, hierarchy or large power distance seems to be the most important of these cultural values within the Nigerian context. However, due to the importance of hierarchy/power distance in Nigeria, the researcher believes that legal regulation is likely to be important in Nigeria; this is because the people are rule-oriented with respect to laws, regulations and rules. Hofstede (2001) explains power distance as the way in which societies deal with human inequalities in terms of material and non-material possessions. Prestige, wealth, and power vary in their importance and how people respond to them in different societies. Uncertainty avoidance refers to the mechanisms societies develop to deal with the uncertainties of daily existence and the unpredictability of the future. Some societies respond by having many rules and procedures emphasising stability whereas other societies are less concerned about stability.

As indicated earlier on, large power distance and uncertainty avoidance are the predominant characteristics for this region. This indicates that it is expected and accepted that leaders separate themselves from the group and issue complete and specific directives. They are also highly rule-oriented with laws, rules, regulations, and controls in order to reduce the amount of uncertainty, while inequalities of power and wealth have been allowed to grow within the society, (Anakwe *et al.* 1999; Gire & Carment, 2001; Epie, C. 2002). When these two dimensions are combined, it creates a situation where leaders have virtually ultimate power and authority, and the rules, laws and regulations developed by those in power reinforce their own leadership and control.

In an effort to minimise or reduce this level of uncertainty of daily existence and the unpredictability of the future, strict rules, laws, policies, and regulations are adopted and implemented. The ultimate goal of these populations is to control everything in order to eliminate or avoid the unexpected.

It can further be argued that, managers from hierarchical societies tend to believe that status or power differences make it legitimate to allow different rules for different people. For example, managers from more hierarchical societies much more frequently invoke their status, power, or authority as a means to force concessions from their negotiation partner (Brett, 2001; Tinsley, 2001).

Finally, as the financial sector has gone through so many changes, in order to adapt to these new developments, the country had been undertaking a review of the existing frameworks, enacting new legislation and creating new regulatory authorities to implement these changes. Such a framework is essential for the financial sector, particularly as the country move from state control to market competition, and is necessary to attract new entrants as well as private investment. The next section provides an overview of the Nigerian economy.

## ***2.2 The State of the Nigerian Economy***

Nigeria's economy is highly dependent on the oil/gas sector. In 2008, Nigeria was the world's 8th largest exporter of oil (2.1 million barrels of oil per day) and holds the 7th largest proven gas reserves (185 trillion cubic feet). Income from oil and gas contributes almost 27% of Nigeria's GDP and 95% of the country's foreign exchange earnings<sup>1</sup>. Some \$15 billion was invested in further exploration between 2003 and 2007<sup>2</sup>. Since 1999, Nigeria is also a producer of LNG (Liquified Natural Gas). With the largest known gas reserves in sub-Saharan Africa, revenue from LNG is expected to surpass that from oil (CBN, 2008). However, the oil-producing region, the Niger Delta, is volatile. Obi (2004), reports that there are frequent inter-communal clashes, oil company facilities are

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<sup>1</sup> <https://www.uktradeinvest.gov.uk/>

<sup>2</sup> CBN Annual report, (2008)



regularly targeted, the region is awash with arms, there has been a rise in criminality with hostage-taking, while oil theft, or "bunkering", has increased dramatically.

All other sectors of the economy have been in relative decline, even though attempts were made in the early 1990s to revive the once thriving agricultural sector and to develop solid minerals (Lewis, 1994; Ezedinma, et al., 2007). Iyoha & Oriakhi (2002) demonstrate that the Nigerian economy has depended solely on raw natural (agricultural and petroleum) resources and economic growth or decline have depended solely on export booms for natural resources. Utomi (2003) was critical of the fact that the Nigerian budget has perennially depended on the projected price of crude oil. Industrial or real sector economic activities have never really constituted 5% of the GDP since 1960. Also Utomi, emphasised that political and economic interests in Nigeria abhor market driven economic prosperity (see also, Purefoy, 2006; Nane, 2007). Infrastructure is weak, deterring investment. Nigeria's progress is monitored by IMF through a new instrument, the PSI (Policy Support Instrument).

In spite of Nigeria's oil wealth, Nigeria is a poor country. Iyoha and Oriakhi (2002) argued that the most tragic of Nigeria's problems is its failure to reach its economic potential. Despite its substantial natural and human resources, Nigeria remains desperately poor. From 1965 until 1980, Nigeria's GNP grew by an average of 6.9 percent per year, reflecting in large part the substantial growth it was able to achieve through limited industrial development and the export of oil (CBN, 2004). From 1980 to 1987, however the economy shrank by an average of 1.7 percent per year - a total of over 40 percent for the period as a whole. When oil prices were at their peak in the early 1980s, GNP per capita averaged around \$700 per year (World Bank, 2001).

Similarly, the World Bank classifies it as a low income country (World Bank, 2007). Its very large population, together with endemic corruption<sup>3</sup>, long periods of military misrule

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<sup>3</sup> • In December 2002 the National Assembly passed the Economic and Financial Crimes Act 2002, which established the Economic and Financial Crimes Commission ("EFCC"), mandated to investigate all financial crimes, including money laundering, advanced fee fraud, counterfeiting, illegal charges transfers and futures market fraud. It is also responsible for enforcing the money laundering legislation of 1995, as



and the long-term mismanagement of resources has meant that Nigeria's socio-economic indicators are low and worsening (Lewis, 2004; Marcellus, 2009). The issues of mis-governance, rent seeking and corruption that have led to the poor performance of the Nigerian economy are related to theft, waste and conspicuous consumption (Awojobi 1982), parallel regulation and policies with large opportunities for interference and arbitrage as well as kleptocratic application of structural adjustment (Lewis 1994; Lewis & Stein 1997); weak institutions, rent seeking, poor economic policies and capital flight (Rowley 2000; Obikeze, 2004); political/ career opportunism and the capture of the apparatus of the state by elite rentiers and bureaucrats (Akindele 2005). Ribadu (2004) declares that Nigeria has (by way of corruption and rent seeking activities) squandered over US\$400 billions since independence in 1960.

Nigeria is among the 20 poorest countries in the world in terms of per capita income (UNDP, 2006). In 1985, 43% of the population lived below the poverty line. By 2004, that had risen to 70% living on less than one dollar per day<sup>4</sup>. Nigeria has fallen into the group of countries with a low level of human development, as characterised by an (HDI) coefficient of less than 0.5 (on a scale of 0 to 1). Although, according to the UNDP, the country's HDI had risen progressively since 1960, serious slumps were recorded in 1991 and 1993 (UNDP Nigeria, 1997). With a score of 0.439, Nigeria occupies a lowly 151st position among 177 countries on the HDI ranking (UNDP, 2006). This low HDI score, according to UNDP reflects to a great degree the situation with regard to basic social services in the country, as HDI combines a measure of purchasing power with measures

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amended in 2002. The president signed the new law on 14 December, one day ahead of the deadline set by the Financial Action Task Force ("FATF"), the intergovernmental body concerned with money laundering. FATF had threatened to recommend sanctions if Nigeria failed to strengthen financial crimes legislation by that date. FATF acknowledged that the new law marked significant progress, but at its February 2003 review it did not remove Nigeria from the list of Non-Cooperative Countries and Territories.

• In February 2003 the Senate passed the Corrupt Practices and Other Related Offences Commission Act 2003, to replace and purportedly 'strengthen' the similarly named act from 2000.

<sup>4</sup> "Population living below \$1 a day (percentage): The percentage of the population living on less than \$1.08 a day at international prices. The one dollar a day poverty line is compared to consumption or income per person and includes consumption from own production and income in kind. This poverty line has fixed purchasing power across countries or areas and is often called an "absolute poverty line" or measure of extreme poverty". Source: United Nations Millennium Development Goals Indicators.

of political freedom, physical health and educational attainment, also shows Nigeria's achievements to be generally below expectations.

Nigeria has not been an aid-dependent country but it has accumulated a large external debt of some \$36bn, the largest in Africa, owed mostly to the Paris Club<sup>5</sup>. As an oil producer, Nigeria does not qualify for debt relief under the HIPC (Highly Indebted Poor Countries) scheme. However, after 6 years of lobbying, a debt deal was negotiated with the Paris Club in which 60% of Nigeria's debt was cancelled in exchange for using part of its oil windfall money to immediately pay creditors the balance, some US\$12.4 billion<sup>6</sup>. The next section examines the issues of Economic reforms in Nigeria.

## **2.3 Economic Reforms in Nigeria**

### ***2.3.1. Overview of the Economic Reforms***

The last two decades witnessed a series of reforms aimed at the revitalisation of the Nigerian economy owing to a series of crises that rocked the economy during this period (Dele, 2007). Aburime and Uche (2007), suggest that the problems were seen to be a direct derivative of structural imbalances in the economic system. The imbalances started right from the colonial era, nurtured by inappropriate policies after independence in 1960, and reinforced by the windfall gains from oil in the 1970s.

It has been argued by Lewis (2004), that these structural defects consisted of undiversified, monolithic and mono-cultural production bases, undue reliance on agricultural products from 1960s, and a total shift to exclusive reliance on oil after 1973. Furthermore, Brownbridge (2005) suggests that the outcome of these events was that the growth process relied heavily on external factors instead of the internal ones. However,

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<sup>5</sup>The world factbook, available at <https://www.cia.gov/library/publications/the-world-factbook/geos/ni.html#Econ>

<sup>6</sup>The world factbook, available at <https://www.cia.gov/library/publications/the-world-factbook/geos/ni.html#Econ>



of all the dependencies, the exclusive reliance on oil turned out to be the most devastating to the economy.

The surge in revenues from the oil boom engendered a policy attitude which regarded resources as not a problem but considered how to spend it as the problem (Olashore, 1991). The author is of the view that the increased level of foreign exchange receipts was also perceived as a permanent occurrence. This led to an uncontrolled expansion in expenditure. On the other hand, Olashore argues that reductions in foreign exchange receipts during lean years (as in 1978) were considered transitory. This inelasticity of expectation the authors argues resulted in a situation where expenditures were not reduced immediately the adverse shocks occurred. On the contrary, external borrowing were undertaken to finance government activities. Consequently, fiscal deficits and external payment problems emerged and lingered through various regimes up to the present day.

In response to the above mentioned economic crisis, successive administrations came up with different kinds of reforms aimed at returning the economy on the path of recovery. Some of the reform programmes are briefly discussed below.

***(i) Economic Stabilisation and Austerity Measures (1987):*** This measure was adopted by the Shagari administration through Economic Stabilisation Act of April, 1982. The Stabilisation measures were demand management in content. Under this reform programme, emphases were placed on exchange controls, abolition of tax exemptions and increase in import duties as means of reducing demand for imports (World Bank, 1994). However, this problem lingered till the military took over on 31 December, 1983.

Other stabilisation measures that were subsequently adopted by the military (January 1984- August 1985) included the pruning down of expenditures and reduction in the size of the public sector. The massive retrenchments however compounded unemployment problems in the country (Nwankwo, 1992). Also, counter trade measures were introduced in order to reduce foreign exchange requirements of foreign trade transactions. The



dismal failure of these reform measures led to the introduction of Structural Adjustment Program (SAP) advocated by the World Bank and IMF in the second half of the 1980s (Lewis, 1994).

**(ii) *The Structural Adjustment Programme (SAP) (1997):*** According to FGN (2004) the reform programmes under SAP, which were both macro and sectoral aimed at altering and restructuring the consumption and production patterns of the economy, as well as eliminate price distortions and heavy dependence on the export of crude oil and imports of consumer and producer goods. The SAP was a World Bank and IMF led reforms (World Bank, 1998). The focal areas of the reform were mainly fiscal policy and management, monetary policy, exchange rate management, liberalisation of foreign trade and management of external debt, among others.

The implementation of the above policy reforms was unable to achieve the objectives of the structural adjustment program largely because of the following factors: its short time frame and poor sequencing of the prescribed reform measures; poor implementation of policies; and policy instability and lack of political will (FGN 2000). Consequently, the problems of the economy persisted well into the Abacha's regime (1996-1998).

**(iii) *Vision 2010:*** When General Abacha came to power, Vision 2010 Committee was set up in 1996 to fashion out reform programs (which cut across all the sectors of the economy) that would ensure a complete overhaul of the entire economy with a view to tailoring it towards attaining growth and development by the year 2010 (FGN, 2004). The reform package under the Vision 2010 was to define "Where We Are", "Where We Want to Be" and "How to Get There". The major components of the reform agenda include the following:

According to the FGN (2004) the economic agenda under the Vision 2010 envisaged that the GDP growth rate would average about 10 percent per annum and that a less than 5 per cent rate of inflation would prevail as from the later years of the vision period. By 2010, the exchange rate of the Naira would have improved tremendously, whilst the Naira

would have become a convertible currency. Manufacturing would be accounting for about 24 per cent of the GDP, whilst the relative contribution of oil to the GDP would have declined to less than 20 per cent. All these were intended at returning Nigeria to the position of a middle income country. As identified in the FGN (2004) the above Vision targets would be achieved within a market-oriented, highly competitive, broad-based, private sector driven development process. Consequently, privatisation, liberalisation and rapid technological advancement should be among the critical elements of Nigeria's economic development strategy throughout the vision period. However, the Vision 2010 Blueprint was shelved following a regime change sequel to the demise of General Sani Abacha in June 1998. It thus, remains a book of reference for future development efforts.

**(iv) National Economic Direction (1999 - 2003)**

As reported in the FGN (2004); this was put together by the former president Obasanjo at the inception of the democratic government in 1999. The National Economic Direction was a four-year (1999 - 2003) medium term plan document whose main objective was to pursue a strong, virile and broad-based economy with adequate capacity to absorb externally generated shocks. Specifically, the new plan was aimed at the development of an economy that is highly competitive, responsive to incentives, private sector-led, diversified, market-oriented and open, but based on internal momentum for its growth.

**(v) The National Economic Empowerment and Development Strategy (NEEDS) (2003-2007)**

The FGN Agenda was virtually abandoned as it could not be fully and faithfully implemented by the end of 2003, in favour of another fresh economic reform package entitled the NEEDS. The key components as identified in page 11 of the NEEDS (2004), document include sound macro-economic policies, fiscal discipline, the introduction of due process in public procurement, reforms in the civil service, government institutions and the banking system, privatisation and transparency especially in the oil sector. Monthly budget allocations to the three tiers of government are now published. Anti-corruption measures have also been put in place (Lewis, 2004). According to the NEEDS document the reform package is intended to reverse the past imprudent policies and



stimulate the non-oil sector. Capacity constraints and a weak statistical system for policy formation still need to be addressed if NEEDS is to meet its objectives.

The NEEDS document is a four-year (2003 - 2007) medium term development plan and it implemented by all the three tiers of government and other stakeholders including the private sector, Non- Governmental Organizations (NGOs) and the general public (FGN, 2004).

The NEEDS program was derived from experiences with the inadequacies of the various past responses to the crises that engulfed the Nigerian economy. The reform program is premised upon four cardinal long term goals of Wealth creation, Employment generation, Poverty reduction and Value re-orientation (FGN, 2004). The long term goals are crafted to reverse the structural weaknesses and imbalances in the economy identified above, provide strategic focus and direction, and inculcate the right ethics, discipline, patriotism, virtues of hard work, honesty, respect for traditional values, entrepreneurial spirit and excellence, and provide incentive structure that rewards and celebrates private enterprise among the citizenry (FGN, 2004).

These developmental goals lay the foundation for the implementation of sound macro-economic policies which would guide the identification and selection of the appropriate long term strategies and implementation guidelines necessary to move the economy forward on a sustainable basis.

The economic reforms program as reported in FGN (2004) is structured to re-shape the macro-economic policy framework of the nation through the articulation of appropriate fiscal and monetary policies. The key instruments for the fiscal policy management include diversification of the revenue base of the government into the non-oil sector, efficient utilisation of resources and prioritisation of resource allocation by government, as well as, prudent budget management.



NEEDS has however been criticised for failing to achieve its intended objectives (Kalapo, 2007; Osagie, 2007). Also Marcellus (2009, p.197), argues that “NEEDS is not different from previous development plans in Nigeria, despite the claims to the contrary. While claiming to be a home-grown plan, it is very much in line with the wishes of the international agents of developed capitalist economies; there is lack of commitment of the leadership in pursuing plan objectives; corruption is still rife and priority in selecting plan projects is still poor”.

**(vi) Seven Point Agenda Released by the Presidency, August 1, 2007**

Nigeria is encouraging foreign investments by building up its image and its economy. According to the CIA fact book on Nigeria, the Nigerian GDP rose strongly in 2007, (GDP - real growth rate: 6.4% (2007), based largely on increased oil exports and high global crude prices. Newly elected President Alhaji Umaru Musa Yar'adua has pledged to continue the economic reforms of his predecessor and the proposed budget for 2008 reflects the administrations emphasis on infrastructure improvements. Infrastructure is the main impediment to growth. The government is working toward developing stronger public-private partnerships for electricity and roads. (CIA Factbook, 2008).

Recently in Nigeria, the policies of the new administration has introduced what they called the seven point agenda to accommodate seven major government issues in (a) power and energy, (b), Food security and agriculture, (c), wealth creation and employment, (d) mass transportation, (e) land reform, (f) security plus (g) qualitative and functional education (Ogwu, 2009).

**2.3.2. *The Role of IMF and World Bank in the Economic Reforms in Nigeria***

International Financial Institutions such as the International Monetary Fund (IMF) and the World Bank (WB) have a long history of intervention in Nigeria (Pinto, 1987; Lewis and Stein, 2002). This started during the early 1970s when the Nigerian economy experienced a crisis caused by a collapse in the price of oil. As a result, the WB offered substantial loans to Nigeria, conditional upon the implementation of severe austerity measures and the privatisation of public enterprises. Foreign donor organisations, like the

IMF and World Bank, have issued almost-irresistible demands for economic law reforms, backed by the loans needed for economic and political survival. A dependency of the Nigerian government on the IMF has been caused by the credit given by the IMF, which has become bigger and bigger every year (Beck et al., 2005). The government was forced to turn to the IMF for an emergency debt-relief package in 2006. In return for this, the strategy adopted by the Nigerian government has to reflect the agreement between the government and the IMF, such as slashing the social budget (subsidy cuts in fuel, etc), privatisation programmes, re-capitalising insolvent banks, liberalising foreign trade and investment, increasing the transparency of public sector activities to enhance the quality of governance, and dismantling domestic monopolies (Lewis and Stein, 2002).

IMF demands included creating greater transparency in the issuing of government loans and subsidies, and stricter enforcement of laws and regulations in the area of government procurement, which is widely known as due process. The government has announced several reform initiatives since receiving the IMF bailout package, including the privatisation of several sectors of the economy and reforms the financial institutions. In its effort to satisfy the donor institutions in order to secure ongoing funding, the government has pursued these policies (Lewis and Stein, 2002).

In addition, the IMF and the other donor agencies have also worked with the government by providing the government with some technical assistance on a number of public sector related issues. The IMF, WB and the African Development Bank placed some of their advisors in the Ministry of Finance to assist the government in these issues (Sobodu, and Akiode, 1998; Beck et al., 2005). The next section reviews the banking sector reforms.

#### ***2.4 The Nigerian Banking Sector***

The structure of competition in the Nigerian banking industry shows that the industry is highly concentrated and oligopolistic in nature (Uchendu, 1998; CBN, 2008). According to the CBN (2008), only 10 banks dominate the banking system in Nigeria. The oligopolistic structure of the Nigerian banking system has been influenced by a number of factors. These include: the extensive branch network of the old generation banks as



well as the customer confidence/loyalty built over the years. The patronage of these banks also includes a substantial proportion of public sector funds being deposited. As opined by Uchendu (1998), whilst the emergence of new commercial banks in the 1980s significantly diluted the concentration of the industry, the liquidation of a larger proportion of the distressed banks in the late 1990s somehow vitiated the dilution thus reverting the industry to earlier level of concentration.

The CBN is the chief regulator and supervisor of the banking industry and is responsible for setting guidelines on interest rates, capital, liquidity, cash reserves, loans and ownership (BOFI Act No.25 of 1991). According to Brownbridge (2005) there are regular CBN inspections to ensure compliance with regulations and banks are subject to penalties for non-compliance. The first banks to operate in Nigeria were wholly owned local subsidiaries of leading international banks such as Barclays Bank and Standard Chartered Bank. British banks were at the forefront of the Nigerian banking industry because of Nigeria's past as a colony of Great Britain and the predominance of British trading companies operating in Nigeria (Beck, et al, 2005). French and American banks such as Banque National de Paris, Chase Manhattan and first Chicago that started expanding internationally in the 1970s later joined them. These early banks were partly nationalised in the seventies (Beck, et al, 2005).

According to Agosto (2001), the banking industry is considered one of the most profitable and important sectors in Nigeria. It is the principal vehicle for making local and foreign currency payments. In 2001, banking industry assets totalled two trillion naira (approximately eight billion pounds sterling) or 53% of gross domestic product (GDP). In 2002, the contribution of the banking industry to GDP was about the same at 7.0% (Brownbridge, 2005).

Agusto (2001) declares that the industry is characterised by high nominal growth with total assets doubling every three years. However this phenomenal growth rate is somewhat tempered by the low level of confidence in the local currency, the high nominal interest rates and high inflation. The banks are generally inefficient as evidenced



by the 2001 cost to income ratio of 67% compared with the international benchmark of no more than 50% (Agusto 2001). Some of the inefficiency is due to banks not reaping economies of scale by pooling resource. For example, banks do not share their automatic teller machines so customers can only withdraw money from machines installed by their own banks.

According to Brownbridge (1998), there are also high costs attached to attracting deposits. Many banks employ staff with high 'social capital'<sup>7</sup> or the ability to leverage their family and political connections to obtain customer deposits. Those, staff are often paid a salary as well as a commission for large deposits they attract to the bank. This contributes to inefficiencies in the system.

The banking industry is one of the most attractive employers in the country and employs about 66,000 people directly (CBN, 2008). In a country where annual per capita income averages £205.00, annual salaries for bank employees range from about £2170.00 at entry level to six figure sums at the top of the profession. In 2002, per capita income fell because the population growth rate (3%) exceeded the national income growth rate of 2% (Brownbridge, 2005). Each year about 2 million school leavers enter the job market. The economy is not strong enough to stimulate or create new job to absorb the new entrants (Aburime, 2007). Graduates often have to compete for the few places available in the banking industry through a series of aptitude tests and interviews.

The banking industry is fiercely competitive and most branches are in the urban commercial centres. The CBN seeks to encourage banks to make their branches accessible to the under-banked population and mandates that banks should open branches in the rural areas where about 55% of the population live (Beck, et al, 2005). However competition is tough in these rural areas as there is little trust in banks and, in any event, little money to deposit. Overall, it has been estimated that a high proportion (about 80%)

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<sup>7</sup> For the purposes of this study, social capital is defined as the norms and social relations embedded in the social structures of society that enable people to co-ordinate action and to achieve desired goals.

of the nation's currency operates outside the banking industry but in spite of this, the industry achieves average return on equity of 40% (Kalu & Barsky, 1999).

Bada (2002), states that since 1992, the new generation banks have led the way introducing innovative marketing techniques and new technology to the industry. Many of these newer banks are owner-managed and highly entrepreneurial with little or no Government involvement or foreign ownership. Coupled with superior technology, they have outperformed the older generation banks in terms of profitability and productivity though there are still large differences in their asset bases. In 1998, new generation banks accounted for 42% of industry net assets but generated 62% of industry pre-tax profits (Anyanwaokoro, 2001). The older banks have therefore been forced to improve their operations and have tended to opt for complete re-engineering of their internal processes rather than incremental changes in order to become more efficient (Bada, 2002).

The 2001 Agosto report described the condition of the industry as very strong though certain weaknesses were noted in some tiers of the industry. The analysts at Agosto were of the view that another shakeout in the banking industry was imminent as a result of competitive pressure by new entrants and the drive for efficiency by the biggest three banks. They also forecast strong profitability but envisaged that the top ten banks would increasingly control a greater proportion of the industry's assets and profitability. Overall, it was felt that the economic fundamentals of the banking industry were strong but that the operating environment remained very risky. The industry was designated an 'acceptable risk'.

In 2003 a financial consultant and the former chief financial officer of Citibank Nigeria commented on the state of the industry, "The latest Basle capital accord throws up a new challenge .... Meanwhile, the biggest banks are getting bigger and more efficient and the smaller banks must look beyond the peddling of foreign exchange if they are to survive. Only well run, professionally managed, financially disciplined banks will survive these changes; others will become more irrelevant or be swallowed up in mergers or acquisitions" (Agusto, 2003 p.7).



In the same report, another banker of FSB international bank said Nigerian banks will need to radically invest to build up capabilities and competencies of their people as well as create major strategic alliances e.g. with technology and telecommunications companies and foreign banks.

Overall, it appears the industry is highly competitive and faces a number of challenges, but is growing and trying to overcome the obstacles to development. Banks are considered strategically important in the Nigerian context and are exposed to international best management practices. Some are subsidiaries of international banks such as Citibank and Standard Chartered Bank. In the industry reports it has been recognised that banks need to have strong, professional management and to pay attention to their internal control (CBN, 2007). This suggests that the industry is an appropriate context for research as there is awareness of the possible effects of internal control and corporate governance effectively.

#### **2.4.1 Background to the Banking Sector Reform in Nigeria**

Several researchers including Bada (2002) and Dele (2007) argued that over the years, the Nigerian banking sector has been unable to significantly support the long-term financial needs of the manufacturing sector. This is in spite of the fact that the growth of the national economy hinges on the extent to which the real sector is effectively supported by the banking and finance sector, which play a catalytic role in the growth process (Beck, et al, 2005). Most investments in the real sector are of medium to long-term nature. Unfortunately, funding for such investments are not always forthcoming from the banks because of the short-term nature of their deposit liabilities and the inappropriateness of using such deposit base to support long-term lending. Also, given the widespread lucrative-ness of rent-seeking activities, bank depositors often demand such rates of return that are usually realisable on such quick businesses that exist in the economy. The combined effect of these is the prevalence of short-term lending at high cost against the need for long-term funds at minimal cost by the real sector firms (Ndiokho, 1996).



According to Okagbue and Aliko, (2004), the structural weakness of the banking system, which has hindered the performance of its developmental role in the economy and seriously curtailed the achievement of Government's objectives of ensuring price stability, economic growth and high employment level prompted the CBN to embark on the current reform of the sector. The purpose of the banking sector reform is to enable the Nigerian banks to give priority to, and make available, cheap and competitive credits, to the real sector so that the economy can grow (Bada, 2000).

According to Dele (2007), the experience of many countries indicates that regulation and supervision are essential for stable and healthy financial system and that the need becomes greater as the number and variety of financial institutions increase. The banking sector has been singled out for special protection because of the vital role banks play in the economy. Bank supervision entails not only the enforcement of rules and regulations, but also judgments concerning the soundness of bank assets, and its capital adequacy and management (Volcker, et al, 1992). It has been suggested by analysts that effective supervision leads to a healthy banking industry. To maintain confidence in the banking system, the monetary authorities have to ensure banks play by the rule. The deposit insurance scheme and prudential guidelines were evolved to improve the assets quality of banks, reduce bad and doubtful debt, ensure capital adequacy and stability of the system, and protect depositors funds (Oladipo, 1993).

The problem of bank distress in the Nigerian banking sector has been observed as far back as 1930s. Indeed, between 1930 and 1958, over 21 bank failures were recorded. According to Soyibo and Adekanye (1992), the bank failures during that era may have been caused by the domination of foreign banks in terms of the exclusive patronage by British firms. Other factors that led to mass failure of the indigenous banks were low capital base, lack of managerial expertise and untrained personnel (CBN, 1997). The CBN Act of 1959 was able to regulate the financial system and stem the incessant bank failures that characterized the first banking boom.

The deregulation of the financial system was embarked upon in 1986 as part of the Structural Adjustment Programme (SAP). The deregulation witnessed sharp changes in banks' operations, regulatory environment and the distress syndrome resurfaced again in Nigeria (Beck, et al, 2005). Some of these changes included: liberalisation of the foreign exchange and money markets, the introduction of prudential guidelines/accounting standards, increase in minimum paid up capital, and establishment of Nigerian Deposit Insurance Corporation (NDIC), relaxation of mandatory sectoral allocation of credits, adoption of a new legal framework, enhanced autonomy and supervisory responsibilities for the CBN among others (Aburime, 2007).

According to Brownbridge (1998), the adoption of the Structural Adjustment Programme created both opportunities and dangers for the financial system. Material devaluation of the currency and economic liberalism meant that indigenous enterprises could once more engage in banking. Also, the existence of official and parallel foreign exchange markets created opportunities for banks to make arbitrage profits. This situation enabled several banks to declare huge profits mainly by buying and selling foreign exchange (Nigeria Daily News 2000). That this scenario persisted for a long time only succeeded in attracting more new entrants into the banking arena. This resulted in a remarkable increase in the number of banks operating in Nigeria.<sup>8</sup>

The late 1980s and early 1990s were years of financial boom, as the number of players increased substantially in the system. For instance, between 1986 and 1989, about 38 new commercial and merchant banks were created (Beck, et al, 2005). The increase in the number of banks overstretched the existing human resources capacity of banks which

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<sup>8</sup> The current governor of the Central Bank of Nigeria has described the arbitrage nature of the Nigerian banking environment thus: "I am sure many of you would agree with me that some of our banks are not engaged in strict banking business in terms of savings intermediation – they are traders – trading in foreign exchange, in Government treasury bills and sometimes in direct importation of goods through phoney companies. This is not healthy for the economy... Think about this caricature of what could happen under this system. A group of people get a banking licence, use their connections to garner some billion of Naira in deposits from one or two parastatals, and use the deposits to trade in Government treasury bills, foreign exchange and open letters of credit for importers. Such a bank can declare billions of Naira in profit. It sounds like a fiction but this describes the situation with many banks in the system" (Nigeria Daily News 2000).



resulted into many problems such as poor credit appraisal system, financial crimes, accumulation of poor asset quality among others (Sanusi, 2002).

In 1990, the CBN issued the circular on capital adequacy which relate banks' capital requirements to risk weighted assets. It directed the banks to maintain a minimum of 7.25 per cent of risk weighted assets as capital; To hold at least 50 per cent of total components of capital in capital and reserves; And to maintain the ratio of capital to total risk weighted assets at a minimum of 8 per cent from January, 1992 (Beck, et al, 2005). Similarly, the prudential guidelines introduced in 1990 were to enhance the quality of banks' risk assets and the soundness of their operations.

During this period, the CBN consistently asked banks to beef up their capital. Effective from 1989, the prescribed minimum paid up capital for commercial banks increased from 10 million Naira to 20 million Naira, it moved to 50 million Naira in 1991. As at end of 1997, paid-up capital have increased to 500 million Naira and in 2001, the minimum paid-up capital for a new bank was raised from N1.00 billion to N2.00 billion and N1 billion for existing universal banks (Alashi, 2002).

Despite these measures and reforms embodied in such legal documents as CBN Act No. 24 of 1991 and Banks and Other Financial Institutions (BOFI) Act No.25 of 1991 as amended, the number of technically insolvent banks increased significantly during the 1990s. Since the banking crisis started, the CBN has had to revoke the licenses of many distressed banks (Beck, et al, 2005). The implementation of the Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Act No. 18 of 1994 has also improved the loans recovery effort of banks. However, bank mismanagement, adverse ownership influences and other forms of insiders' abuse coupled with political considerations and prolonged court processes especially as regards debt recovery created difficulties to reducing distress in the financial system (Sanusi, 2002).



#### **2.4.2 Banking Regulation and Supervision in Nigeria**

The era of banking legislation commenced with the Nigerian Banking Ordinance of 1952 and the opening of the CBN in 1959 (Beck, et al, 2005). The establishment of CBN presented ground for the adoption of monetary management, stricter legal framework and regulation and improved institutional facilities for supervision (Sobodu and Akiode, 1998). One of the principal objectives of the CBN is to promote monetary stability and soundness in the banking sector. To achieve this, the CBN conducts regular supervision and examination of banks as means of maintaining surveillance on banking activities and operations (Sobodu and Akiode, 1998). This is to ensure that banks comply with the directives stipulated by the monetary authorities.

Supervision of banks in Nigeria is vested in the CBN. The CBN Act No. 24 of 1991 and the Bank and Other Financial Institutions Act (BOFIA) No. 25 of 1991 and subsequent amendments specify the regulatory and supervisory powers of the CBN over banks and other financial institutions (Ekundayo, 1994). The NDIC complements the efforts of the CBN in bank supervision and examination so as to ensure a safe and sound banking system. The deposit insurance system was established in Nigeria in 1988 as fallout of economic deregulation (CBN/NDIC, 1995). Other reasons for establishment of NDIC were: the country's past bitter experience of bank failures, the lessons of other countries' experiences with deposit insurance schemes, banking competition, the need for effective supervision/prudential regulation and change in government bank support policy (Alashi, 2002). The primary mission of NDIC is to ensure stability and public confidence in the banking sector by guaranteeing payments to depositors in the event of failure of insured institutions as well as promoting safe and sound banking practices through effective supervision (Ologun, 1994).

The CBN/NDIC employs many tools (onsite and offsite examination, statutory requirement on disclosure, prudential guideline, etc.) in carrying out its supervisory role. Both onsite and offsite supervisory functions are performed by both the CBN and NDIC. To ensure that banks operations and activities are reported as accurately as possible, the

CBN directs that every bank should appoint an auditor approved by the CBN (Brownbridge, 2005).

In addition to the above, banks are also statutorily required to disclose certain information. This is designed to ensure that depositors, investors, regulators and the public have adequate information as regard banks' performance and financial condition. Information disclosure by banks is guided by different laws and regulations such as the BOFIA No.25 of 1991, NDIC Act No.22 of 1988 and Companies and Allied Matters Act (CAMA) No. 1 of 1990. All these acts are set out to ensure that the nature of information disclosed by banks follows a required standard. For instance, section 27(1) of the BOFIA provides guidelines for the publication of annual accounts of banks.

#### **2.4.3 The Prudential Guidelines**

The introduction of the prudential guidelines attempts to bring order and harmony in the reporting of loan provisioning and classified risk assets. The prudential guidelines issued by the CBN in November 1990 were aimed at proper loan asset classification and income recognition (Sobodu and Akiode, 1998). Before the introduction of the prudential guidelines, banks had their individual methods of classifying accounts, rating credit and categorising account as performing or nonperforming. They treat accrued interest on nonperforming accounts as income. The implications of their actions were the declaration of high level of profit that was not actually realised (Okagbue and Aliko, 2004).

Also, before the guidelines, banks were guided in their provisioning by System of Accounting Standard (SAS) 10. Under the SAS 10, some banks charged interest income on nonperforming loans into interest suspense account, while others recognised it as income thereby overstating their profits (Brownbridge, 2005). This allowed overstatement of unearned profit by banks that enabled them to declare huge dividend thereby eroding their capital base. This abnormal situation became a serious concern to the supervisory and regulatory authorities.



The prudential guidelines stipulate that under credit portfolio classification system, banks are expected to review their credit portfolio continuously with a view to recognising any deterioration in credit quality. Such reviews should be done systematically and realistically so that classified banks' credit exposures are based on the perceived risk of default. In order to facilitate comparability of banks classification of their credit portfolios, the assessment of risk of default should be based on certain criteria. These should include repayment performance, borrower's repayment capacity, current financial condition and net realisable value of collateral. Furthermore, nonperforming credit facilities are to be classified into substandard, doubtful and loss. Banks were expected to make adequate provision for perceived losses based on the classification of their credit portfolio (Okagbue and Aliko, 2004).

There are many effects of the guidelines: provisions for doubtful debts are to be made out of profits and interests earned on these assets are to be suspended. Under the new dispensation, nonperforming assets are dying or dead assets and do not yield any income, rather costs such as administrative expenses incurred on bad debt are to be incurred at the banks expense (Sobodu and Akiode, 1998). As a result, many banks' asset base kept dwindling as well as their profits. Some of these banks which had not diversified their asset portfolio had nothing to fall back except shareholders funds and reserves and these were not enough to meet their depositors claims (Ojo, 1993).

Furthermore, as part of the efforts to ensure the stability of the banking industry and in response to the lingering problem of distress in the sub-sector, the regulatory/supervisory authorities have been applying various failure resolution measures since the late 1980s (Brownbridge, 2005). Hence, depending on the severity and peculiarity of the distress, NDIC in collaboration with the CBN, has, over the years, successfully adopted such measures as provision of liquidity support through accommodation bill, imposition of prompt corrective actions, assumption of control and management, restructuring and sale of some distressed banks as well as liquidation of the terminally distressed banks as a last but unavoidable option (Aburime, 2007).



In specific terms, the following measures have so far been adopted (see CBN, 2004):

- 1) Accommodation facilities were granted to ten banks with serious liquidity crises to the tune of N2.3 billion in 1989 following the withdrawal of public sector funds from commercial and merchant banks and their transfer to CBN during that year.
- 2) Holding Actions were imposed on 46 banks to help stabilise their financial conditions.
- 3) Twenty-four banks were temporarily taken over by the regulators to safe guard their assets.
- 4) Seven distressed banks were acquired, restructured and sold to new investors.
- 5) From 1994, thirty-six terminally distressed banks were closed with minimal disruption to the banking system. The closure of these banks was because of their inability to respond to all the various regulatory/supervisory initiatives employed to resolve the banks' problems and the continued deterioration in their financial conditions. Thereafter, NDIC discharged its role both as deposit insurer and liquidator. By these roles, the losses suffered by the banking public as well as the economy at large due to bank failure had been minimised. The combined effect of the above measures was a drastic reduction in the level of distress in the nation's banking system.

From the foregoing discussion of the current state of the banking industry a number of issues stand out as pressing challenges confronting the industry. Broadly, these issues relate to the industry's operating environment, inherent weaknesses in the conduct and practices of practitioners bordering on ethics and integrity otherwise referred to as weak corporate governance and inadequate legal provisions for dealing with problem banks and protecting the supervisors. These issues are briefly discussed next.

*(i) The industry's Operating Environment:* It has been generally observed that the economic, socio-political and regulatory environment in which the banks operate has remained unstable (NDIC, 2002). The major concern here is that banks are faced with increased uncertainty and inability to make long-term business plans. The economy is highly dependent on widely fluctuating income from oil. The 3 tiers of government exhibit unsettling fiscal indiscipline which makes monetary policies ineffective and compels monetary authorities to impose thresholds on liquidity management instruments

that are more than prudential on banks (Okagbue and Aliko, 2004). For this reason banks are made to face a harsh regulatory regime. The banks heavily rely on public sector funds placement and also accommodate the sector's borrowing. Compounding this uncertainty is the sporadic socio-political violence involving at times loss of lives and serious damages to already inadequate infrastructural facilities. These events which heighten threat to lives and properties, lead to loss of man-hours and add to operating cost.

(ii) *Weak Corporate Governance*: It has been claimed by Okagbue and Aliko (2004), that a notable feature of the industry is low ethical standard and transparency. These are manifesting in the rising cases of unwholesome practices being recorded. A number of banks engage in some sharp and unorthodox practices to achieve compliance with some regulatory requirements "on paper". Many banks' returns provide inaccurate/misleading financial report thereby preventing timely detection of emerging problems by the supervisor (Aburime, 2007). Another dimension of the weak corporate governance issue is the managerial incompetence of the top management of some banks as evident in weak internal control system of the banks (Okagbue and Aliko, 2004). Substantial losses incurred by many banks on their credit portfolio, frauds and forgeries and outright negligence have brought to the fore, the importance of sound internal control system. Appraisals of fraud-related losses by Bank Examiners revealed that such losses could have been prevented had the affected banks maintained effective internal control systems. The weak internal control systems in some banks had facilitated the perpetration of frauds (Olatunji, 2009).

Another manifestation of weak corporate governance as reported by Ogunleye, (2001) is the trend in deficiencies in banks' earning assets especially loans and advances, arising from either poor loan administration or unethical lending (such as insiders' abuse)<sup>9</sup>. This is an indication of managerial problems in this regard. There are worrisome increases in both the amount of non-performing credits and insiders' credits (Brownbridge, 2005). It is on record that there were widespread violations of insiders' lending regulations even

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<sup>9</sup> Insider lending is often fraudulent because banking legislation usually imposes limits on the volume of insider loans which banks can extend.



when the rules have inadvertently been made generous by amendments occasioned by the introduction of universal banking policy which increased the single obligor limit from 20 to 35 per cent of shareholders' fund unimpaired by losses (Ogunleye, 2001).

*(iii) Fraud in the Banking Sector:* In Nigeria, fraud contributed significantly to the failure of the 36 banks in liquidation. Fraud is one of the serious economic crimes being perpetrated in the banking industry today (Ogunleye, 2001, Olatunji, 2009). Frauds result in huge financial losses to banks and their customers, the depletion of shareholders' funds and banks' capital base as well as loss of confidence in the sector. In 2001 the number of reported cases stood at 943 and the amount involved was 11,243:94 million Naira (NDIC, 2002). Fraud is therefore of special concern to the regulatory authorities who are saddled with the responsibility of ensuring the safety and soundness of the entire banking system. According to Olatunji, (2009), the incidence of fraud in the Nigerian banking system is of serious concern to all stakeholders. The cases of attempted fraud reported to the Nigeria Deposit Insurance Corporation, in compliance with the provisions of the NDIC Act, are on the increase (Ogunleye, 2001). However, the figures reported may not reflect the aggregate amounts involved in frauds in the banking sector due to the incidence of under-reporting. The reported cases of frauds and forgeries among the insured banks between 1998 and 2002, reveals that in the last two years there had been significant increases in the number of reported cases and the amount involved (NDIC, 2003), for example in 2002, the amount involved was 12,919:55 million Naira as against 11,243:94 million Naira in 2001 (Olatunji, 2009).

#### **2.4.4 Inadequate Legal Provisions to Handle Problem Banks**

Measured against the global practices and benchmarks, bank supervision in Nigeria still faces a number of challenges, the manner of resolution of which would definitely impact on the future of bank supervision. The significance of these challenges is demonstrated in the opinions expressed on them by the World Bank Mission on financial sector assessment which visited Nigeria in January 1999 and the IMF Mission of December 2001. As part of their programmes each mission assessed the compliance of the country's bank supervision framework with the global Basle Core Principles of effective bank



supervision. Although the issues noted by the missions are certainly not the only challenges confronting the supervisors, however, their resolution is strategic to shaping the future of the supervisory framework and other less disturbing problems.

Among others, both missions noted the need for legal provision to protect supervisors and prevent government interference in the discharge of their responsibilities in respect of implementation of corrective actions on failing/distressed banks. For example, providing legal protection to supervisors requires not just the enactment of the relevant legislation but also some judicial structure reforms that will enable timely dispensation of litigations arising there from. According to Okagbue and Aliko, (2004), this is instructive in the light of the supervisors' experience with the numerous cases of abuse of the court process that bank owners have engaged in to the detriment of bank depositors whenever supervisory intervention is seen as not being favourable to them (bank owners). The time it takes to decide the cases of the terminally distressed banks whose owners have gone to court to challenge the revocation of their licences by the CBN is a case in point on the inappropriateness of the existing judicial structure to provide a timely disposal of litigations relating to supervisory intervention (Aburime, 2007). In other words, there is the need for a reform of the judicial system such as establishing a special court to make for timely dispensation of bank-related litigations and in particular those arising from supervisory intervention.

The nation's regulatory/supervisory authorities have noted with serious concern the integrity problem with the data that supervisors use in particular, the significant disparity between on-site and off-site supervision data (Sobodu and Akiode, 1998). Two main dimensions of the problem have been identified. One is the problem of lack of transparency in some banks' activities and their documentation. This essentially is a reflection of the corporate governance problem associated mainly with problem banks (Brownbridge, 2005). The quality of disclosure has been seriously undermined by this lack of transparency to the extent that off-site analysis could not provide reliable diagnosis of emerging problem thus necessitating more frequent on-site examination especially for problem banks (Aburime, 2007). This clearly, is a costly alternative for the

supervisor and is avoidable if steps can be taken to make banks improve on the integrity of the mandatory returns they render to supervisors. The resolution of this problem is obviously crucial to the efficiency and effectiveness of the supervisory framework. The second aspect of the data-related problem is timeliness. Inadequate and malfunctioning infrastructure is the major problem inhibiting timely rendition of required supervisory information (Aburime, 2007). It should be stressed that this problem is at both the data supply and receiving ends and it has to do with the general deficiency of the public telecommunication infrastructure and the late/slow adoption of advanced information technology by the banking industry (NDIC, 2003).

However, the CBN and the NDIC commenced a collaborative development of software called Banking Analysis System (BAS) for timely rendition, processing and basic analysis of prudential information from the banks in 1998. It is presently being enhanced to provide real time online data and is also being web-enabled to allow remote access to and from the banks (Aburime, 2007). This it is hoped would improve both the timeliness and integrity of bank returns. In the same vein, the CBN developed a Credit Risk Management System (CRMS) designed to provide accurate and reliable credit information on bank borrowers from a central database. The CRMS went live in 1998 and has continued to assist in reducing the incidence of credit extension to dubious borrowers or those that already have abandoned non-performing loans with some banks (Aburime, 2007). These two developments have greatly enhanced the supervisors; effectiveness and sustained enhancement of this software would continue to shape the future of bank supervision.

## **2.5 Chapter Summary**

This chapter has examined the institutional environment facing the case study organisations. The Nigerian economic, social and political environments are similar to those in other developing countries. Overall, Nigeria's economy is characterised by high political and economic uncertainty.

It has been explained how the federal government introduced major law reforms and new legislation in the management of economic and social process, including bankruptcy, unfair competition, decentralisation and related laws to improve democratic life. With the new law reforms, the government grants greater autonomy and new responsibilities to the Central Bank (CBN). The CBN began to use its powers to regulate the operations of banks, including our case study banks. The regulatory environment will undoubtedly influence decision making and operations of the banks.

From the analysis provided in the chapter, we have identified the various reforms in the Nigerian banking sector. These reforms have implications for the banks. For example, the reforms have introduced competition into the banking industry with the influx of foreign and new generation banks. Having examined the institutional context within which the banks operate, the next chapter presents the review of the literature.



## **CHAPTER THREE**

### **Literature Review**

#### **3.0 Introduction**

In conducting academic research it is traditional to conduct a review of the literature to gain insights into topics that have been researched and to identify gaps that require further research to fill (Foster & Young, 1997). The literature review also gives the researcher an indication of what topics are relevant in the field, and also may suggest avenues for future research. The findings of the literature review are divulged so that one can get a better appreciation of how this study will contribute to the existing literature. To do this, gaps or areas requiring further investigation will be highlighted.

This chapter reviews prior research on management control systems (MCS) and their context, highlighting the role of MCS in contemporary organisations. The remainder of the chapter is organised into seven main sections. The definitions and foundations of MCS are considered first, followed by a review of the roles of MCS. Budgetary controls and performance measurement systems as key elements of MCS are then discussed in the following section. The next section discusses the concept of performance budgeting followed by the roles of MCS in the banking sector. A discussion on MCS in Less Developed Countries (LDCs) is then provided after this with the final section providing a summary.

#### ***3.1 Definitions and Foundations of Management Control Systems***

Over the years a number of studies including Anthony (1965), Langfield-Smith (1997), Merchant et al., (2007), and Bhimani & Langfield-Smith (2007) have explored the definition of MCS. These studies have discussed MCS in a very broad sense representing different ideologies and practices – from Taylorism to team-based Control - (see also Macintosh, 1994; Otley et al, 1996; Berry et al, 1998; Ezzamel and Willmott, 1998; Marginson, 1999; Otley, 1999).

Little consensus therefore exists in the literature regarding the definition of MCS (Harrison and McKinnon, 1999). Perspectives range from narrow approaches that focus on specific aspects of the accounting system to broad conceptualisations of control as everything managers do to achieve organisational goals, or, any process in which a person, group, or organisation determines or intentionally affects what another person, group or organisation will do (Machin, 1988; Tannebaum, 1988). The contemporary study of management control centres on an examination of those formal and informal systems that help managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives (Lowe and Machin, 1988; Anthony and Govindarajan, 2001).

The term "control system" implies a carefully constructed and well-integrated set of items. It has been suggested by writers such as Anthony (1965), Simons (1995), and Emmanuel et al., (1997) that in actuality, the system of controls in an organisation is an agglomeration of potentially thousands of documents, policies, procedures, processes, rules, objectives, guidelines, measures, databases, technologies and equipment. Controls prescribe a set of activities for dealing with situations as they arise, and so elements are continually added, modified and deleted. Control practices arise from conscious managerial efforts as well as informal mechanisms that emerge through the spontaneous interactions of employees over time. What emerges is a complex and potentially disjointed web of items created at different times to address a diverse mix of managerial requirements. When combined, these elements can have a pervasive impact on employee attitudes, motivation, perceptions and behaviours (Chua, Lowe, & Puxty, 1989; Chenhall, 2003).

Macintosh, (1994) is of the view that MCS has both a narrow and broad definition. The narrow definition focuses on MCS as a mechanism to support planning and control activities in an organisation, through proper gathering, reporting and comparing actual revenue and/or cost with planned and/or budgeted figures, the ultimate of which, is to ensure that rational decisions are made in the allocation of resources to achieve an organisations goals. The broad definition of MCS according to Macintosh, (1994),



involves the entire array of control mechanisms that are used to motivate, monitor, measure and sanction the actions of managers and employees including both formal and informal mechanisms. With the broad definition, MCS is considered as a way to control the internal and external interdependencies of an organisation (Euske and Riccaboni, 1999). The internal interdependencies may include the relationship of management with workers, division of labour, structure, and interaction. The external interdependencies include external factors crucial in determining the success of an organisation such as, separation of ownership from control, relationship with suppliers, customers and regulatory agencies.

The term 'control' as a social variable has different levels of pressures and impacts on individuals and organisations. It may be in the forms of coercion, compliance and cooperation and it is a very common every-day-use term as Macintosh noted that:

*Control may be the most contentious word of our time. Half the world thinks of control as coercion and oppression protesting that we should have less of it. The rest believe society is pretty much out of control and that we need more of it. Either way, and regardless of one's political stance, control is a phenomenon that requires careful study if we are to make sense out of our world (1994, p.1).*

The ideas of management control systems originate from the seminal theoretical work of Robert Anthony who drew boundaries between management control, strategic planning and operational control. Management control was defined by Anthony (1965, p.17), as "the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives." Efficiency is generally understood to be concerned with achieving given results with minimum resources and effectiveness with attaining organisational objectives. Although this definition appears to be concerned with organisational factors, such as strategy and resource usage, it positions management control as a middle-management function. As such, it considers strategy and objectives as given and operational task controls outside the domain of management control. However, Anthony's definition has been criticised for its emphasis on accounting-based controls and for its exclusion of planning and



operations functions and environmental influences (Lowe and Puxty, 1989; Chenhall, 2003).

A more comprehensive approach to management control is reflected in the definition proposed by Lowe (1971, p. 5), who viewed management control systems as:

*A system of organisational information seeking and gathering, accountability, and feedback designed to ensure that the enterprise adapts to changes in its substantive environment and that the work behaviour of its employees is measured by reference to a set of operational sub-goals (which conform with overall objectives) so that the discrepancy between the two can be reconciled and corrected for.*

Lowe's definition emphasises the overall control necessary for successful adaptation by organisations to their environment. In addition to embracing conventional controls, it also recognises planning, feedback, and necessary corrective actions as integral elements of effective management control systems, as well as non-financial controls and the behavioural implications of controls as important considerations in effective control processes. This comprehensive organisational approach is more flexible and, therefore, more relevant to contemporary organisations, which are generally leaner, flatter, and typically operate in increasingly competitive, changing, and uncertain environments. Otley, (1994, pp 289), argues that the "traditional definition of the scope and practice of management control which was developed in the mid 1960s is now too restrictive as it is based on a context of large, hierarchically structured organisations which are now in relative decline. This decline has been caused by changes in the business and social environment which are reflected in the terminology of current management ideas such as 'de-layering', 'right-sizing', 'business process re-engineering', 'out-sourcing' and 'value chain analysis'. Organisations still need systems of management control but it is likely that they will be very different to those found suitable in the past".

The organisational approach, which is grounded in social psychology rather than strictly in economics, has been adopted as the basic premise in many theoretical articles and textbooks (see for example, Lowe & Machin, 1988; Chua, Lowe, & Puxty, 1989;

Emmanuel et al., 1990; Otley, 1987; Berry, Broadbent, & Otley, 1995; Chenhall, 2003). Relying on this broader conceptualisation of management control, Otley et al. (1995), in their review of the development of management control research, called for research recognising, not only the organisational context of management control systems, but also the environment in which organisations operate.

MCS have also been described as processes for influencing behaviour (Flamholtz et al., 1985). MCS provide a means for gaining cooperation among collectives of individuals or organisational units who may share only partially congruent objectives, and channelling those efforts toward a specified set of organisational goals (Ouchi, 1979; Flamholtz, 1983). Controls have been categorised in many ways. For example, formal and informal controls (Anthony et al., 1989), output and behaviour controls (Ouchi, 1977), market, bureaucracy and clan controls (Ouchi, 1979), administrative and social controls (Hopwood, 1976) and results, action and personnel controls (Merchant, 1985). Formal controls include rules, standard operating procedures and budgeting systems. These are the more visible, objective components of the control system. Empirical research that studies MCS and strategy has focused primarily on formal controls. These include output or results controls which are of a feedback nature, and often financially oriented. They include controls that aim to ensure that specific outcomes will be achieved and involve monitoring, measuring and taking corrective actions. Controls that focus on feed-forward control (*ex-ante* controls) include administrative controls (standard operating procedures and rules), personnel controls (human resource management policies) and behaviour controls (the ongoing monitoring of activities and decisions), (Auzair and Langfield-Smith, 2005).

According to Langfield-Smith (1997), informal controls are not consciously designed. They include the unwritten policies of the organisation and often derive from, or are an artefact of the organisational culture. Ouchi (1979) described clan controls that derive from the shared values and norms, or the culture of the organisation<sup>10</sup>. Usually clan

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<sup>10</sup>The terms “clan control” and “social control” are often used synonymously. However, Ouchi’s (1979) definition of clan control requires that there be a norm of reciprocity, the belief in a source of legitimate authority and social



controls are informal, rather than formal controls, however, some formal controls also derive from the organisational culture. Langfield-Smith (1997), suggested that, the formal organisational mission or objectives may reflect the values and beliefs of the dominant culture. Informal controls are important aspects of MCS and the effectiveness of formal controls may be dependent on the nature of the informal controls that are also in place (Otley, 1980; Flamholtz, 1983). Despite the important role of informal controls, the majority of MCS research has largely focused on formal controls, thereby ignoring informal controls. By so doing, MCS is not sufficiently broad to capture complexities of the organisational environment (Emmanuel et al., 1990; Simons, 2005).

Recent writings on management control take a broader view of management control (Anthony and Govindarajan, 2003; Chapman, 2005; Simons, 2005). These recognise that there are not always preset quantifiable standards which to measure performance against but management control still takes place through supervision, codes of conduct, guidelines etc. (Merchant and Van der Stede, 2003). Controls are also designed to prevent deviations instead of only identifying or reacting to control problems, which is the view inherent in much of earlier writings on management control. Anthony and Govindarajan (2003, p. 6) point out some of the characteristics of management control that actually make it more complex than a simple control system:

- The standard to which performance is compared is not preset but a result of a planning process which is an integrated part of the management controlling process.
- Management control is not automatic but requires action, communication, integration on behalf of the manager in some way.
- Management control requires coordination among individuals.
- The connection between the observed need for action and the behaviour that is required to obtain the desired action is not clear-cut as it involves judgment, is based on management values, culture etc.

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agreement on the range of shared beliefs and values for a "clan" to exist. Social controls can exist when there is agreement on purposes or outcomes, without there necessarily being shared belief systems.



- Much control in organisations is self-control. People act in a certain way, not because their managers tell them to, but because their own judgment tells them what behaviour is appropriate.

Thus, management control is not about goals achievement in isolation but also about implementing corporate and business unit strategy.

### **3.2 The roles of Management Control Systems**

The primary purpose of Management control is to ensure that the behaviour and decisions of people are consistent with the organisation's goals and strategies (Merchant, 1985; Anthony, 1988). One of the primary ways of ensuring that this objective is achieved is to design appropriate management control systems (MCS) that help provide adequate strategic guidance to the process. The role of MCS in detecting lack of fit with the environment and finding solutions at an operating level is well known. The use of control devices such as feedback loops and budget variance information is designed to detect operating problems (Lowe, 1971; Wilson and Chua, 1993). The information provided by these control devices is used within current operating paradigms to correct operating problems.

Management control systems may also play a critical role in detecting and solving problems caused by environmental change, resulting in paradigmatic change. MCS can affect the perception that existing goals and processes no longer match external challenges (Coopey, 1995). Information gathered by the MCS may be used to question the existing rationales for action and if the current strategies and structures are appropriate in a new environment. The characteristics of MCS, such as the level of environment scanning or surveillance (actively seeking external information), or the degree of participation in the decision-making process (actively both seeking and communicating internal information); can partly determine the response of an organisation to environmental change. The interactive or diagnostic use of different parts of a control system can also partly determine the response to environmental change (Simons, 1990, 19991, 1995).

The roles that management control systems perform in an organisation have been discussed in the literature. The conceptualisation of these roles is however, strongly influenced by the ontological and epistemological<sup>11</sup> assumptions of researchers. Emmanuel et al., (1997) for instance, examined the roles of management control systems from a rational-technical paradigm. Consequently management control systems are perceived as aiding rational decision making by providing information for planning and controlling as well as for identifying and solving problems. Management control systems thus assist in the “efficient allocation of resources ... monitoring costs, strategic planning, feedback control, performance evaluation...” (Chua,1998). From a socio-political paradigm however, researchers (see for instance Burchell, et al, 1980), Macintosh and Scapens 1990, Scapens and Macintosh, 1996) have examined the non-technical roles of management controls (Chua, 1998) where attention is focused on management control systems as political, social and language tools.

Having discussed the roles of MCS in organisations, the next section will look at the different control types.

### **3.3 Budgetary Control and Performance Measurement Systems**

The initial aim of this study was to study the entire MCS of the banks. However the results of the pilot study revealed that the only elements of the MCS that are widely used in the banks and therefore likely to be understood by the participants are the budgetary controls and performance measurement systems. This was not surprising as previous MCS studies in Sub-Saharan Africa (see for instance, Tsamenyi et al., 2002 & 2004 & Waweru, Hoque and Uliana, 2004) and other LDCs (see for instance Skousen and Yang, 1988; Hoque & Hopper, 1994 and 1997; Hoque, 1995; Firth, 1996; Anderson & Lanen,

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<sup>11</sup> a.Ontology is the nature of reality and “being”. Ontology refers to the claims or assumptions which social inquiry makes about the nature of social reality. This involves claims about what exists, what it looks like, what units interact with each other (Burrell and Morgan, 1979).

b. Epistemology is the nature and forms of knowledge. It defines what ‘knowledge’ is, and the relationship between our ideas about what is going on in the world and communicate this knowledge – (i.e. about how we might begin to understand the world and communicate this knowledge), (Burrell and Morgan, 1979). It is the study of criteria, by which we determine what constitutes ‘valid’ knowledge.



1999; O'Connor, Chow and Wu, 2004) have made similar observations<sup>12</sup>. As a result this section is focused on budgetary controls and performance measurement systems. This focus on budgetary controls and performance measurement is also justified as these have been the two dominant elements of MCS widely discussed in literature (see for instance Lowe & Machin, 1988; Chua, Lowe, & Puxty, 1989; Emmanuel et al., 1990; Otley, 1987; Berry, Broadbent, & Otley, 1995; Goddard, 1997; Jacobs, 1995; Chenhall, 2003).

### **3.3.1 Budgetary Control Systems**

#### **3.3.1.1 Definition and Role of budgets**

It has been suggested that the highly competitive global economy of today means that many, if not most, organisations' productivity is constrained by cost pressures (Reid, 2002). Accordingly, it has been argued that budgetary control endeavours to ensure that the overall aims and objectives of the organisation are efficiently and effectively achieved (Drury, 1999; Anthony & Govindarajan, 2001). Such control measures focus on encouraging individuals within the organisation to tailor their behaviour towards the effective and efficient meeting of those goals.

Budgetary systems of organisations are especially important sources of management control and planning (Emmanuel, Otley, & Merchant, 1990; Jones & Pendlebury, 2000; McKinney, 1995). Traditionally, budgeting has been defined as “attempts to allocate financial resources through political processes to serve differing human process” (Wildavsky, 1975, p. 5). For the most part, budgetary control is achieved through the matching of actual expenditure with budgeted amounts and the achievement of organisational goals and objectives (Anthony & Govindarajan, 2001). More specifically, budgeting can serve several purposes including policy direction, mutual contract, communication, motivational control, monitoring of services, resource allocations, and accountability.<sup>13</sup>

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<sup>12</sup>These studies are discussed in section 3.6 under MCS in Less Developed Countries

<sup>13</sup>For an expansion of these points see McKinney (1995, pp. 214-220).



Several authors have investigated the use of budget and suggested that the budgeting process can have serious behavioural consequences within an organisation that may reduce its ability to meet its objectives within the expected expenditure level (see for instance, Berry, Broadbent, & Otley, 1995; Emmanuel et al., 1990). Indeed, as might be expected, this has important consequences for the choice of budgeting methods and the development of the budgeting process. Jones and Pendlebury (2000) contend that the budgeting process can produce conflict or departmentalism between cost centres (see also, Coombs & Jenkins, 1994). This supports the view that budgeting is a highly political process (Covaleski & Dirsmith, 1986; Hoque & Hopper, 1994, 1997; Wildavsky, 1975; Uddin, & Tsamenyi, 2005). Equally important, some suggest that a budgetary control system can also have significant behavioural effects, such as the creation of budgetary slack when used for performance evaluation purposes (Argyris, 1952; McKinney, 1995). Furthermore, many scholars take the view that the type of budgetary control system can result in a manipulation of the budget figures or ineffective decision-making (Jones & Pendlebury, 2000). There is also the view that the budgeting process be developed in such a manner to motivate employees and to achieve the organisational goals (Berry et al., 1995b; Langfield-Smith, 1997; Macintosh, 1992).

Willsmore (1973, p. 11) noted that "... budgets have a very wide potential use". Areas in which budgets can be used to assist in management control, including problem identification, co-ordination of the various parts of the whole, delegated authority to spend, controlling and measuring performance, and motivation have been identified by and providing a basis for responsibility accounting (Berry et al., 1995; Emmanuel et al., 1990). Tensions, however, between these uses of budgets may exist, for example, in using a budget as a means of control and also as a means of authorisation (Reid, 2002; Drury, 2008; Seal, et al., 2008). Authorised managers may be motivated to spend their entire allocated budget if, for example, they believe that the following year's budget will be reduced if "under spending" occurs in the current year. Such behaviour, at least in the short term, is unlikely to be congruent with the organisations overall concerns with

efficiency (both "pure efficiency"<sup>14</sup> and "mixed efficiency"<sup>15</sup> as described by Wildavsky, 1975) and effectiveness, i.e. control. Covalleski and Dirsmith (1988) provided evidence to demonstrate that budgets can be used to justify an organisation's operations to key persons (i.e. government, other organisations, customers). Further to this, the authors contend that the interests of powerful actors and groups within the organisation largely shape the contents of the budget.

Argyris (1952) examined the behavioural dynamics of budgeting in four firms in the US. The study uncovered some very unhelpful attitudes and de-motivating behaviours. For example, budgets were frequently used as an oppressive tool by an authoritarian, autocratic management with a focus on mistakes; and an undue attention on their own departments, rather than on the whole organisation; the emergence of "budget slack"; and a "blame culture". Supervisors, however, were able to see that the budgets included unrealistic targets; were backward looking; rigid and inflexible; and were used to apply pressure to increase production. All in all, the focus was upon outputs, not processes, and the result was de-motivating. Indeed, the supervisors tried to redress what they saw as an imbalance by not referring to budgetary targets and control.

### **3.3.1.2 Participative budgeting**

Should subordinates be involved in budget setting? If yes, what level of participation should be allowed? Does the level of participation of subordinates in budget setting influence the acceptance of the budget? Does participation in budgeting lead to better performance? These issues have dominated accounting and other behavioural literature over several decades now.

Shield and Shield (1998, p.49) defines participative budgeting "as a process in which a manager is involved with, and has influence on, the determination of his or her budget". Participative budgeting is thus the extent by which responsible managers are able to

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<sup>14</sup> Being defined as where an objective is met at the lowest cost or where the maximum amount of an objective is obtained for a specified amount of resources.

<sup>15</sup> Being defined as where an objective is changed to suit the available resources



influence the figures which make up their budgets. This definition is consistent with the views of other authors such as Douglas and James (2001), Drury (2008), and Seal et al., (2008). Participation in its strict sense enables subordinates to be fully involved in setting their own targets. Subordinates are thus given the freedom to decide their own standard level rather than being pressurised to accept a target that has been established by someone else. This approach has been construed by authors such as Hofstede (1968) and Shield and Shield (1998) as a bottom-up approach to budgeting. According to Collins and Willingham (1977), in a true participative budgeting, subordinates and superiors are accorded the same level of involvement in the budget setting (see also, Brownell and McIness 1986; Douglas and James, 2001).

It has been suggested that participative budgeting has several positive effects. For instance, it is likely to improve the attitudes of subordinates towards budgets. This will minimise "dysfunctional" behaviour within the organisation (Drury 2008). Furthermore, participation is likely to ensure the relevance of standards as well as improve communication within the organisation (Seal et al., 2008). Participative budgeting has also been considered as a better basis for administering rewards and sanctions (see for instance, Douglas and James, 2001 and Horngren et al., 2004), because where managers are involved in the budget setting; it is easier for them to explain unattained targets (Brownell and McIness 1986). Budgettees are thus likely to consider themselves as part of the decision making team thereby leading to a reduction in stress (Argyris 1952). According to Argyris, true participation is necessary if a budget is to be acceptable to budgettees. Participative budgeting will thus lead to employee motivation (Shield and Shield, 1998; Douglas and James, 2001) and high performance (Hofstede 1968).

Scott (2001) studied the implications of participative budgeting in the UK. The author focuses on the power implications of delegating budget decisions to middle managers. According to the author, this participation led to greater flexibility for the effective use of resources and increased cost consciousness. Scott (2001) concluded that participative budgeting could result in greater efficiencies if the middle management roles and the organisational culture are considered prior to implementation.



Brownell and Merchant (1990) argued that participative budgeting enables the experiences of budgettees and senior management to be drawn together in resolving certain conflicts within the organisation. Subordinates are thus expected to develop their own targets and discuss them with senior management. The skills of both superiors and subordinates will be paramount in this discussion. Research (Argyris 1952; Shield and Shield, 1998) has however shown that even though subordinates may be involved in budget settings, on certain occasions, they fail to express their views at budget meetings thereby limiting their experiences to be incorporated into the budget settings. The aims of participation are thus likely to be defeated in this context.

Dew and Gee (1973) identified three levels of budget settings. In the first instance, subordinates are allowed to develop their own budgets and submit them to senior management for approval. In the second instance, senior management prepares the budget but consults subordinates before the budget is implemented. In the third instance, senior management prepares the budget and without any consultation with subordinates imposes the budget on them. The first situation (participative budgeting) is more recommended by the authors and this has been an accepted opinion in general public discourse. The second approach (consultative budgeting) may also be recommended but not as participative budgeting. The final approach (non-consultative budgeting) was found to be inappropriate and is likely to lead to "dysfunctional" behaviour. Macintosh (1995) provided evidence to show that a considerable dissatisfaction can exist among lower level managers with the setting of non-consultative budgets. This approach therefore has negative effect upon motivation.

While the argument may be developed for participative budgeting, researchers have not been able to determine with certainty the consequences participation is likely to have on budgettees and the organisation as a whole pointing to the argument that the effects of participative budgeting will differ from organisation to organisation (Frucot and Shearon 1991; Shield and Shield, 1998). Participative budgeting is thus likely to be influenced by the culture of the organisation (Hammond and Preston 1992), the organisational structure (Hopper 1980, Drury, 2008), the management supervisory style (Briers and Hirst 1990),

as well as personality variables (Brownell 1981; Douglas and James, 2001). The diverse factors influencing participative budgeting have thus made it difficult if not impossible for researchers to determine the effects participation is likely to have on the acceptance of budgets and the impacts these budgets are likely to have on subordinates.

Penno (1990) suggested that the viability of participative budgeting will depend on the relationship between accounting information and performance outcomes of the budgetee. Unless the budget is going to be used to measure the performance of subordinates, there is no economic value in subordinates participating in its setting. This argument thus questions the conventional wisdom which argues for the involvement of subordinates in budget settings. Kren (1992) identified Job Related Information (JRI) as an intervening factor between participative budgeting and performance outcomes of budgetees and Kim (1992) related risk preferences of budgetees to budgetary participation, the behavioural roles of budgets and budget outcomes. The attitude of budgetees towards budgets will thus depend on whether budgetees are risk-neutral or risk-averse. Tiller (1983) also related the effects of participative budgeting to a dissonance model. He found out that under conditions of low pay and a high budget, participation leads to increase commitment and performance. Lau (2003) investigates the intervening effects of budgetary participation and job-relevant information on the relationship between budget emphasis and job satisfaction. The author proposes that budgetary participation and job-relevant information are endogenous to budget emphasis (see also Lau and Buckland, 2000 & 2001 and Lau et al., 1995 for similar arguments).

Several writers (Brownell and McIness 1986, Chow et al 1988, Dunk 1989; Shield and Shield, 1998; Drury, 2008; Horngren et al., 2004) have argued that managers are likely to negotiate slack budgets if they have been involved in budget settings. This is possible especially if rewards are based on the attainment of budgets. The above arguments are consistent with the findings of Collin et al (1987) who identified that subordinates are likely to play games during the budgeting process resulting in budgetary slack (Drury, 2008; Seal et al., 2008).



Budgetary slack may be defined as a tendency where subordinates intentionally understate anticipated revenue or overstate anticipated cost (Morse and Roth 1986; Horngren et al., 2004). Slack has also been defined as "expected performance minus the participatively set budget" (Chow et al 1988, p.111). Budgetary slack thus refers to the setting of easily attainable budget levels by subordinates. Other studies (Onsi 1973; Merchant 1985; Shield and Shield, 1998) have found a negative relationship between participative budgeting and the tendency to create budgetary slack. These studies have argued that slack will reduce with an increase in the level of participation of subordinates in budget settings. This view is thus contrary to those expressed earlier that subordinates are likely to negotiate slack budgets during participation in budget settings.

From the literature it could be inferred that participation in budget settings has several benefits even though it has some adverse effects. However the extent of these benefits and adverse effects will vary from organisation to organisation. Participative budgeting may work in certain cases but not in other cases. There has thus been no consensus on the level of involvement of subordinates in budget settings as well as the effects participation is likely to have on the acceptance and outcomes of budgets. Another area where conflicts exist in the literature is the effect of participation on performance (Lyne 1988; Dury, 2008). The extent to which subordinates should be allowed to participate in budget settings and the impact of participation on performance has thus been areas where opinions differ.

While the extent of participation in budget settings is likely to influence the acceptance and uses of budgets, much research has not focused on this relationship in the context of LDCs. This has thus imposed a limitation on the explanation of the extent to which budgets are used in organisations in LDCs and will therefore be the subject of the current research.

### **3.3.2 Performance Measurement Systems**

One purpose of MCS identified in the literature is for evaluating performance. Opinions however differ in the use of MCS particularly budgets in performance evaluation. In this section, the role of MCS in performance measurement will be examined.



### **3.3.2.1 Definition and Dimensions of Performance Measurement Systems**

Performance or outcome measurement can be construed as a process of appraising managerial decisions. Consequently, writers such as Anthony, et al, (1992) viewed performance measurement as a way of monitoring the activities of an organisation. It is thus an attempt to establish how far an organisation or a manager has achieved what is expected of him\her (see also Mahama, 2006). Two main types of performance measurement have been identified in the literature (Fanning 1983). These are managerial performance evaluation and divisional performance evaluation. The former relates to measuring the outcomes of individual managers within an organisation, whilst the latter relates to the measurement of an entire division of an organisation.

The importance of performance evaluation has been emphasised by several writers. Scapens (1992), for instance emphasised the need for the principal to appraise the performance of his/her agent. Since organisational resources have been supplied by one person (principal), and managed by another (agent), performance evaluation serves as a means for the principal to monitor the activities of the agent (see also Mahama, 2006). The system of performance measurement and the system of accountability are thus inseparable in any society. Performance measurement leads to the achievement of total organisational goals by controlling the organisation's activities through the development of management incentives and rewards (Carnell 1993; Mahama, 2006). Performance outcome thus determines the level of rewards and incentives to employees. Hamilton et al (2003), for instance identified that rewards such as bonuses may be associated with good performance while poor performance may result in pay cut.

Consequently, a good performance occurs where a subordinate's output exceeds a superior's expectations in a positive way. On the other hand, a poor performance of a subordinate may result where he/she is not able to meet a superior's expectations. Several empirical studies have been done on the relationship between performance evaluation and rewards. Most of these studies revealed a positive correlation between performance and rewards (Coughlin and Schmidt, 1985; Seal., 2008), while few found insignificant or no correlation (Benston, 1985).

Anthony et al (1992) argued that, in the process of measuring performance, managers can also alter certain vital decisions in the process. This is because management decisions are mostly based on estimates and budgets and appraisal of managerial performance can lead to corrective measures being taken at the appropriate time. Performance measurement can also be done in order to identify the training and development needs of managers. The importance of training has been emphasised by several writers including Cacioppe et al (1990).

Performance evaluation is therefore needed in organisations since on most occasion, management delegates authority and responsibilities down the line and performance measurement is a way of ensuring that these authorities and responsibilities are properly carried out. The need for performance evaluation is thus increasingly felt because of the complicated nature of functions organisations perform. To Judge and Ferris (1993), performance measurement is the most important human resource system in an organisation since most critical organisational decisions are based on performance outcomes. Some of these critical decisions could be investment and profit planning.

To ascertain whether a manager is doing what is expected of him/her requires the measurement of that manager's performance. To measure performance, certain indicators must be developed and used as a basis (Chamberline 1962; Mahama, 2006; Drury, 2008; Seal et al., 2008). Performance could thus be effectively measured by a set of criteria for evaluating performance. Since the activities of every organisation are directed towards given objectives, performance measurement procedures must be related to the attainment of these objectives. Consequently, for a business to measure its performance its objectives should be clearly defined and analytical tools developed in order to assess how the business is able to achieve its objectives. Performance could thus be effectively measured when a particular outcome is compared with a standard.

Despite the above suggestions, how performance is actually measured in practice is still a 'black-box' for many organisations (Cross and Lynch, 1992; Frigo et al., 2000; Mahama, 2006), particularly as performance measures used in one company may not be appropriate



for another company facing a different situation or different set of circumstances (Otley, 1980). From the normative point of view, there are arguments for accurate measurement of performance, and contemporary management accounting scholars are promoting a number of management accounting methods and techniques to measure performance. However, in practice, management accounting performance measures are dominated by traditional management accounting techniques (Bromwich and Bhimani, 1989; Mahama, 2006). This tendency can also be found in other service organisations, because the reality of contemporary economic conditions also has its effects elsewhere.

Otley (1999) identified several standards that could be used in the evaluation process. Notably among them are; comparison with budget, looking at the trend, and financial indicators. Meyer (1980) argued the need for regular appraisal of the performance of an employee. To him, the evaluation should be based on performance related to the goals and objectives known to the employee. In managerial performance evaluation, it has been suggested that financial indicators are most often used (Drury, 2008). Morsicato (1981) has also identified that, financial measures are the main indicators used for internal performance evaluation. Among these financial indicators are; profits, return on investments, residual income, budgeted profits compared with actual profits, budgeted sales compared with actual sales, budgeted costs compared with actual costs, return on equity, cash flow potential and ratios.

While traditionally performance management systems were focused on financial indicators as mentioned above (see for instance Emmanuel et al., 1990; Evans & Bellamy, 1995; Ittner & Larcker, 1998; McKinney, 1995; Otley, 1999) it has been argued that there is the need to broaden performance measures to include multiple non-financial measures (see for instance Hussain, 2003; Evans & Bellamy, 1995; Ittner & Larcker, 1998; Kaplan & Norton, 1992, 1996; Hussain and Hoque, 2002; Mahama, 2006; Drury, 2008; Seal, et al., 2008). The argument is that financial measures alone are insufficient indications of assessing the performance of a manager especially in today's dynamic business environment (Kaplan and Norton 1992 & 1996). In other words, financial or accounting measures are likely to distort the performance of a manager since financial



activities are mostly characterised by price distortions. Profitability is thus an inadequate criterion for measuring managerial performance (Fanning 1983).

The above arguments are consistent with those of Anthony and Dearden (1976), who argued that managers should be evaluated on the basis of market and product performance and development, employee performance and development, and social or public responsibility (see also, Mahama, 2006). Consequently Fanning (1983, p.234) argued that, the qualitative measures could be "formalised and incorporated in a structured system of management by objectives, or they can be informal and unstructured". Among the non financial indicators identified by the author are; market position, productivity, product leadership, personnel development, employee attitudes, public responsibility and balances between short range and long range goals.

The use of non financial measures of performance have further been stressed by Garrison (Seal et al., 2008), who argued that, while traditional accounting techniques of standard costing and variance analysis were widely used in performance measurement in the past, it has now been identified that automation has rendered these techniques inappropriate and inadequate. As a result, new techniques which are mostly of a non financial nature are frequently being employed in performance measurement. Among these new techniques are; quality control, material control, inventory control, machine performance and delivery performance.

Euske, et al., (1993) adopted a three phase field research methodology to study the performance measurement systems used by top performing organisations in the U.S. and Europe to identify what extent the customer perspective and the tenets of the continuous improvement philosophy were present in these organisations. The findings of the study of Euske et al., supported the partial diffusion of customer-based measures, such as quality and responsiveness, as well as the separation of the operational and financial control systems in the organisational sites studied. It appears that the site managers operate as a 'hinge' within the existing performance measurement system, buffering the operational core of the organisation from the financial goals established at the corporate level. The

authors argued that, while in global level the entire organisation might be pursuing objectives such as 'improved quality', at the individual level these concepts were uniquely defined. Individuals appeared to be given the latitude to determine how best to measure and pursue these goals. Finally, the use of, or reliance upon, formal measurement systems appeared to vary depending on the type of environmental conditions faced by the organisation. The authors claim that when faced with a crisis, organisations abandoned both their formal and informal control mechanisms to exert specific, high intensity forms of control over the 'errant' individual or group. The combined results suggest that performance measurement systems do reflect the strategic objectives of a firm under stable operating conditions.

It has been suggested that performance measures should be tied to the organisation's budget and strategy if they are to be effective (Kaplan & Norton, 1992, 1996; McKinney, 1995; Otley, 1990; Mahama, 2006; Drury, 2008; Seal, et al., 2008). For instance, Otley (1999, pp. 365-366) suggests that there are six questions that must be addressed when developing an organisational performance management system. These are:

1. What are the key objectives that are central to the organisation's overall future success, and how does it go about evaluating its achievement for each of these objectives?
2. What strategies and plans has the organisation adopted and what are the processes and activities that it has decided will be required for it to successfully implement these?
3. How does it assess and measure the performance of these activities?
4. What level of performance does the organisation need to achieve in each of the areas defined in the above two questions and how does it go about setting the appropriate performance targets for them?
5. What rewards will managers (and other employees) gain by achieving these performance targets?



6. What are the information flows that are necessary to enable the organisation to learn from its experience, and to adapt its current behaviour in the light of that experience?

D'Souza and Williams (2000), argue that within a contemporary work environment, a good performance measurement system should be (i) supportive and consistent with an organisation's goals, actions, people/culture, and key success factors; (ii) driven by the customer; (iii) appropriate to the internal and external environment; (iv) developed by a combined top-down and bottom-up effort; (v) communicated and integrated throughout the organisation; (vi) focused more on managing resources and inputs, not just simply costs; (viii) committed to providing action-oriented feedback; and (ix) supportive of individual and organisational learning.

Ittner; Larcker and Randall (2003) examine the relationship between measurement system satisfaction, economic performance, and two general approaches to performance measurement: greater measurement diversity and improved alignment with firm strategy and value drivers. The authors find consistent evidence that, firms making more extensive use of a broad set of financial and (particularly) non-financial measures than firms with similar strategies or value drivers have higher measurement system satisfaction and stock market returns. However, the authors find little support for the alignment hypothesis that more or less extensive measurement than predicted by the firm's strategy or value drivers adversely affect performance. Instead, the results indicate that greater measurement emphasis and diversity than predicted by the benchmark model is associated with higher satisfaction and stock market performance.

Some studies have criticised the application of performance measurement systems. Coaldrake and Stedman (1998) contend that the interest in performance has not been readily accepted in some organisations. They claim the outcomes are difficult to measure (see for example, Johnes, 1996; Power, 1997) and thus question the appropriateness of using performance measurement. There has also been considerable debate about how, if measured, the results of performance are to be used, and the validity of those results,



especially as measures of quality (Power, 1997). Moses (1989) argued that regular performance measurement of staff is impossible due to the nature of their working environment. Sizer, et al (1992), also supports this view stating: “the role of performance indicators depends on the political culture, the funding systems and the quality assessment procedures that determine the optimal allocation of resources in a particular country” (p. 133).

There are some who argue that for performance measurement to be relevant there is the need to move beyond ‘measurement’ to ‘performance management’. For example Otley (1999) recommends that one needs to “look beyond the measurement of performance to the management of performance” (p. 364). Emmanuel et al. (1990) claim that performance management is an essential component of an organisation’s MCS. Several other authors (see for instance, Emmanuel et al., 1990; Evans & Bellamy, 1995; Mahama, 2006; Drury, 2008; Seal, et al., 2008) have discussed the link between performance management and organisational efficiency. According to Bourne et al., (2003) performance measurement is the process of assessing progress toward achieving predetermined goals, while performance management is building on that process adding the relevant communication and action on the progress achieved against these predetermined goals. Bourne et al., (2000) concluded that that for performance measurement systems to be relevant specific processes are required to continuously align the performance measurement system with strategy. They further observed that by achieving this strategic fit, the measurement system can enhance the strategic management process by challenging the assumptions and the strategy itself (see also Kaplan and Norton, 1992 & 1996).

Other studies have suggested that performance measurement and management could be enhanced through the use of a system of performance budgeting. According to Robinson and Brumby (2005, p.1) “performance budgeting refers to procedures or mechanisms intended to strengthen links between the funds provided to public sector entities and their outcomes and/or outputs through the use of formal performance information in resource allocation decision making”.

### **3.3.2.2. Behavioural Impacts of Performance Evaluation**

Performance evaluation despite its importance may shape the behaviour of certain managers in a negative direction. Several writers (see for instance, Keegan et al., 1989; Mahama, 2006; Drury, 2008; Seal, et al., 2008) have discussed the behavioural consequences of inappropriate performance measurement systems. For example, dysfunctional behaviour may occur as a result of performance measurement systems being perceived by employees as inappropriate. In this respect, individual managers may concentrate on activities that will enhance the performance of their divisions rather than the total organisational performance.

Kaplan and Atkinson (1989), and Scapens (1992), argued the possibility of information asymmetry in agency theory. An agent is likely to suppress the flow of information to the principal. This lack of information flow may distort the evaluation of the agent's performance. In managerial performance evaluation therefore, subordinates are likely to distort certain information especially if they know the evaluation will be based on this information. Furthermore, managers whose rewards are based on the outcome of their performance would on most occasions devise their own approach towards the attainment of high performance.

The above argument has been supported by writers such as Bloom et al., (1998), who argued that, performance measurement will be detrimental to an organisation especially where rewards are attached to performance. According to the authors, managers will not be prepared to take any additional risk if rewards are based on the attainment of a target. In this respect, managers would be compelled to operate within a certain structured limit even if operating outside the limit will benefit the organisation.

Kaplan and Atkinson (1989) and Kaplan and Norton (1992) argued that performance evaluation policies of an organisation can constrain certain managers from operating outside the strategic plans of the organisation, even if that is likely to contribute positively to the attainment of the organisational goals. This is to say that, good managers are sometimes constrained to operate within the strategic plans of the organisation. This normally happens if performance evaluation policies are structured or formal and are linked with rewards. As a



result, a manager will select performance evaluation criteria according to personal ambitions. This could however be detrimental to the entire organisation. For instance, a manager may choose a particular measure rather than any other indicator if this is likely to portray a good picture of his/her performance.

It has also been identified that "When things go wrong in an organisation, people try to avoid blame and similarly when things go well, people lobby for credit" (Grant and Bateman, 1993, p.7). As a result, managers turn to play political games when it comes to evaluating performance. Several empirical studies have been conducted on the assignment of credit and blame for good and poor performance respectively (Hamilton et al 1988; Gioia and Sims, 1986). Managers are assigned credit with high performance and at the same time are apportioned blame with poor performance.

Grant and Bateman (1993) extended the performance evaluation argument by incorporating the concept of self-handicapping into the assignment of credit and blame by managers. According to them, managers will attempt to manipulate their organisational system by publicly emphasising certain factors that are likely to limit their performance. In this respect, the authors were of the view, that, a manager will be accorded more credit for achieving success under all those conditions. Similarly where he/she fails, the blame will be attributed to external factors which place limitations on the manager's performance.

One aspect of performance evaluation is that, managers attempt to employ the techniques of impression management when it comes to measuring their performance (Allen et al, 1979; Mahama, 2006). As a result, managers present a different image to observers. According to Schlenker et al., (1989) the aim of this behaviour is to obtain rewards or preserve the self image of the manager. In the views of O'Reilly (1978), managers may intentionally distort information which is needed for their evaluation. This argument is consistent with the views of Scapens (1992), who argued that information asymmetry is likely to persist between an agent and the principal.



Anthony et al (1992) argued that, where tight accounting controls have been employed in the measurement of performance several "dysfunctional" behaviours could be exhibited within the organisation. For instance, certain managers may be compelled to act in a way that will enhance their short term returns. This behaviour might be detrimental to the organisation in that, maximising short term returns of a manager or a division might not lead to long term maximisation of the total organisational returns. A manager may for instance produce high quantity goods in the short term to increase his/her division's profit but this may be achieved by lowering the quality of the goods. This action is likely to have an adverse effect on the organisation in the long run. This is possible because customers are likely to associate inferior quality to the goods in future periods.

Furthermore, since managers may be attempting to maximise short term returns, decisions or investments which are likely to produce good results only in the future may be abandoned. An example is, investing in research and development. Managers may not be motivated to invest in research and development for the fact that, its benefits are likely to be reaped in the future. This will normally happen if managers are assessed on short term indicators. Also, this situation is likely where managers are frequently transferred from one department or division to another.

Keegan et al (1989) argued that most organisations based their performance measures on past management strategic plans. There is no problem with this concept, but the danger is that, where strategies have changed, measures will become obsolete and inadequate. Consequently, measurement indicators are likely to distort the performance of managers. Management should endeavour to eliminate or reduce this "dysfunctional" behaviour among managers, if the aggregate goals of the organisation are to be achieved. Ways of combating this "dysfunctional" behaviour among managers have been discussed in the literature. Cohen et al (1997) for example, had argued that the measurement of the performance of any manager should be based on only factors that are under his/her control.

There are others who believe that, where managers are involved in setting the goals of the organisation rewards and sanctions could better be administered based on the attainment of

that goal (Becker and Green, 1962; Mahama, 2006; Drury, 2008; Seal, et al., 2008). This is to say that, participating in budgeting is a proper tool in administering rewards. In this respect since managers are involved in the setting of the organisational goals, "dysfunctional" behaviour is likely to be minimal. Brownell and McInness (1986) further argued that, the involvement of managers in budgeting enables them to be held liable for poor performance. In other words, managers find it difficult to explain unattained goals, they have set themselves. Hence, management will be in a better position to administer negative sanctions.

Perhaps, one way of eliminating personal influences in performance evaluation is to penalise managers who set low output targets which they can easily achieve (Kaplan and Atkinson 1989; Drury, 2008; Seal et al., 2008). If possible, additional incentives or rewards should be attached to attained budgets (Anthony et al, 1992; Horngren et al., 2004). Moreover, people should be motivated to disclose all necessary information in the budgeting process. When these things are done, managers will be motivated to perform better and to act in the best interest of the whole organisation. Kaplan and Atkinson (1989), were therefore of the view that, with the introduction of a profit sharing incentive contract, managers may be motivated to act towards the attainment of the total organisational goals. In other words, goal congruence is possible with the institution of profit sharing incentive contract. Furthermore, if general goals are set rather than specific goals, managers may be more cooperative. In this respect, managers may be prepared to share information with each other rather than exhibiting selfish attitudes.

Lambert and Lacker (1987) identified that by using multiple performance measurement indicators; "dysfunctional" behaviour is likely to be reduced in an organisation. This view is consistent with an earlier argument made by Judge and Ferris, (1993). The authors had argued that, managers would be motivated to act towards the attainment of the total organisational goal if several measures are used in the evaluation process.



### 3.4 Performance Budgeting

This section reviews the literature on performance budgeting. This review is necessary as the pilot study indicated that performance budgeting is the main element of MCS used in Nigerian banks. In addition, the growing interest in performance budgeting necessitates a review of studies on its conceptualisation, application and effectiveness. Schmidtlein (1999) observed that such growing interest has not been followed by sufficient research on its effectiveness. But, since 1999 some work has been done although researched, it can be argued that the topic is still under-researched. Different terminologies have been used variously to describe performance budgeting such as ‘performance-based budgeting’, and ‘outcome-based budgeting’ (Melkers & Willoughby, 2001).

According to Schmidtlein (1999, p.161), performance budgeting “involves developing indicators of institutional performance and estimating the resources required to maintain or achieve selected levels of performance.” This definition highlights the need to set identifiable indicators and achievable pre-defined levels of outcome for an allocated amount of resource or funds. However the definition lacks any specification about the process of setting performance targets, the mechanism(s) through which targets are achieved and how targets are actually measured.

This gap is bridged by then study of Robinson and Brumby (2005, p.1) sponsored by the International Monetary Fund (IMF). They define performance budgeting as:

*“... (the) procedures or mechanisms intended to strengthen links between the funds provided to public sector entities and their outcomes and/or outputs through the use of formal performance information in resource allocation decision making.”*

The main features of this definition are the identification of the procedures/mechanisms of developing performance budgets and how such performance budgets are enforced. The definition also highlights the utilisation of public resources and the measurement of the resultant outcomes of this process. The emphasis therefore has shifted from the amount of money/resources spent by public entities or “how much are agencies spending” (Mulder,



2002, p.14) to the actual outputs/outcome provided for that money (UNDP, 2008)<sup>16</sup>. Under performance budgeting, the provision of funds is made based on programmes and activity types, and therefore links the expected outcome to the specific goals/tasks of public fund recipient “in a way that provides a better return on taxpayer money” (Gilmour and Lewis, 2005, p.170).

The role of performance information in the performance budgeting process is crucial and is more than just performance ‘measures’ because performance measures need to be used in conjunction with other performance information for effective decision-making (Robinson and Brumby, 2005; McGill, 2001).

According to the Organisation for Economic Cooperation and Development (OECD) (2008, p.2), performance budgeting aims at “... providing information on whether programmes, agencies and public service providers are doing the job required of them effectively and efficiently”. In other words, performance budgeting is a tool for promoting transparency and accountability in public financial management (UNDP, 2008). The United Nation Development Programme (UNDP) (2008) expands on the mechanism through which performance budgeting provides transparency. They argue that performance budgeting offer the citizens and interested groups the opportunity to actively engage in the budgeting process at the planning stage via the consultation with the public in order to identify their priorities and to align service provision to meet their expectations.

Schmidtlein (1999) identified seven assumptions underlying performance budgeting - (1) policy objectives are stable, (2) complex decisions on budget trade-offs can be made on the basis of data, (3) institutions operate as bureaucracies, (4) resources can be linked to outcomes, (5) outcomes are identifiable and can be agreed upon, (6) accountability can be achieved through budget policies, and (7) current practices create incentives for service

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<sup>16</sup><http://www.undp.org/oslocentre/docs08/sofia/Case%20Study%202%20Performance%20Budgeting%20in%20Armenia%20FINAL.pdf> (Accessed 12/09/2009)

delivery. He argues that these assumptions are not realistic, and performance budgeting will as a consequence fail to meet expectations.

Empirically, Melkers and Willoughby (2001) have surveyed 47 States of the US regarding the impetus for introducing performance-budgeting. They found that improving 'programme effectiveness' and 'decision making in government' (McNab & Melese, 2003) were the most important factors. They also found that saving costs was most important to executive budget officers, while reducing duplicative services was most important to legislative officers. These findings show that performance budgeting does not aim at appeasement of the public, and that the executive and legislative officers have different priorities regarding the motive of implementing performance budgeting.

In the OECD countries, the main motives identified for performance budgeting are the growing pressure to reduce public expenditure, a financial crisis or a change in political administration (OECD, 2008). The first motive (reducing public expenditure) can be aligned with the cost savings motive found among the executive budget officers in the US.

Based on comparative analysis of some OECD countries and the US experience of performance budgeting, McGill (2001) argues that the use of annual reports is being promoted as a vehicle for relating budget to performance information. In some OECD countries such as Australia, Sweden and Canada the focus is shifting from performance-oriented budgeting towards annual reports. Some researchers also suggest that performance budgeting is the outcome of an agency's work, that is, "the actual impact on the public being served" (McGill, 2001, p.380), and that the performance budgeting is the process to achieve the outputs to generate the impact. McGill (2001) also argues that the focus on outputs in performance budgets may lead to efficient production of the wrong product or service, and as a consequence, may not yield the expected impact on the public.



In terms of developing countries, McGill (2001) analysed Tanzania's experience of performance budgeting and concluded among other things that if the move from input to output-based budgeting is not appropriated, it will cause performance budgeting to fail, and that such a move in Tanzania was clear and explicit. Because performance budgeting is conceptually redundant without a strategic context for resource allocation process, Tanzania has explicitly defined its strategic context in terms of organisational intentions and quantified objectives. The overall comments on Tanzania's experience are positive. In contrast, McGill (2001) found that the application of performance budgeting in the Indian state of Andhra Pradesh was ineffective.

There are some who linked performance budgeting to public sector financial reporting. For example, Diamond (2002) examined the effectiveness of accrual accounting for the emerging economies who wish to adopt the OECD's performance budgeting reforms. He argues that "it is safer for (less developed) countries to remain with, and improve, their cash-based accounting systems", and that "many of the objectives of performance oriented budgeting can be attained by less than full accrual accounting" (Diamond, 2002, p.1). Among other things, developing countries/emerging economies should at first envisage a well compliance with the relevant laws, and adjust government spending to ensure reasonable fiscal stability before considering the adoption of accrual accounting in the process of introducing performance budgeting reforms.

### **3.5 Management Control Systems in Banks**

The performance budgeting literature reviewed on the preceding pages, suggested that previous studies have mainly focused on public sector organisations. There have been relatively few studies on private sector service industries (for example Fitzgerald et al., 1991; Ballantine et al., 1998; Brignall, 1997; Scrace and McAulay, 1997; Evans et al., 1997). The problem is more acute when it comes to the banking sector. A detailed literature search has revealed very limited empirical research on how MCS operates in the banking sector (Hussain and Gunasekaran, 2000; Hussain, 2000).



In terms of the banking sector Hussain & Gunasekaran, (2000), investigate the role of management accounting in a sample of Japanese banks and found that MCS has played a role in measuring performance in these banks. However the authors found that the role of MCS in measuring non-financial performance has been less significant than its role in measuring financial performance. Financial performance measures (such as profits, sales, revenue generated, rate of return, and so on) are important, and although most of the banks and financial institutions studied acknowledged that non-financial performance measures are also important, it was observed by the authors that in practice, non-financial performances (such as quality, customer satisfaction, social responsibility, and so on) do not receive the same degree of emphasis as financial performance measures. The non-financial performances that are directly related to improving financial performance and long-term competitive advantage (such as customer satisfaction) do receive relatively higher emphasis than other non-financial performances that are not linked to profitability (such as social and environmental responsibility). The authors claim that financial performance measures are regular and essential practice. However, in many banks and financial institutions, non-financial performance measure is less important and is mostly conducted on an irregular basis.

Hussain (2003) examined how MCS is used in Swedish banks and found that the emphasis of the managers is more on measuring financial performances than non-financial performance. The author observed that all the Swedish banks studied acknowledge the high importance of non-financial performance, but most of the banks do not measure non-financial performance regularly. However, the author claims that the MCS that are used to measure non financial performance are traditional ones. The uses of the latest management accounting techniques such as the Balanced Scorecard are not found to be suitable in Swedish banks. According to the author all of the Swedish banks' management wanted to use different methods/systems of performance measurements than those that they are using, which indicates their level of discontentment with the current non-financial performance measurement systems. In fact, the success and the practices of non-financial performance measures vary from bank to bank. For example, the overall role of MCS in non-financial performance measurement is very negligible and the role of

MCS in financial performance measurement is also not significant, though there is some use of Activity-Based Cost Management and benchmarking to compare financial performance of different sections and branches with one another. However, the use and importance of measuring financial performance is highly realised, but in practice the use of management accounting systems to measure overall performance is not significant. It is realised that, management accounting systems have not been used to play any significant role on measuring non-financial performance even though some of the non-financial aspects are importantly considered by management as important tools for survival in the competitive era.

The evidence presented above suggests that despite developments in non-financial performance measures the few banks studied have tended to place heavy reliance on financial performance measures. Non-financial performance measures are therefore secondary to traditional financial performance measures.

### **3.6 Management Control Systems in Less Developed Countries (LDCS)**

Very few MCS studies have focused on LDCs especially Sub-Saharan Africa. In the 1970s, Enthoven (1973) conducted a study on a number of African countries and concluded that management accounting information is minimally understood and rarely used for decisions as such as pricing policy; performance measurement; budgeting; and internal organisation. He concluded that budgets are not used as a planning and control instrument. In the late 1980s and early 1990s Ouibrahim and Scapens (1989) and Jones and Sefiane (1992) reported from the study they conducted in Algeria that minimal reliance is placed on accounting information in internal decision making. The authors identified that there is no attempt to attribute responsibility for financial information to the various segments of the enterprises they studied. Also, accounting information did not provide information which could be used for pricing and other managerial decisions.

Hoque and Hopper (1994 and 1997) also concluded in their study in Bangladesh an LDC context that budgeting was not a dominant mode of control in the organisations since the budgeting system was created to comply with head office and state requirements. The



authors found that the managers used a variety of informal/social control mechanism to cope with the complexity and uncertainty in the organisations. Elb-Ebaishi et al (2003) found in their study in Saudi-Arabia that while some use was made of traditional management accounting techniques limited use was made of new management accounting techniques.

One of the studies that examined MCS from an LDC, particularly a Sub-Saharan African context is Tsamenyi, et al., (2002). The authors report on a field study undertaken to investigate the budgeting process in four large-scale organisations in Ghana. The perceived usefulness of the budget within these organisations was explored using data collected from questionnaires and interviews with forty-eight managers in four organisations. The authors claim that the examination of the budgeting process suggests that the managers have minimal participation in budget decisions. Furthermore, the budget was minimally perceived as a planning and control device. They conclude that managers perceived the budget's resource allocation role as its most useful purpose.

Hopper et al (2003) examined MCS in three post-colonial British economies Bangladesh, Ghana and Sri-Lanka. Focusing on large commercial oriented enterprises in these countries the authors concluded that some of the techniques used in these enterprises are similar to those in developed countries but the extent to which they are used in practice is different. Very often these MCS tend to be ignored in practice as they become secondary to political and social relations.

In another study focusing on Sub-Saharan Africa, Tsamenyi, et al., (2004) explored the perceptions which Ghanaian managers have of the purposes which budgets serve in organisations. The authors draw upon previous research concerning the link between budgets and decision-making in the developing world. A review of these previous studies suggests that budgets are minimally used and inadequately understood. The data employed in this study is of a qualitative nature drawn from four large-scale organisations by way of discussions, semi-structured interviews plus documentary evidence. The paradox of the findings is that whilst most managers perceived the major



roles of budgets to be planning and control, in fact, budgets are largely ignored. According to the authors, among the reasons stated for this include the high inflation in the country, lack of money in the organisations, managers' lack of adequate accounting knowledge, and untimely and inappropriate presentation of budget variance reports. They conclude with some consideration of the ways in which the budget can be a more effective management tool.

Uddin and Tsamenyi, (2005), examine the changes to budgetary control and performance monitoring in the context of a series of World Bank sponsored reforms in Ghana. The paper uses a longitudinal study of a large-scale Ghanaian organisation state (the Ghana Food Distribution Corporation (GFDC)) in which the World Bank-sponsored reforms were imposed. The paper shows that budgetary practices at the GFDC did not change substantially, with the exception of the reporting practices. The authors further reported that, budgeting remained politicised, delayed, directionless and ineffective. Reporting to the monitoring agency did not make any positive changes to accountability and performance and was thereby unable to serve public interests. This paper has raised a number of important but neglected issues concerning the public sector reforms in less developed countries (LDCs) for aid agencies and policy makers. This paper demonstrates the usefulness of contextual study of management controls, including budgeting and performance measurement in LDCs. Also, the paper makes an important contribution highlighting the public interest role of management controls especially in the context of developing countries.

Waweru et al., (2004) conducted a field study of management accounting change in the South African retail sector and found that significant changes have occurred in the MCS of the organisations they studied with new MCS techniques such as activity-based costing and balanced scorecard being introduced by these firms. The authors concluded that the changes in the MCS were driven mainly by the environmental changes in the South African economy arising from government reform/deregulation policy and global competition.

Various factors have been identified as influencing the ways MCS operate in LDCs. Hoque and Hopper (1994) and Alam (1997) identified that the wider social, economic, political and institutional contexts govern the ways management control operates in these environments. Enthoven (1977) suggested that MCS in developing countries are rooted in complex cultural-historical, financial-economic, professional, legal, and, educational and training variables. Perera (1989) and Wallace (1990) identified the colonial influence is one of the major factors that shape accounting development in LDCs. Other studies such as Hoque and Hopper, (1994) and Tsamenyi and Mills (2003) argued that the environments in most LDCs are turbulent and organisations in these countries face uncertain environments with respect to markets, resource constraints, operations, politics, industrial relations, state interference and the demands of aid agencies and these factors rendered formal control systems ineffective in the eyes of the managers. This argument has also been reiterated in a recent study by Hopper et al., (2009) who identified the need for management accounting researchers in LDCs to focus attention on exploring how MCS interact with both internal and external pressures.

### **3.7 Chapter Summary and Potential Research Issues**

The literature review revealed several pressing issues. First, when studied, the MCS tended to be studied in isolation. This study will address this gap by studying the MCS as an interrelated system. Second, many of the studies reviewed adopted a quantitative approach, which did not allow for an in-depth understanding of how and why the systems came to be designed and functioned. In particular, many studies were conducted so that findings could be generalised for the sector. This suggests there is significant scope for qualitative approaches such as the case study approach, which should allow for a more holistic analysis. This study will address this limitation by conducting in-depth case studies on four organisations. Third, most of the studies reviewed were set in the UK, the USA, and Australian context. Whilst, the trend for MCS is reported to be international, the pressures are arguably specific to the needs, and culture of the country. The literature review indicates therefore that there is opportunity for studying the design and operation of the MCS. The review has indicated that in recent years a number of studies have started focusing on LDCs. However more empirical studies are needed from these

environments to have a fuller understanding of how MCS operates in organisations in LDCs. In addition, the review of the literature on performance budgets suggests that this is a public sector concept. There is no evidence of its application in the private sector. This thesis will address the limitations in the literature as identified by providing empirical evidence on the uses of MCS in the budgeting sector in Nigeria.

Overall, this thesis provides an attempt to address the gap in the literature by providing rich and detailed descriptions of the MCS (including performance budgeting) processes used in the banking industry in Nigeria. Furthermore, unlike the studies reported in this section, this study will investigate how and why these systems were designed and operate as part of an interrelated control mix, and not as an isolated system.

In conclusion, the current study will investigate the design and operation of the MCS in banks. The next chapter provides a description of the theoretical framework used in this study to guide data collection and make sense of the research findings. The framework chosen for the study is NIS in order to provide detail explanation of MCS practices. This theory was chosen based on its ability to provide a partial explanation for what was going on in the organisations.



## **CHAPTER FOUR**

### **Theoretical framework**

#### **4.0 Introduction**

Chapter three provided an overview of the literature relevant to the study of the management control system (MCS). The purpose of this chapter is to present the theoretical framework that the study draws on in order to understand how MCS operated in the studied banks. A theoretical framework is “a structure that guides research by relying on a formal theory...constructed by using an established, coherent explanation of certain phenomena and relationships” (Eisenhardt, 1991, p. 205).

The thesis draws on New Institutional Sociology (NIS), (Powell and DiMaggio, 1991) as the theoretical framework to explain the nature and dynamics of the MCS in the studied banks. NIS has been adopted in other studies to explain various accounting issues such as how the adoption of accounting systems is shaped by diverse isomorphic pressures (Brignall and Modell, 2000; Carpenter and Feroz, 2001; Hussain and Hoque, 2002), the interplay between institutional and technical environments (Hoque and Hopper, 1997; Hussain and Hoque, 2002; Modell, 2002, Tsamenyi et al. 2006), and the role of power and agency in the design and use of organisational accounting systems (Collier, 2001; Modell, 2002, Tsamenyi et al. 2006; Lounsbury, 2008).

It should be recognised at the outset that the researcher makes no claim as to NIS being the only theoretical approach. However, it does provide a potentially useful framework for understanding the design and operation of MCS in the studied organisations. NIS is particularly useful because it focuses on how organisations design structures and processes or how these structures and processes evolve in organisations to cope with pressures from their environment. This study draws on NIS to understand how MCS evolve or are designed by the studied banks to cope with pressures from their institutional environments.

This chapter is structured as follows. The first section provides the introduction. The concept of institutionalisation is then explored in the next section. Following this NIS is introduced as the main theoretical framework informing the study. Institutional isomorphism is then discussed followed by the contribution of NIS to management accounting research. A justification is subsequently provided in the next section for the adoption of NIS in this study followed by sections on intra-organisational power relations and market forces/competitive isomorphism respectively. The research framework is then provided followed by a chapter summary.

#### **4.1 Institutional Theory**

Institutional theory is concerned about how structures and practices become established in particular social settings (Scott, 1995 & 2001). Though institutional theorists are generally concerned about the process of institutionalisation, the explanations of how this process is achieved varies depending on the type of institutional theory being drawn upon (Lounsbury & Crumley, 2007; Lounsbury, 2008). The literature has identified three branches of institutional theory, namely: Old institutional economics (OIE); New institutional economics (NIE); and New institutional sociology (NIS) (Hussain and Hoque, 2002).

According to Hussain and Hoque, (2002), drawing from OIE, researchers have captured issues of coalitions and competing values in organisational practices such as management accounting, along with power and informal accountability structures (Scapens, 1994; Burns and Scapens, 2000; Burns, 2000). This contrasts with NIE (Williamson, 1975), where the main focus is on making optimal choices by organisational actors with a view to maximising the economic outcomes of their activities (Spicer and Ballew, 1983; Spicer, 1988). Hussain and Hoque, (2002), further argued that, the NIE perspective has heavily influenced conventional management accounting practices. NIE is not adopted in this study because it downplays the role of organisational power relations in shaping management control systems. NIE will therefore only provide a limited explanation of how MCS operates in the banks.



On the other hand for example, OIE conceptualises institutions as ‘the shared and taken for granted assumptions which identify categories of human actors and their activities and relationships’ (Burns and Scapens, 2000 p.8). From an OIE perspective therefore institutionalisation encompasses both systems and structures that continually evolve through changes in rules and routines. These routines become rules over time and through the process of implementation. OIE views the process of institutionalisation and the institution as the key locus of the process. OIE is based on the premise that organisations become institutionalised when they are infused with values as ends in themselves.

OIE draws on ideas of researchers such as Selznick (1957). Selznick argues that:

*Organisations are technical instruments, designed as means to define goals. They are judged on engineering premises; they are expendable. Institutions, whether conceived as groups or practices, may be partly engineered, but they also have a “natural” dimension. They are products of interaction and adaptation; they become the receptacles of group idealism; they are less readily expendable (1957:10)*

As mentioned earlier, drawing on OIE, researchers have managed to capture issues of coalitions and competing values in organisational practices such as management accounting, along with power and informal accounting structures (Scapens, 1994; Burns and Scapens, 2000; Burns, 2000; Hussain and Hoque; 2002). Though OIE provides an interesting explanation of the process of institutionalisation, it is not adopted in this study for two reasons. First, the evidence gathered during the study suggests that external pressures were the dominant factors that shaped the process of change in the studied banks. This lends itself to a more macro level explanation which is not strong in OIE analysis. Second, recent developments in NIS have recognised the role of agency and organisational power relations (Collier, 2001; Tsamenyi, et al., 2006; Lounsbury, 2008) which are the predominant focus of OIE analysis. The adoption of this type of NIS analysis will therefore offer a broader understanding of how the process of institutionalisation is shaped by agency and intra-organisational power relations.



The next section introduces NIS as the theoretical framework of the study which is based on the assumption that the process of institutionalisation is shaped by both external social and economic factors as well as internal power dynamics. A similar approach has been adopted by some previous management accounting studies such as Collier (2001), Granlund (2001), Modell (2001), Hussain and Hoque (2002), and Tsamenyi et al. (2006).

#### **4.2 New Institutional Sociology (NIS)**

Until the late 1990s management accounting research has largely been based on economic and organisational theories such as agency and contingency theories. These studies have therefore generally ignored how institutional and organisational pressures constrain accounting choice. The present study argues that NIS offers a better explanation for the role of MCS in the organisations under study than adopting a predominantly economic theory. The central argument in NIS is that organisations survive based on the need to conform to both internal and external rules and norms. NIS discusses the pressures exerted by external regulatory and social actions on organisations (Scott 1987 & 2001). Organisations are under constant pressure to strive to meet the requirements of the external environment standards set in an effort to ensure stability, access to resources and importantly, legitimacy. It has been argued that only organisations that react to such pressures are likely to survive (DiMaggio and Powell, 1983; McKay, 2001).

DiMaggio and Powell (1991:12) note that “the new institutionalism in organisation theory and sociology comprises a rejection of rational-actor models, an interest in institutions as independent variables, a turn toward cognitive and cultural explanations, and an interest in properties of supra-individual units of analysis that cannot be reduced to aggregations or direct consequences of individuals’ attributes or motives”. This conceptualisation of NIS has been reiterated by Carpenter and Feroz (2001:569) as:

*Institutional theory assumes that organisations adopt structures and management practices that are considered legitimate by other organisations in their fields, regardless of their actual usefulness. Legitimated structures or practices can be transmitted to organisations in a field through tradition (organisation imprinting at founding), through imitation, by coercion, and through normative pressures.*

According to NIS, in order to increase their legitimacy and survival prospects, organisations adopt prevailing rationalised practices and procedures and conformity to societal norms and expectations (Scott, et al, 1995; Gupta et al., 1994; Meyer and Rowan, 1977; Meyer and Scott, 1983). Within this perspective, these practices and procedures are seen to be products of institutionalisation and are developed through organisational processes. NIS would argue that the rationale for adopting these practices is to achieve formal co-ordination of organisational activities. This coordination is important in order to gain competitive advantage and enhance efficiency (Meyer and Rowan, 1977; Selznick, 1996).

NIS is concerned with examining the pressures exerted on the organisation from its social and economic environment (DiMaggio and Powell 1983; Carruthers 1995; Brignall and Modell 2000; Hussain and Hoque 2002). According to NIS, the elements of formal organisation structure, policies and procedures mostly emanate from the wider social expectation and 'myths' about what constitutes acceptable social and economic practice (Meyer and Rowan 1977; DiMaggio and Powell 1983).

Carruthers (1995) observed that the institutionalisation process is a 'cultural and political one that concerns legitimacy and power much more than efficiency alone' (p. 315). If societal expectations regarding the legitimacy of organisations are not met this might lead to the withdrawal of support (Covaeski and Dirsmith, 1988; Deegan, 2002). According to Carpenter and Feroz (2001) successful organisations are those that gain support and legitimacy by conforming to social pressures and resorting to legitimacy rituals to demonstrate social and economic fitness. This is necessary in order to obtain resources and increase their survival capabilities. From the foregoing it can be argued that the central thesis in NIS is that economic efficiency alone does not provide the explanation for the survival of organisations. Instead survival also depends on the need to maintain institutional legitimacy in the eyes of society. Thus organisations design systems and structures to maintain external legitimacy rather than for the sole purpose of achieving economic efficiency (Powell and DiMaggio, 1983). In other words, both efficiency and legitimacy are important for the survival of organisations.



According to DiMaggio and Powell (1983, 1991), organisations strive to gain institutional legitimacy, political power, and social and economic fitness as well as traditional requirements such as resources. Bell (1973) argues that once an organisation is institutionalised then rationality becomes a powerful myth. These organisational rational myths are entwined within the organisation, they behave as practices, symbols, beliefs and organisational requirements that are believed to be legitimate, or are used to gain legitimacy. Such examples, according to Meyer and Rowan (1977), include programs, professions, policies, positions and technologies. DiMaggio and Powell (1983, 1991) argue that once fields of organisations emerge then actors within these organisations tend to make their organisation increasingly similar to others in its field.

#### **4.3 Institutional Isomorphism**

DiMaggio and Powell (1983) referred to this process of organisations adopting similar structures, systems and operating procedures described above as 'isomorphism'. DiMaggio and Powell (1983 p.149) define isomorphism as "a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions." Isomorphism in terms of institution therefore identifies the process by which organisations tend to adopt the same practices and structures over time in response to common institutional pressures which may exist at the individual, organisational or organisation field level.

DiMaggio and Powell (1983) identify three main isomorphic pressures - coercive, mimetic and normative pressures that operate in the institutional environment. These pressures explain why organisations adopt similar structures and practices. They argue that these three forms of institutional pressures are not always empirically distinct.

According to DiMaggio and Powell (1983), *coercive isomorphism* 'stems from political influence and the problem of legitimacy' (1983 p. 150). Coercive isomorphism results from formal and informal pressures exerted by other organisations on which the organisation is dependent or by societal expectations (for example, through government regulation, new accounting standards, invitations and persuasion). Coercive isomorphism



is driven by two forces: pressures from other organisations on which a focal organisation is dependent and an organisation's pressure to conform to the cultural expectations of the larger society. In a study of the adoption of quality initiatives, Delmas and Toffel (2004, p.213) explained the role of the government as coercive isomorphism as: "First, governments can act as a coercive force by sending a clear signal of their endorsement of ISO 14001 by, for example, enhancing the reputation of adopters". According to Mizruchi and Fein (1999:657):

*Coercive isomorphism, at least in the first instance (pressure from other organisations on which a focal organisation is dependent), is thus analogous to formulations of the resource dependence model, in which organisations are viewed as constrained by those on whom they depend for resources.*

DiMaggio and Powell (1983) provided specific examples of coercive isomorphism. For example, manufacturers may adopt new pollution control technologies to conform to environmental regulations. Also, non-profit organisations may maintain accounts and hire accountants in order to meet tax law requirements. Furthermore, organisations may employ affirmative action officers to fend off allegations of discrimination. Greening and Gray (1994) argue that pressure from public interest groups clearly appears to act as a coercive institutional force impelling firms to initiate or elaborate structural responses to issues. Furthermore, Greening and Gray (1994:1046) concluded from their study that:

*It would make sense that pressures from interest groups might motivate top managers to provide additional resources to these committees to analyse and develop responses to emerging issues. Interest group pressure was significantly correlated with issues management formalisation, but the regression results did not support this relationship. It appears that other elements, such as organisation size or commitment by top management, better explain the formalisation of issues management activities in organisations.*

**Mimetic isomorphism** is the result of 'standard responses to uncertainty' (DiMaggio and Powell 1983 p. 151). When structures and systems are not well understood, when goals

are ambiguous or when the environment is uncertain, organisations are more likely to follow the rules and routines of other similar, more successful or legitimate organisations. DiMaggio and Powell (1983:152) note that “organisations tend to model themselves after similar organisations in their field that they perceive to be more legitimate or successful. The ubiquity of certain kinds of structural arrangements can more likely be credited to the universality of mimetic processes than any concrete evidence that the adopted models enhance efficiency”. Thus, organisational change can result from pressures exerted by individuals that may aim to make their organisation similar to others in its field (Kraatz, 1995; Carnall, 1999; Baum and Oliver, 1991).

*Normative isomorphism* stems ‘primarily from professionalization’ (DiMaggio and Powell 1983 p. 152). Membership of professional organisations and formal education processes are sources of normative isomorphism. In addition normative isomorphism can stem from the need to maintain cultural support. Meyer and Scott (1983) argue that institutional legitimacy refers to the degree of cultural support for an organisation, that is, the extent to which the array of established cultural accounts provides explanations for its existence, functions and jurisdiction and lack of alternatives. According to Meyer and Scott (1983:6) “legitimacy is a question of cultural theory and speaking on behalf of theory requires cultural licenses. Institutional legitimacy is derived from the wider institutional environment, not from the local bureaucrats who may employ their own unique interpretations of proper procedure”.

DiMaggio and Powell (1983) noted that while various kinds of professionals in earlier organisations may have differed from one another, they did show similarities with their professional counterparts in other organisations. According to DiMaggio and Powell (1983), there are two aspects of professionalization which are important sources of isomorphism. These are formal education provided by university specialists, and the rapid growth and elaboration of professionalization.

The three mechanisms through which institutional isomorphism occur are presented in table 4.1 below.



<b>Isomorphism</b>	<b>Definition</b>	<b>Principle</b>
Coercive isomorphism	Coercive isomorphism is the result of pressure on organisations from exogenous providers of resources.	Pressures, rules, requirements, and regulatory forces under the label coercive isomorphism. Socio-economic and political influence.
Mimetic isomorphism	Mimetic isomorphism is the attempt to limit uncertainty by modelling an activity after a successful example.	Indications of copying, role models and emulation of other organisations to be more legitimate and successful.
Normative isomorphism	Normative Isomorphism is the result of customary professional and socially accepted and responsible discourses.	Indications of influences from social practices. Socially conventional behaviour and belief and professionalism.

Table 4.1 Institutional Isomorphism's.

Isomorphism as argued can cause organisations to become identical but however, this does not necessarily improve their efficiency as the need to adopt similar structures may be driven by legitimacy as opposed to any economic rationality. Thus, in order to maintain institutional legitimacy, organisations tend to adopt bureaucratisation and other forms of standardisation that may be decoupled from actual day-to-day decision making. Decoupling or loose coupling is important in understanding why certain innovations may exist in organisations, but may fail to be used in practice or embedded in practice. This argument has been reiterated by Meyer and Rowan (1977: 343) as "structural elements are only loosely linked to each other and to activities, rules are often violated, decisions are often unimplemented, or if implemented have uncertain consequences, technologies are of problematic efficiency, and evaluation and inspection systems are subverted or rendered so vague as to provide little coordination."

DiMaggio and Powell (1983) suggest that governments, which often have ambiguous goals and unreliable performance measures, resort to legitimacy rituals to demonstrate social and economic fitness. According to Powell and DiMaggio (1991), the greater the extent to which organisations are tightly coupled to a prevailing archetypal template within a highly structured field, the greater the degree of instability in the face of external shocks. In other words, the rigidity of tight coupling and high structuredness creates



resistance to change. Decoupling is significant when there is a substantial discrepancy between formal structure and organisational practice. Meyer and Rowan (1977); Collier, (2001) attribute decoupling to rules and culture rather than to technical processes. Moreover, when organisational output is easily measurable, i.e., when productive technologies are well defined, and when criteria of success are unambiguous, then technical efficiency matters.

In sum, NIS adopts a broader, multi-dimensional approach for focusing on issues of external (macro) and internal (micro) organisational contexts (DiMaggio and Powell, 1991; Scott, 1995; Greenwood and Hinings, 1996) and has contributed significantly to the understanding of the relationship between organisational structures and the wider social environment in which organisations are situated (Hussain and Hoque, 2002). NIS is important because it reveals aspects of reality that are inconsistent with organisations' formal accounts in addition to stressing the role of culture in shaping organisational reality (DiMaggio and Powell, 1983; Powell and DiMaggio, 1991). However, Scott and Meyer (1994) argue that technical and institutional dimensions are independent dimensions rather than polar ends of a dichotomy. This suggests that organisations can adopt practices for both legitimacy and efficiency purposes though in practice it is difficult to separate the two. This is consistent with recent arguments by Lounsbury (2008) that there has been too much emphasis by NIS researchers on legitimacy to the neglect of rationality.

#### ***4.4 Institutional Theory and Management Accounting Research***

From an institutional perspective therefore, management accounting systems could be construed as being shaped by organisational actors and the wider institutional environment. Management accounting practices should therefore be interpreted in the context of the behaviour of individuals and groups within the organisation. New institutional theory can therefore offer broad understanding of accounting choices and behaviour (Scapens, 1994).

New institutional theory has become a widely adopted theoretical framework in management accounting research over the past decade (see for instance, Covalleski et al., 1993; Scapens, 1994; Covalleski and Dirsmith 1988; Mezas 1994; Granlund and Lukka, 1998; Brignall and Modell, 2000; Carpenter and Feroz, 2001; Collier, 2001; Granlund, 2001; Modell, 2001; Hussain and Hoque, 2002; Tsamenyi et al. 2006).

The above studies have used new institutional theory as a framework for exploring various accounting issues in both the public and private sectors in many countries. These studies have focused on issues such as how the adoption of accounting systems is shaped by diverse isomorphic pressures (Brignall and Modell, 2000; Carpenter and Feroz, 2001; Hussain and Hoque, 2002), the interplay between institutional and technical environments (Hoque and Hopper, 1997; Hussain and Hoque, 2002; Modell, 2002, Tsamenyi et al. 2006), and the role of power and agency in the design and use of organisational accounting systems (Collier, 2001; Modell, 2002, Tsamenyi et al. 2006; Lounsbury, 2008).

Some authors have argued that management accounting systems are primarily implemented to satisfy regulatory requirements and to justify the organisations' activities to external stakeholders by creating the impression that the organisations tightly control their operations (Covalleski et al., 1985; Covalleski and Dirsmith, 1991; Hoque and Hopper, 1994; Collier, 2001). NIS is utilised particularly for the analysis of organisations confronted with uncertainty, which therefore compete for legitimacy, both political and institutional, as well as market position. Furthermore, NIS provides explanations of organisational practices including accounting practices, referred to as institutional isomorphism (DiMaggio and Powell, 1983). Covalleski and Dirsmith (1988) relied on NIS to explain the University of Wisconsin's budgetary relationship with the State. Carpenter and Feroz (2001) used NIS to explore how institutional pressure on four US State governments influenced the decision of these governments to adopt or resist the use of GAAP for external financial reporting.



Hussain and Hoque (2002) used NIS to understand and explain what factors affected the design and use of non-financial performance measurement systems in four Japanese banks. They found that the performance measurement systems adopted by the banks they studied were significantly influenced by the external institutional and competitive pressures. In earlier study, Granlund and Lukka (1998) adopted NIS to identify and analyse forces that seem to be causing convergence in management accounting practices around the world. They identified various coercive, normative and mimetic pressures that created convergence or divergence in management accounting systems. Tsamenyi et al. (2006) explored the changes in the cash management information system of a large Spanish Electricity Company (Sevillana). Tsamenyi et al. concluded that the institutionalisation of the new accounting and financial information system was shaped externally by the political and regulatory environment, and internally by the parent company's control, and the influence of professional associations. Collier (2001) applied institutional theory to understand the context, process and consequences of the introduction of new management accounting systems to a police force, the West Mercia Constabulary in the UK.

Another management accounting study that adopted NIS perspective was Ahmed & Scapens (2003). The authors investigated how NIS perspective can help understand the development of cost-based pricing rules in Britain. The authors explored the historical development of rule-based procedures, and conclude that the reform process was intended to stabilise the economic environment by curbing price discrimination, trade abuses and other anti-competitive practices that were prevalent in the industry. Among the rule based procedures adopted by the firms was a uniform accounting system. Although this uniform accounting system was mobilised to promote stability and certainty in such chaotic market, the authors also found that the new accounting system was used to provide legitimacy for the proposed industrial strategy.



#### **4.5 Justification for Institutional Theory Approach**

Several theories have been used to explain differences in the rationalised, formal structures of organisations that are used to coordinate and control their members. Two of the most prominent theories, contingency theory and institutional theory<sup>17</sup>, take almost opposite approaches to understanding the factors that lead to the development of different formal structures.

While contingency theory has dominated management accounting research in the 1980s (Otley, 1980; Tiessen and Waterhouse, 1983), the 1990s saw a shift towards the use of institutional theory in management accounting research (see for instance, Covaleski et al., 1993; Brignall and Modell, 2000; Burns and Scapens, 2000; Tsamenyi, et al., 2006). Contingency theory suggests that the demands imposed by technical tasks in the organisation encourage the development of strategies to co-ordinate and control internal activities. Institutional theory on the other hand suggests that the expectations regarding appropriate organisational forms and behaviour that are expressed in the wider social environment promote the development of an organisation's formal structure. Table 2.1 below compares and contrasts contingency theory and institutional theory analysis of management accounting.

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<sup>17</sup> Geiger and Ittner (1996), claim that contingency and institutional theories can explain the design and use of MCS in organisations.

<b>Assumptions</b>	<b>Contingency Theory</b>	<b>Institutional Theory</b>
Purpose of Management Accounting	-Reflect and promote rationality in decision-making	-Serves as a ceremonial means for symbolically demonstrating an organisational commitment to a rational course of action.  -Develops legitimised categories
How Management Accounting is Used	-Quantitative expressions of organisational goals  -Passive reflection of the technology  -Technically rational function driven by and serving the internal operation of the organisation	-A set of legitimising devices that are used to construct an appearance of rationality and efficiency  -Socially constructed phenomenon with the full implication of the power and politics of social construction

Table 4.2 Contingency and institutional explanations of management accounting

This shift away from contingency research to NIS mentioned above is necessitated by the increasing realisation that some of the dominant assumptions of contingency are flawed. Contingency theory has been criticised by researchers since its introduction into the management accounting literature (Otley, 1980; Tiessen and Waterhouse, 1983). Under contingency theory, system design (including management control systems) in an organisation is constrained by situational factors and depends on the ability of management to find the best fit. This assumption has however been questioned by researchers. For example, Carpenter and Feroz (2001) questioned the role of contingency in explaining accounting choice. Accounting choice according to the authors is often driven by statutes and interests. Interest maximising accounting bureaucrats may not independently have the political influence or organisational power necessary to change the accounting practices of entities.

Otley (1980) and Young et al., (2001) both criticise contingency theory for its assumption that organisations react rationally in response to organisational threats or changes, which means that the design of an organisation and its subsystems must fit with the

environment. It therefore ignores the fact that managers may act politically or pursue agendas which circumvent rational responses to the environment. Also, Cooper (1981) noted that contingency theory has an objectivist approach that ignores two issues that may be important for an understanding of organisations and the role of management accounting within them. Firstly, it ignores the cognition, culture and symbols which are important elements of organisational life. Secondly, it ignores the fact that organisations may develop complex rationalities and rationalisations for their actions, especially when they are interacting with a rapidly changing environment. Otley (1978, 1980) contends that contingency theory sees management control systems as passive tools designed to assist a manager's decision making and thus ignoring how individuals influence organisational strategy and also ignoring the socio-political aspects of organisational life and the ways in which these impinge on organisational practices.

According to Bourgeois (1984) contingency theory fails to lead a clear causation between contingency factor and structure. He argued that contingency theorists hold that strategy leads to structure but fail to consider reverse causation, i.e. that structure leads to strategy. The positive correlation between strategy and structure may for example have arisen through structure causing strategy. Merchant (1984) also criticised contingency theory on the ground that organisational context is often a construct of the researcher rather than a description of perceived reality as used by the organisations. Spekle (2001) contends that a contingency theory has no a priori intuition of its own as to what the pertinent factors are and their likely consequences. According to Spekle contingency models tend to be partial, - focusing as they do on elements of the control system, rather than directly addressing the full configuration of control devices.

Chapman (1997) argued that although the contingency approach is attractive because it can explain almost everything that does not fit completely in other approaches, it fails to provide an overall framework for the analysis of the relationship between contingent factors and accounting. Moreover, contingency theory fails to recognise the role of power and agency in shaping organisational control systems (Hopper and Powell, 1985; Chua,



1986). Spekle (2001) argued that contribution to knowledge in the field of management accounting (building on contingency theory) remains fragmented.

While technical or contingent explanations of MCS are not rejected, they are clearly viewed as incomplete (Scott 1987). There are several explanations underlying characteristics of MCS practices, and hence an institutional frame of reference may be important for understanding the how and why of MCS practices (Bjornenak 1997). Institutional theory adds the social and political elements which are typically absent or de-emphasised in the rational instrumental approach (such as contingency theory). Several studies (such as: Alam, 1997; Buchanan and Badham, 1999) have discussed the importance of politics in relation to organisational change. These studies highlight the key role politics can play in driving and shaping organisational processes. Institutional theory, according to Oliver, assumes that individuals are “motivated to comply with external social pressures” (Oliver, 1997).

Oliver (1991) argued that institutional theory is capable of explaining non-choice behaviour in the context of norms and beliefs that are taken for granted. Institutional theory illustrates how the exercise of strategic choice may be pre-empted when organisations are unconscious or blind to, or otherwise take for granted the institutional processes to which they adhere. Moreover, institutional theory is also capable of explaining organisational responses that are not precipitated specifically by interest mobilisation. In order to understand the design and operation of MCS, these systems need to be studied in their organisational context (Flamholtz, 1983). In doing so, Burns (2000) suggests this should allow for an understanding of the complexities of the accounting processes that could otherwise be dismissed by more conventional static approaches.

NIS has made a considerable contribution to the understanding of accounting practices, but it has also been criticised for not sufficiently capturing the dynamics of organisational change, as it fails to adequately conceptualise market competition and intra-organisational power relations (Oliver, 1992; Powell, 1991; Dillard et al., 2004; D’Aunno et al., 2000). It has also been criticised for taking on a macro-focus (see, for example,

Hirsch and Lounsbury, 1997 and Lounsbury 2008) and for neglecting or being insensitive to the role of organisational actors, power, and interests (Hirsch & Lounsbury, 1997; Norus, 1997; Scott, 1995; Dillard et al., 2004; Lounsbury, 2008). This suggests that the theory does not give adequate consideration to actors and their ability to influence and shape the organisation. In its defence, Meyer, Boli, and Thomas (1994) suggest the focus of theory at this time was to “abandon the fascination with the individual and turn to other ‘actors’ in the social system” (p. 13). Hirsch and Lounsbury (1997) state that the problem with this approach is that “most empirical efforts have focused on environmental changes that are not effectively linked to the activities of individuals and organisations” (p. 411).

Meyer and Rowan (1977) have also recognised several significant limitations of institutional theory. The theory, for example, was not able to explain a difference or inconsistency between the perceived formal organisational structure and the actual operating structure. Moreover, it was not able to provide pertinent explanations for how organisations deal with conflicting pressures from multiple sources: they could not imitate or conform to all of these pressures. Finally, the theory did not explain how organisations respond to highly generalised pressures (the nature of these makes them difficult to integrate into the organisation’s operations).

Management accounting studies (see for instance, Abernathy and Chua, 1996; Collier, 2001; Modell, 2002; Seo and Creed, 2002; Dillard et al., 2004; Tsamenyi, et al., 2006) have however addressed some of the limitations of NIS. As a result, institutionalisation is not only seen as arising out of pressures from an organisation's external environment, but also from the actions of organisational actors. Collier (2001) argued that “accounting is implicitly involved in relations of power within the institution-organisation environment” (p. 468).

In a recent study Lounsbury (2008) cautioned against institutional approaches that de-emphasise the rationality of organisations in adopting management accounting practices. The author argues for the need for institutional researchers to broaden their analysis to



focus on rational choice as opposed to the assumption in institutionalism that organisations adopt practices mainly for legitimacy purposes. Lounsbury (2008, p.351) observed that “by focusing more on actors and organisational heterogeneity, institutionally-oriented theorists may seek fruitful connections to currently fashionable domains such as practice theory that have been influential in contemporary studies of accounting and related contexts”. This argument will link in with recent interests in understanding management accounting as a practice (Ahrens and Chapman, 2007).

Some of the critiques of NIS identified above are addressed in this study by including intra-organisational power relations and market forces in the NIS analysis (Collier, 2001; Tsamenyi, et al., 2006). According to Tsamenyi et al., (2006, p.410): *“While NIS has made a significant contribution to our understanding of accounting practices, it has been criticised for its inability to capture the dynamics of organisational change because of its failure to adequately theorise market competition and intra-organisational power relations”*.

#### **4.6 Intra-Organisational Power Relations**

The role of power in shaping organisational practices and for that matter management accounting practices has been recognised in the literature (Collier, 2001; Tsamenyi, et al., 2006). Power has been conceptualised differently in the literature. One definition of power is that it is the capacity to influence the behaviour of others (Wilkinson, 1999). Power provides the capacity of one social actor to overcome resistance in achieving a desired objective (Pfeffer, 1981). The presence of power in organisations can be demonstrated through “the ability of those who possess power to bring about the outcomes they desire” (Salancik and Pfeffer 1977, p.3).

Pfeffer (1981) equates power to authority. In other words there is a close relationship between authority and power. According to Pfeffer (1981) the most obvious form of authority within an organisation is the relationship between supervisors and subordinates. The distribution of power in an organisation becomes legitimised when a certain pattern of influence is valued, accepted and expected, hence a social understanding and consensus is required.



According to Giddens' (1984) conceptualisation, power can be interpreted as a two way process. Thus even though superiors with authority are likely to be those that possess power in an organisation, subordinates can also possess some amount of power. Power is therefore multi-dimensional (Giddens, 1984; Collier, 2001; Hardy, 1996). For example, in the banks, though formal power can reside with top managers at the head office, managers at branch levels can also possess some power. The financial sector has a relatively well established culture and therefore change may be difficult within this setting. In this study, power and leadership are important as Nigerian society is strongly patrician and hierarchical, with what appear to be great power distances between each level within a social structure (Sokoya, 1998). Subordinates are expected to respect those in authority and are not allowed to question such an authority<sup>18</sup>. Status is strictly defined by obligations and responsibilities, which tend to limit movement within the network.

Hardy (1996) identifies three dimensions of power; the power of resources, the power of processes and the power of meaning. The differences between these three dimensions of power are shown in table 4.3 below.

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<sup>18</sup> See chapter two for more details



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Table 4.3: The three dimensions of power (Adapted from Hardy, 1996, p.S7).

From table 4.3 above the three dimensions of power have different sources, action and limits. For example, power of resources can be derived from the ability to hire and fire, rewards, punishments, funding, authority, expertise, etc while power of processes can be derived from the decision making process, participation and agendas. The power of meaning on the other hand can be derived from symbols, rituals, language, etc.

The use of power of resources is relevant to banks due to the power and control of scarce resources resting outside the control of branch managers. Power can be asserted to force compliance, such as performance budgeting compliance, within the banking environment. Power in this setting may reside with management or the state. The analysis of power of processes will enable us to understand the decision making process in the banks. The power of meaning is also relevant in the analysis due to the necessity of the banks to legitimise new practices in order to gain acceptance and commitment. Although some decisions may be made outside the organisation, in order for these decisions to be successfully implemented, power would need to be exercised within the organisation.

This thesis will investigate the extent to which the three dimensions of power identified above operate in the studied banks. The analysis also recognises that power has both positive and negative dimensions (Giddens, 1984; Macintosh and Scapens 1990). The positive dimension of power enables people to do things while the negative dimension is likely to create conflicts (Hardy, 1996; Burns, 2000). According to Rus (1980, p.3) positive power has an ability to initiate activity and negative power has an ability to impede some activity.

Thus power seen as a positive product can be broadly seen as the ability of an agent to alter outcomes to accomplish an objective, even if this comes at the expense of others who may not be willing to assist them. This kind of power can be used to introduce new management accounting systems in the organisations while negative power may be utilised to resist such new practices (see also, Kholeif, et al., 2007). Previous management accounting studies such as Collier (2001), Tsamenyi et al., (2006) and Kholeif, et al., (2007) have all employed the positive and negative notions of power to examine the design and use of management accounting systems. According to Meyer and Rowan (1977), organisations take on inconsistent and even conflicting practices in the process to gain legitimacy. However, D'Aunno et al. (1991) state that organisations only have a limited ability to react to conflicting institutional demands and as a result will only conform to them partially. Collier (2001) argued that the power of institutions arises from the need of the organisations for legitimacy. The exercise of power in social relations depends on both formal sources (hierarchy of authority and responsibility) and informal sources (knowledge, mobilisation of authority, experience, significance of the institution, personal relations or connections with power holders). This study will focus on the power relations among managers in the banks in order to understand the extent to which power facilitates or impedes the uses of MCS in these organisations.

#### **4.7 Market and competitive pressures**

DiMaggio and Powell's (1983) analysis separated and distinguished between institutional and competitive isomorphism. DiMaggio and Powell then concentrated on institutional isomorphism. By separating institutional isomorphism from competitive isomorphism



DiMaggio and Powell downplayed the role of market forces in shaping organisational practices. Since this original work of DiMaggio and Powell however, increasing attention is now being paid to the role of market forces in shaping organisational practices (Greenwood and Hinings, 1996; Oliver, 1992; Powell, 1991; Scott, 1991; Tsamenyi, et al., 2006; Kholeif, et al., 2007). Powell (1991) argued that institutional and market forces may not be dichotomous as suggested in the earlier study of Powell and DiMaggio (1983). As a result, organisations may be able to design structures to comply with institutionalised rules while at the same time achieve technical efficiency (Hussain and Hoque, 2002; Tsamenyi et al., 2006). However some studies have suggested that there might be some potential conflict between institutional and market forces. This would suggest that it might be difficult for an organisation to design structures to gain legitimacy (institutional forces) and at the same time achieve efficiency (market forces) (see for instance Oliver 1992; Hoque and Hopper, 1997; Modell, 2002).

Hussain and Hoque (2002, p.178) summarised the importance of competition in the banking sector as follows: “If competition was not significant in the financial industry, banks would perhaps not be aware of the need to improve their services to satisfy customers”. They have all experienced significant change in their cost structure as a result of the competition (Cooper, 1995). Moreover, they have experienced increasing pressure to improve the quality of services they offer (Mok and Lee, 2001). Designing appropriate MCS is therefore necessary for the banks to be able to compete (Fisher, 1995; Brancato, 1995). In other words, strong competition motivates an organisation to consider its existing system to increase the organisation’s ability to face the competitive pressure (see also D’Aunno et al; 2000). Sherer and Lee (2002) argue that competitive pressures drive organisations to be different and without competitive forces, there is no reason for an organisation to change.

#### **4.8 A Framework for the Study of MCS**

This study examines the how and why of MCS design and operation in a banking environment. In keeping with the research questions outlined in Chapter 1, this section provides a framework for understanding the processes and context of MCS. The

framework draws on insights from strands of new institutional sociology theory perspectives to provide an explanation of the interaction between organisational context and behaviour. NIS is particularly useful as it provides a very rich theoretical framework for analysing and understanding organisational practices (DiMaggio and Powell, 1983; Mizruchi and Fein, 1999; Carpenter and Feroz, 2001). NIS was chosen as the theoretical framework in this study based on evidence in prior research (such as Greenwood and Hinings 1996; Hussain and Hoque, 2002), which found it to be a useful theoretical framework for achieving a richer understanding of the phenomena being studied from its broader context. The theoretical framework adopted for the study is illustrated in Figure 4.1 below.

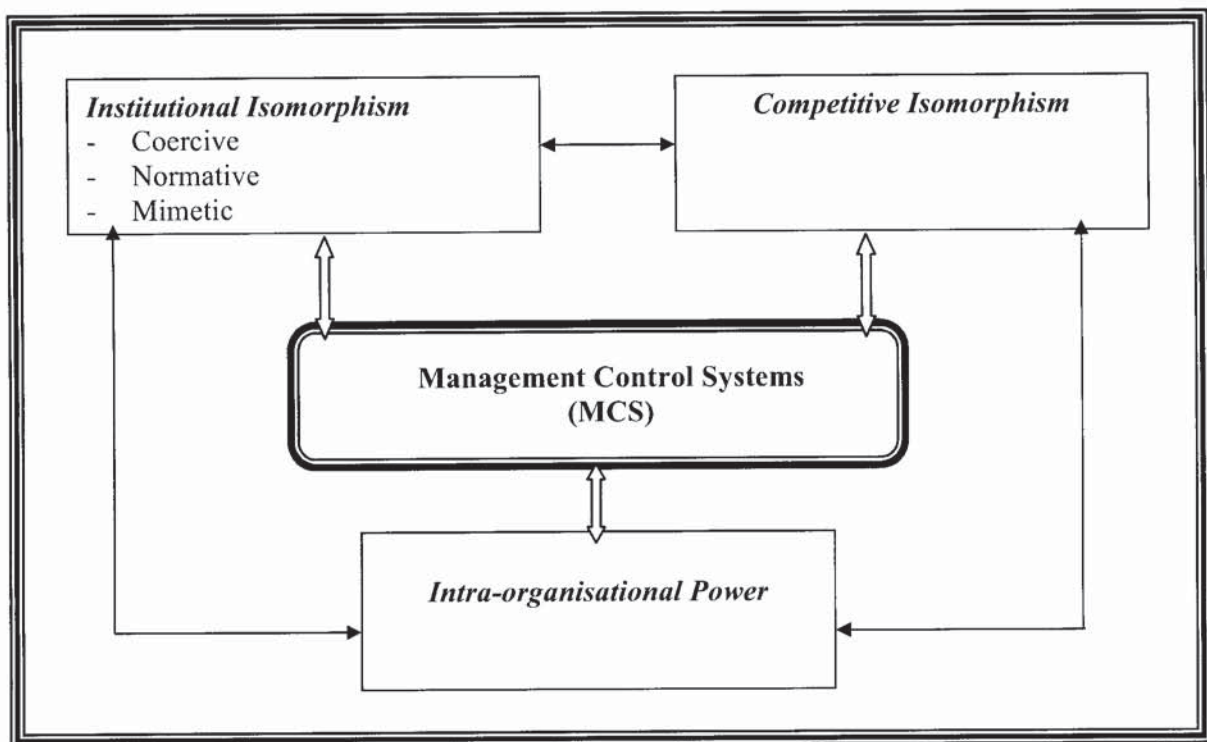


Fig 4.1: Theoretical Framework

The theoretical framework in Figure 4.1 is based on the argument that how MCS operate in any particular organisation is influenced by the institutional environment, market competition and intra-organisational power relations. The framework recognises that there is a dynamic relationship between these three factors (see Collier, 2001; Tsamenyi,



et al., 2006). For example the different types of institutional isomorphism (coercive, normative and mimetic) are influenced by both market competition and power relations. At the same time power and market competition are also shaped by the institutional factors. Market forces and power relations are also dynamically related. This assumption of a dynamic relationship would also contribute to our understanding of how MCS change over time. This is particularly important as the relationships between institutions, markets and power are likely to be static but instead evolve over time. The theoretical framework is later adopted in the thesis to interpret the role of MCS in the studied banks (see Chapter nine).

#### **4.9 Chapter Summary and Conclusion**

This chapter has presented the theoretical framework for the study. The framework draws on the concept of new institutionalism in organisational analysis (Powell and DiMaggio, 1991). It is argued that aside from the economic or technical reasons, organisational systems might be adopted in an effort to appear legitimate. This view is supported by Scott (1987) who noted that while technical (or contingent) explanations of management control systems have not been rejected by researchers, they are clearly viewed as incomplete. Institutional theory adds social and political elements, and thus broadens the scope of our understanding of how MCS operate in organisations. Organisations might adopt particular systems, policies and procedures through imitation and mimic each other to demonstrate their conformity with institutionalised practices. Other organisations can pursue a commitment to a new system by a regulating authority, or alternatively, by any other leading organisation, and as a result it may become institutionalised. The adoption of NIS will thus shed light on the rationales for the adoption of MCS by the studied banks.

The discussion provided in the chapter suggests that NIS analysis needs to be broadened to incorporate issues on intra-organisational relations and market competition. This line of argument is consistent with recent developments in institutional theory. Such an analysis will also contribute to calls by Lounsbury (2008) to focus on rationality and instability in institutional analysis. The extended NIS framework presented in the chapter



therefore provides the opportunity for analysing the influence of both exogenous and endogenous factors on an organisation (DiMaggio and Powell, 1991; Greenwood and Hinings, 1996; Hussain and Hoque, 2002; Carpenter and Feroz, 2001). For example, by incorporating the notion of power the analysis recognises how MCS is shaped by the behaviours, values, norms, and beliefs held by a particular organisation. Institutional theorists suggest the design of the MCS and its influence over the behaviours of organisational actors is determined by the values, norms and beliefs held by a particular organisation (Meyer & Rowan, 1977). Scott (1995, p 141) sums up this view: “Generalised models-beliefs, norms and script flow ‘down’ through the various levels, carried by socialisation, social construction, and sanctioning powers. These codes are carried and reproduced, but also modified and reconstructed, by the interpretations and inventions of subordinate actors: individuals, organisations and fields”. This suggests that a change in the balance of power often leads to changes in the degree of value placed on existing norms and behaviours. At the same time, those in positions of power will institutionalise new behaviours and norms consistent with their belief and value systems. Meyer & Rowan, (1977, p344) further argued that “rules define new organising situations, redefine existing ones, and specify the means for coping rationally with each. They enable, and often require, participants to organise along prescribed lines”. Galaskiewicz, (1991) noted that “conscious efforts to infuse value and meaning in norms and activities can be effective for changing the organisational behaviour” (p.310). It is thus argued in this thesis that broadening NIS analysis will enable us to explore multiple themes such as legitimacy, power, competing values, and formal and informal structures, all of which have direct relevance given the focus of the research questions. This approach is necessary for understanding the complexities of MCS practices. Later in the thesis this framework is drawn upon to analyse the role of MCS in the banks studied.

Having presented the theoretical framework in this chapter, the next chapter discusses the approach adopted in conducting the study. This is necessary to understand the methodological issues in the study.

## **CHAPTER FIVE**

### **Research Methodology**

#### **5.0 Introduction**

The purpose of this study is to understand the design and operation of management control systems (MCS) in the Nigerian Banking sector. This study has taken the view that “Accounting is neither a static nor homogeneous phenomenon” (Hopwood, 1983, p. 289). This implicitly assumes that the MCS must respond to their organisational environment. Furthermore, the suggestion that accounting is not a homogeneous phenomenon implies that MCS are as diverse as the organisations in which they operate. Such views of accounting lend to the case study approach which allows accounting systems to be studied in their natural context (Covaleski & Dirsmith, 1990; Scapens, 1990). Moreover, from the discussion of the new institutional sociological perspective provided in Chapter four, it can be argued that the case study framework is a suitable research methodology for understanding the practices and not merely the outcomes of MCS. This chapter discusses the methodological issues of the case study approach as well as describes the methods utilised in the study.

The remainder of the chapter is divided into five sections. First, the chapter discusses the methodology and then the following section outlines the philosophical foundations underpinning the current study. The next section discusses the case study approach to research. Section three discusses the specific methods used for gathering data and presentation of data. The final section provides the chapter summary.

#### **5.1 Methodology**

Methodology refers to the methods and ways used to conduct research. Methodologically, research can generally be classified as either qualitative or quantitative. Qualitative research refers to any type of research that generates findings not arrived at by means of statistical procedures or other means of quantification (Silverman, 2004). Quantitative researchers on the other hand seek causal determination, prediction,



and generalisation of findings while qualitative researchers seek instead illumination, understanding, and extrapolation to similar situations (Denzin & Lincoln, 2000).

Qualitative research has an interpretive character, aimed at discovering the meaning events have for the individual who experience them, the interpretation of these meanings by the researcher. Qualitative research focuses on the emerging process as well as the outcomes or product of the research. Qualitative research provides the opportunity of gaining a sympathetic understanding of the complexities of human motivation and social interaction (Sutton, 1993). The main advantage of the qualitative method is that its use probes for in-depth understanding, rather than examining surface features (Johnson, 1995).

In quantitative research, the researcher is ideally an objective observer who neither participates in nor influences what is being studied. In qualitative research, however, the researcher is normally embedded in the research context. The basic underlying assumptions of both methodologies guide and sequence the types of data collection methods employed. During the past several decades, particularly during the 1970s and 1980s, naturalistic inquiry (or qualitative research) has gained considerable acceptance. Nevertheless, the debate between quantitative and qualitative methodologies, as competing positions, persists. It is important to recognise the limitations of viewing quantitative and qualitative methods as completely different or competing approaches (Custer, 1996, p. 4). Thus, although there are apparent differences between qualitative and quantitative approaches, researchers maintain that the preference for a particular approach has more to do with the positioning of the research within a particular discipline or research tradition, and less to do with methodology. The decision to follow a particular approach depends on several factors including the researcher's own experience and preference, the population being researched, the proposed audience for the findings, time, and other resources available (Hathaway, 1995).

The advantages of qualitative methodologies are that this form of research is proving important to the field because it allows researchers to explore deeper meanings and



understanding instead of focusing on the surface character of the issue. According to Johnson, (1995), qualitative methodologies are gaining increasing acceptance in the social sciences because they provide powerful tools that broaden our understanding of processes. Hoepfl (1997, p.5) further explains that "humans are responsive to environmental cues, and able to interact with the situation; they have the ability to collect information at multiple levels simultaneously; they are able to perceive situations holistically; they are able to process data as soon as they become available; they can provide immediate feedback and request verification of data; and they can explore atypical or unexpected responses".

A qualitative "approach" is thus a general way of thinking about conducting qualitative research. It describes, either explicitly or implicitly, the purpose of the qualitative research, the role of the researcher(s), the stages of research, and the method of data analysis. The major disadvantages of qualitative research are that it tends to rely more heavily on the ability of the researcher to facilitate what is essentially a three-way communication process among human subjects, the researcher, and the researcher's audience. This places a major burden on the communication and writing processes (Sutton, 1993, p. 426). According to Gill and Johnson (1991, p.126) qualitative research seeks to "understand how people make sense of their worlds, with human action being conceived as purposive and meaningful rather than externally determined by social structures, the environment or economic stimuli". Bryman (1993) argued that qualitative research is "an approach to the study of the social world which seeks to describe and analyse the culture and behaviour of humans and their groups from the point of view of those being studied" (p.46).

Quantitative research is not adopted in this study because of its inability to explore the underlying organisational and social contexts of the MCS in the studied organisations. Thus, it has been argued that "although quantitative methodologies have, among other things, the advantages of objectivity and generalisability there are levels of understanding that simply cannot be attained apart from intensive involvement with people, institutions, and situations" (Sutton, 1993, p. 412). Qualitative analysis results in a different type of

knowledge than does quantitative inquiry (Hoepfl, 1997). In qualitative methodology the researcher acts as the human instrument of data collection, predominantly uses inductive data analysis, and reports a descriptive, incorporating expressive language and the presence of voice in the text. Qualitative researchers pay attention to the idiosyncratic as well as the pervasive, seeking the uniqueness of each case. The qualitative research has an emergent (as opposed to pre-determined) design, and researchers focus on this emerging process as well as the outcomes or product of the research. Thus, "qualitative methods, appropriately applied, provide a means of gaining a sympathetic understanding of the complexities of human motivation and social interaction" (Sutton, 1993, p.422).

## **5.2 Philosophical Assumption and the Choice of Methodology**

The nature of human actions continues to be the subject of debates among researchers with difficult philosophical choices, since such choices directly influence methodological options available to researchers. The particular approach a researcher adopts in conducting research is thus influenced by the assumptions he or she holds about ontology, epistemology, methodology, and human nature (Hopper and Powell 1985, Chua 1986a, Laughlin and Lowe 1990). In other words, the choice of a particular approach of inquiry is driven by the philosophical assumptions and the nature of the research issue being investigated (Hopper & Powell, 1985). Morgan, (1980) argued that:

*The choice and adequacy of a method embodies a variety of assumptions regarding the nature of knowledge and the methods through which that knowledge can be obtained, as well as a set of root assumptions about the nature of the phenomena to be investigated. (p. 491)*

This extract reinforces the argument that the choice of a particular method of inquiry is driven by the philosophical assumptions and the nature of the research issue being investigated and should not be determined by a researcher's commitment to a particular strategy (Hopper & Powell, 1985). Yin (1989) argues that empirical research advances only when it is accompanied by logical thinking and not when it is treated as a

mechanistic endeavour hence the need to for a particular study to be grounded in philosophical thoughts.

Burrell and Morgan (1979) developed a framework which posits that assumptions about ontology, epistemology, human nature and methodology could be classified into objectivity and subjectivity. Within the objectivity-subjectivity assumptions are the four paradigms of radical structuralism, radical humanist, interpretive sociology, and functionalist sociology. These paradigms are depicted in Figure 5.1 below.



(Adapted from Burrell and Morgan 1979, p.29).

The traditional positivistic methodology perceives accounting systems as scientific phenomena and uses quantitative techniques to collect data (Burchell et al., 1980). Positivistic approach provides the researcher with limited opportunity to explore how the MCS operate over time and how this is shaped by the actions of individual organisational participants. Studies that have examined MCS from this positivistic paradigm have situated their analyses within the assumption that the social world is objectively created. Thus, ontologically, reality exists and MCS can be empirically tested. Epistemologically,



knowledge of MCS can be observed or objectively verified. In terms of human nature, individuals are created as passive beings and as such do not have any control over their environments. Hence, individual managers cannot influence or change the environment within which the MCS operates. According to Hopper and Powell (1985), positivism assumes that the way to conduct research in the social world is to develop theories, collect data and empirically test these theories similar to what happens in the natural sciences. The most preferred research method is thus through statistical analysis. Both radical structuralism and functionalist sociology draw on the ideas of positivism by believing in an objective social world (Burrell and Morgan, 1979).

The dominance of positivism in accounting research has also been reiterated by Burchell et al (1980). Most MCS researchers operating from the positivistic paradigm argued for causal relations to be established between MCS and their environmental factors (Otley 1980), believing in an objective MCS and the environment which can easily be manipulated (Preston 1991).

This study which is located within the interpretive paradigm is based on the assumption that MCS is emergent and subjectively created through the continuous interaction of human agents (Burchell, et al., 1980; Hopper and Powell, 1985). Studies that have examined MCS as a socially constructed phenomenon situated their analyses within the assumption that ontologically, reality is constructed by individuals and as such there is nothing like an objective social world and epistemologically, knowledge in the social world cannot be empirically tested because there is nothing like an absolute truth. Truth depends on the interpretations of individuals. In terms of human nature, human beings are active agents who are endowed with several abilities to influence and change their own environments. Methodologically, to conduct research, the researcher needs to interact with his/her subjects. Through this analysis, the social and political constituted nature of MCS can be understood.

Based on the argument above that accounting systems are socially constructed, this study adopted a research approach that would allow the investigator to interact with the

research participants. As a result, a case study approach was adopted to study how MCS operates in the banks. The choice of research approach is thus driven by the epistemological<sup>19</sup> and ontological<sup>20</sup> beliefs of the investigator as well as the nature of the research questions being investigated. The key research question explored in this study is how management accounting practices are shaped by diverse institutional and market forces and intra-organisational power relations. The qualitative case research approach adopted in the study enabled the investigator to illuminate the ways in which accounting systems permeate social and political relations in the organisations studied (Covaleski and Dirsmith 1983, 1986, 1988; Hoque and Hopper 1994).

### **5.3 Case Study Approach**

In order to examine the role of management control systems in Nigeria's enterprises the research will use qualitative methods (interviews and case studies). A case study approach is taken, in order to gain detailed understanding of how the management control systems work in practice (McKinnon, 1988). There have been many calls for case studies to be undertaken to study accounting in practice, to gain rich descriptions of actual situations (Kaplan, 1986), and a better understanding of the context and factors which shape contemporary management practices (Parker, 1994). The case study research method is identified as valuable for its potential to reveal a rich and detailed understanding of the functioning of management control and the factors influencing change in organisations (Scapens, 1990). The case study method is adopted for this research for its holistic approach to understanding organisational and accounting change (Ryan, et al, 1993). The objective of case study research is not to derive universal truths or generalisable theories, but rather to explain the social process at work. This approach will help by interpreting the research findings, but again the role of theory in this

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<sup>19</sup> Epistemological assumptions are a set of criteria and processes used to determine the truth (see Burrell & Morgan, 1979; Chua, 1986b).

<sup>20</sup> Ontological assumptions relate to a researcher's beliefs about the physical and social reality. For example, is reality external to the individual, is it objective, or is it the product of human cognition? These beliefs influence the epistemological assumptions (for a full review, see Burrell & Morgan, 1979; in accounting, see Hopper & Powell, 1985).



methodology is not to generalise but to explain, with the explanations coming from the case, not from an imposition of a theory on the case. (Scapens and Roberts 1993).

### **5.3.1 Overview of Case Studies**

The term case study is often used interchangeably with 'field research', 'qualitative research', 'direct research', 'ethnographic studies', or 'naturalistic research' (Ferriera & Merchant, 1992). As identified above the study adopts a case study approach as the main methodology for the study. Case studies have the ability to deal with a variety of evidence such as documents, artefacts, interviews and observations. According to Yin (1994) a case study is an empirical inquiry that investigates a contemporary phenomenon within a real-life context where the boundaries between phenomenon and context are not clearly evident. Yin (1994) also argues that case studies involve the reliance on multiple sources of evidence.

The main advantage from adopting this research strategy stems from the fact that it enables the researcher to gain an intimate understanding of organisational phenomena (Patton, 1987). Yin (1994, p. 13) defines case studies as an empirical inquiry that:

*Investigates a contemporary phenomenon within its real life context, especially when the boundaries between the phenomenon and context are not clearly evident...Copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and ... from the prior development of theoretical propositions to guide data collection and analysis.*

Case studies typically examine the interplay of all variables in order to provide as complete an understanding of an event or situation as possible. This type of comprehensive understanding is arrived at through a process known as thick description, which involves an in-depth description of the entity being evaluated, the circumstances under which it is used, the characteristics of the people involved in it, and the nature of



the community in which it is located. Thick description also involves interpreting the meaning of demographic and descriptive data such as cultural norms and morals, community values, ingrained attitudes, and motives. In scholarly circles, case studies are frequently discussed within the context of qualitative research and naturalistic inquiry. Case studies are often referred to interchangeably with ethnography, field study, and participant observation. The underlying philosophical assumptions in the case study are similar to these types of qualitative research because each takes place in a natural setting (such as an organisation), and strives for a more holistic interpretation of the event or situation under study.

Yin (1994) identifies three types of uses of case study research. These are exploratory, descriptive and explanatory. Exploratory case studies enable the research to formulate more precise questions or testable hypotheses. The case study strategy may be used to explore those situations in which the intervention being evaluated has no clear, single set of outcomes. This application suggests that case studies can be useful for theory generation while the natural sciences approach is usually used for theory testing. Descriptive case studies allow the researcher to provide descriptive account of the phenomenon under study. The application of case studies is to describe the real-life context in which an intervention has occurred. Explanatory case studies attempt to find explanations for organisational practices. Case studies can be used to explain the causal links in real-life interventions that are too complex for a survey or experimental strategies. The difference with the natural science approach in terms of explanation is that, while the natural sciences seek to explain universal truths, case studies strive to explain the particular case at hand with the possibility of coming to broader conclusions.

The approach adopted in this study is exploratory, descriptive and explanatory. It is exploratory because a review of the literature suggested that no study has been conducted on the topic in Nigeria. The study therefore explores the roles of MCS in the studied banks. The study is also descriptive because the MCS practices observed in the banks are described. Finally, the study is explanatory because explanations are sought for the observed MCS practices.

Case studies have become popular in studies on management controls over the past three decades. Drury and Tayles (1995) argued that empirical studies in management accounting have consisted of mainly in-depth case study research focused on practices within a specific company. A case study approach is superior to a survey method in achieving the objective of this study. A survey method would not have allowed the investigator to undertake in-depth study of MCS in the banks. It would not have provided the opportunity to find explanations for the observed MCS practices in the banks. Also, by using the survey approach the historic, political and social context of the banks would not have been explored. As argued by Preston (1991) the survey approach fails to recognise the individual as an active agent who participates in the MCS of the organisation. Several studies have called for case studies to study accounting in practice, to gain rich descriptions of actual situations (Burchell, et al., 1980; Hopper and Powell, 1985; Chua, 1986; Kaplan, 1986).

Case studies are preferred when the researcher poses 'how' and 'why' questions over real life organisational phenomena over which they have little or no control (Yin, 1994). Researchers have argued that the case study is particularly useful for understanding how and why organisational practices operate in specific contexts (Dey, 2001).

### **5.3.2 Strengths of Case Studies**

Patton and Appelbaum (2003) summarised the importance of case studies as:

*It is commonly asserted that qualitative research in the organisational sciences lacks the rigor and objectivity of the quantitative approach. Case studies, while commonly used for educational purposes, have been viewed in a less favourable light in terms of research. Case studies represent an important research track in organisational science, not only as a method of generating hypotheses for quantitative studies, but for generating and testing theory (p.60).*



Eisenhardt (1989) argued that case studies combine data collection methods such as archival searches, interviews, questionnaires and observation. While quantitative data often appears in case studies, qualitative data usually predominates. It has been suggested case studies are the preferred strategy when the investigator has little control over events and when the focus is on a contemporary phenomenon within some real-life context (Yin, 1984; Patton and Appelbaum, 2003). Yin (1989) summarised the importance of case study research in the following context:

*...the case study contributes uniquely to our knowledge of individual, organisational, social, and political phenomena...In all of these situations, the distinctive need for case studies arises out of the desire to understand complex social phenomena. ...the case study allows an investigation to retain the holistic and meaningful characteristics of real-life events (p14).*

The case study allowed the investigator to obtain rich empirical evidence on how control systems operate in the four banks. Participants were selected from diverse backgrounds and levels. Such an approach provided the opportunity to analyse MCS from different perspectives. For example, it enabled the investigator to tease out any differences in the perceptions of managers at the head office and those at the branches. As was reported in the study the managers at the head office had a much more favourable perception of the budgetary control system than those at the branches. This difference would not have been observed had participants not been selected from diverse levels.

Covaleski and Dirsmith (1990) identified several benefits of case studies. First, they provide rich descriptions of the events and the behaviours and actions of people. Second, they facilitate exploring unforeseen relationships; and third they reduce the researcher's induced retrospective distortion and unsupported inferential leaps. Qualitative methods offer a broader and more holistic perspective to research than quantitative methods (Patton, 1987, 1990). Qualitative research approach allows the study of a phenomenon in its organisational context. Bryman (1984) argues that qualitative methods are more



“sensitive” to complex environments than quantitative methods. Qualitative methods can provide a better understanding of the processes or sequence of events.

Scapens (1990) suggested that the case study approach is valuable for its potential to reveal a rich and detailed understanding of the functioning of management control and the factors influencing change in organisations.

It is worth noting that the objective of case study research is not to provide empirical generalisation of a phenomenon. Case studies provide tools for interpreting the research findings, but not for the purpose of generalisation (Scapens and Roberts 1993).

### **5.3.3 Critique of Case Studies**

Despite the strengths of case studies discussed above, case studies have also been criticised on several grounds (Denzin, 1978; Lillis, 1999; Patton, 1987; Yin, 1994). The main criticism of case studies is the inability to generalise the results (Otley & Berry, 1994; Yin, 1994; Ryan et al., 1992). Scapens (1990) and Yin (1994) however defended case studies from this criticism on the grounds that case studies can lead to theoretical generalisation instead of statistical generalisation. The objective of the case study researcher is therefore not to achieve statistical generalisation.

Ryan, et al, (1992) argued that case studies are limited because the researcher is not able to remain independent and neutral from the research setting. Furthermore, Allan, (1991) noted that the case study approach is extremely messy and highly interpretive. Birnberg et al. (1990) argue that the validity of the research may be questioned as a result of the participation of the researcher in the research setting. Furthermore, Denzin & Lincoln, (1998) argued that the perspectives and perceptions of the researcher are shaped by their respective value and belief systems thereby introducing subjectivity or bias into the research.

Ryan, et al (1992) further argued that case study researchers encounter the difficulties in defining the boundaries of their study. Specifically, they identified two main problems in

this respect. First is the issue of how far the case study researcher should relate the management control system to the larger organisational practices. In other words, within what specific organisational context should the management control system be placed? Secondly, the authors argued that there is a problem with the timing of the phenomenon under investigation. For instance, in terms of the study of MCS in the banks, it is always difficult to determine how far the historical analysis of the control system should go back to. Another limitation of case studies provided by Ryan et al (1992) relates to the extent to which the need for confidentiality may affect the case study reports. In an attempt to protect information obtained from the organisation being leaked out, the case study researcher may be omitting vital information which would have provided more insights into the issue under investigation.

Despite these weaknesses the case study is appropriate for this study. As argued by Allan (1991):

*Those who favour qualitative approaches would accept that the perspective a researcher brings to the research does influence the resultant 'findings', but that the flexibility of the methods, their time span and the quality of data collected allows for a far greater reflexivity about the theoretical and conceptual assumptions (p. 182).*

#### **5.4 Research Approach**

This section describes in detail the approach adopted in conducting the study. This approach follows the process of case studies recommended by Yin (1989) which is presented in figure 5.2 below. The study started with a research design. According to Yin, the research design should be informed by the theoretical development. First, detailed review of literature on management controls and institutional theory was undertaken to aid the research design. However given that no previous studies on management controls and institutional theories have been conducted on Nigeria, it was decided to conduct a pilot study to strengthen the research design. Details of the pilot study are provided in chapter six.



Figure 5.2 Overview of the research process (Source: Adapted from Yin 1989 pp.56)



#### 5.4.1 The Main Research Design

The main study was conducted after a careful research design and the selection of the cases. As mentioned already, the research designed was influenced by a review of existing literature and theories (Yin, 1989) as identified in figure 5.2 above as well as the findings from the pilot study. The process of the study is shown in table 5.1 below.

Stage	Activity	Purpose/justification
1	Identification of industry/sector	Banking sector selected because of its importance and also because it is dominated by large organisations
2	Conducting pilot study	Necessary to confirm the appropriateness of the choice of the banking sector and also to identify issues to be explored in main study
3	Designing of interview questions for main study	Based on the literature and findings from pilot study interview questions were designed to explore in-depth the role of MCS in the banks (see interview questions in appendix 5.1).
4	Selection of case companies	3 banks selected to explore the role of MCS in-depth. One criteria was the willingness to grant full access for interview
5	Selection of participants	Key participants to be interviewed selected in each bank from different backgrounds and management levels with the aid of respective finance directors
6	Actual data collection	Interviews and document analysis used to gather data in the 3 banks
7	Analysis	Data subjected to qualitative analysis

Table 5.1: The main research process

##### 5.4.1.1 Overview of the main research process

Based on the findings from the pilot study three further banks were selected for the main study. These banks are hypothetically referred to as the East Bank (EB), North Bank (NB) and South Bank (SB). The rationale for choosing the banking industry is informed

by the importance of the sectors' substantial contribution to national revenue. According to a report by the Central Bank of Nigeria (2003), banks and financial institutions play an important role in Nigerian economy through gathering of deposits, repackaging of those deposits into a variety of financial products and services for customers and the public. The banking industry is also among the few sectors in Nigeria where the state and the private sector both operate on commercial basis and therefore provide an interesting research site. The Nigerian banking sector has undergone significant changes in recent years, especially in relation to the operating environment. Examples of the changes are the prudential guidelines, introduction of the universal banking and the Basel committee recommendations. Discussions during the pilot study suggested the models or archetypes that were proposed and being implemented at the banks was unique to their environment. Based on this, there was an expectation and an impression that this would provide interesting cases from which to get a better understanding of MCS practices. The three banks are among the largest and leading Nigerian banks and thus, are of particular interest for their significance politically and economically.

Getting access to an organisation is always a concern for the researcher (Baxter & Chua, 1998). In this study the researcher sought access to the three banks through personal contacts. Access and cultural proximity were among the criteria for choosing these particular organisations. According to Taylor and Bogdan (1998), an ideal research setting is one where the observer has easy access, is able to establish immediate rapport with participants, and can gather data that is directly related to the research interests. The head offices of the various banks were then approached formally using a formal letter from the researcher's supervisor and an information sheet proposing the aims of the study, methods of research, information required, and extent of employee involvement. Access was negotiated with senior management of the banks and also with the Human Resource departments with the aid of the finance director in each bank.

From a methodological point of view, the multiple case study approach enables the researcher to make some comparative analysis of MCS practices in the three banks (Yin, 1994). A similar approach has been adopted by Hussain and Hoque (2002) to study



performance measurement in Japanese banks. There is the view that generalisations from the multiple cases are more robust (Yin, 1994 & 2004). The use of the qualitative approach to gather data is also very suitable as the objective of the study require in-depth insight into MCS practices (Ghauri, et al, 1995). Capturing the nature of the organisation means researchers should be as close as possible to the phenomena and the people who have experience with the research issues. This requires the negotiation of full access as much as possible. In this thesis it is argued that to get an in-depth understanding of how and why the MCS took a particular form required a broad research strategy capable of exploring the external and institutional environmental influences on these systems. Overall, interview is regarded as the most appropriate approach for studying complex and sensitive areas as the interviewer has the opportunity to prepare a respondent before asking sensitive questions and to explain complex ones to respondents in person. It is also the preferred method of data collection when in-depth information is required. Finally, it is less likely that a question will be misunderstood by the interviewee as the interviewer can either repeat a question or put it in a form that can be understood by the respondent, where such problem may likely happen in other methods, such as questionnaires (Kvale, 1996; Locke, et. al, 1998).

As identified earlier the approach adopted in this study can be characterised as both descriptive and exploratory. It is descriptive for its attempt to describe the practices of the MCS and more particularly the MCS in banking settings. It is exploratory due to the fact that the study seeks to explore the reasons for the adoption of the particular MCS and the roles these play in the organisation. However as some explanations are sought for the observed MCS there are also some elements of explanatory case studies. The research methods consisted of three parts: a series of semi-structured interviews; a study of archival records and documentary materials on the bank's MCS practices. A total of 30 interviews were conducted at different functional levels of the organisations. The subjects for the study consisted of high ranking officers of the banks responsible for running the activities of the banks. The ages of the respondents ranged from 30 to 58 years. The working experience of the respondents ranged from 2 to 25 years, with the respondents having very high formal education and professional qualifications in banking and



accounting. Interviews were therefore conducted with managers and employees from both accounting and non-accounting departments as well as at different managerial levels in the three banks. The pilot study confirmed that in order to have a broader understanding of MCS in the banks it is imperative to interview managers of different backgrounds hence the decision to interview both accounting and non-accounting managers, and managers at both the regional and head office.

Number and Positions of Interviews in each case study organisations were distributed as follows:

Position of Interviews	Case			Total No. of Interviews
	North Bank	South Bank	East Bank	
Corporate/Head office	2	2	2	6
Regional/Zonal Office	2	2	2	6
Branches	6	6	6	18
<b>Total</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>30</b>

Table 5.2 Sample selected for interview

The study is focused on managers in the central office, regional and branch offices of the bank, which has been identified as the most pressurised position in the banking hierarchy. This was also confirmed by the results of the pilot study. The issues discussed during the interview process are the management control systems of the banks. In addition to interview data, various records were collected and examined throughout the study to corroborate the information given by the interviewees. The banks provided the researcher with range of documentation such as organisation structure, memos, reports, manuals, and accounting and performance reports. Specific quotes and passages from archival sources have also been used in this study to provide evidence and to corroborate the findings from the interview process thereby addressing issues of validity and reliability (Yin, 1993).

#### **5.4.1.2 The Interview Process**

The banks operate as autonomous institutions, determining strategic plans and suitable governance structures, budgeting systems, and performance management systems appropriate to their environment. The banks submit an annual and financial report, to their shareholders on an annual basis to satisfy accountability requirements.

The intensive study was carried out between November 2004 and September 2005. Multiple data collection methods or data triangulation were used in this study to overcome the limitations of using a single method and to complement the strengths of each of the individual methods (Birnberg et al., 1990; Fetterman, 1998; Lillis, 1999; McKinnon, 1988). Interviewing and documents review were the primary methods of data collection in this study. These methods allowed the researcher to build up a picture of the processes of MCS practices of the banks using the perspectives and viewpoints of the managers). Secondary data sources used in the study included a review of documentation such as the annual reports, manual of operations, business plans, internal memos, intranet, legislation, and policy documents. The following section describes the phases of the study and then takes a more detailed look at the methods used in the study.

The interviews were conducted with corporate, regional/zonal and branch managers in accordance with the research objectives. These interviews were used to corroborate management positions on MCS practices in the banks and to get a better understanding of the implications of such practices. Participants at this level were selected on the basis of their knowledge of the profession, their knowledge of the antecedents and the consequences of such practices, their ability to report the practices and the antecedents accurately, and their willingness to cooperate (Glick, et al, 1995). All of the interviews were carried out in the offices of the interview respondents.

The interview with each participant (both at the regional/branch offices and the head office) lasted on the average two hours. Follow-up interviews were also conducted with eight managers to clarify issues that need further clarifications. The issues discussed during the interview include the involvement of managers in decision making, how they



rely on MCS in such decisions, the extent to which they participate in budgeting, the influence they have over the design and use of the MCS, etc. Because of the nature of the issues explored, participants were selected based on their understanding of the role of the banks and their knowledge of government reforms. All interviews were taped and transcribed at a later date.

A semi-structured interview guide was used (see appendix 5.2). This was divided into a number of sections, each section containing general questions and potential probes, and was based on examples of interview guides in the literature (e.g. Lillis, 1999). The interview approach enables the interviewer to have a list of areas for questioning but at the same time allows probing of questions in more depth depending on the answers provided by the interviewee. The interview guide approach ‘... helps minimise bias through the pre-specification of non-directive questions and probes’ (Lillis, 1999, p.87) and the preconditioning reduces the tendency to resort to unplanned, non-neutral probes during the interview (McCracken, 1988). Patton recommended that ‘... good questions should, at minimum, be open-ended, neutral, singular, and clear’ (p. 295). These principles were used in the design of the questions.

Before commencing, each interviewee was assured of the confidentiality of the study. Throughout the interviews, the researcher found no evidence of the questions being perceived as overly confrontational in any way and the interviewees seemed relaxed and willing to answer questions. While recognising that no one research method can be truly objective, it is important to document all the steps taken to increase objectivity as far as possible and to be constantly alert for subjectivity at data collection stage (Patton, 1990).

Several steps were taken to limit bias and increase objectivity during the interviews. Firstly, the interview guide was used to ensure consistent and complete coverage of all the themes in each interview (see appendix 5.2 for interview guide). Secondly, notes were taken during the interview to keep a record of important points. In some cases, the interviewees were contacted after the interview for confirmation/clarification of some of the issues.



In addition, some general discussions were conducted with employees at the subject organisations that were not part of the formal interview process. These informal discussions involved a number of issues including strategic planning, structural changes, budgeting, performance management, and changes to the banking environment (i.e., government policy, reviews, and changes in other institutions, competitions and technological advancement).

Documents were used as a secondary data source. Similar to the primary methods of data collection, the purpose of collecting data from these sources was to corroborate findings. Document collection included such items as staff memos, intra-net, annual reports, budgets, circulars, operation manuals, organisational chart, the staff newsletter (newspaper), and banking policies and legislation.

#### **5.4.1.3 Data Analysis and Identification of themes**

According to Marshall and Rossman, (1999), data analysis involves processes of ordering and making sense of large quantities of data. Qualitative data has been criticised in the past because analysis is focussed on words, which are subject to interpretation (Lillis, 1999; Marshall & Rossman, 1999; Miles & Huberman, 1984). Although there are a large number of techniques available for the analysis of data, little has been written on how to apply them (Ferriera & Merchant, 1992; Lillis, 1999; Miles, 1979). Nevertheless, data analysis techniques identified in the literature included the transfer of data to index cards, the coding of data, methodological notes, case summaries, charts, and dummy tables. Unlike their quantitative counterparts there is no single technique that is professed to offer better analysis (McCutcheon & Meredith, 1993). It has been argued by Baxter & Chua, (1998) that the choice of techniques is however driven by the research questions, additionally Glaser & Strauss, (1967) argues that this choice can also be driven by the research strategies, the theoretical framework, methods and data traditionally used in such a study, the availability and accessibility of data, and the resources at the researcher's disposal (Layder, 1993, p. 107). It was explained earlier that one of the ways that concerns for reliability and validity were dealt in this study was by using a number of methods of data triangulation (Robson, 1993). This ensured that during data reduction

phases the researcher did not draw conclusions too hastily or to dismiss useful data (Miles, 1979; Weber, 1990).

At the end of the field research various data were collected in the form of the semi-structured interviews and document analysis. Given the voluminous nature of the data it became imperative to set a strategy for reduction and analysis of this data. The data is analysed by examination, categorisation, tabulation and combination of evidence. As a result several relationships were identified through the pattern matching and explanation building techniques proposed by Yin (1989 & 2003). The interview data is first transcribed into written texts and reviewed based on the objectives of the research. All direct phrases are summarised into summary tables and examined. The summary data is examined over and over again with a view to identifying any inherent themes and such themes pursued for any patterns that would be pursued to find explanations. Following the framework in figure 5.2 above pattern matching approach (Yin, 1989) is adopted to compare empirically based patterns with predicted patterns. According Tellis (1997) pattern-matching is a technique that is used to compare an empirically based pattern with an expected one. Thus the actual or observed pattern may match with the predicted pattern or not. If it matches, the internal reliability of the study is enhanced.

In order to adopt a systematic approach to the analysis of the data, the study followed a similar approach to that described by Miles and Huberman (1984); Marshall and Rossman (1999). The approach involved six general phases of analysis: (a) organising the data; (b) generating categories, themes, and patterns; (c) coding the data; (d) testing the emergent understandings; (e) searching for alternative explanations; and (f) writing the report. The first three of these phases are concerned with data reduction, the latter two with interpretation. It is important to note that phases (a) to (e) occur on an ongoing basis throughout the study and cannot be divided into separate neat, timeframes (Huberman & Miles, 1994; Robson, 1993). Details are provided of how the researcher carried out each of the phases next.



#### **5.4.1.4 Data Organisation**

In the first stage of analysis data are considered to be raw and highly descriptive but not very meaningful as the data is considered not to be in a suitable form for analysis. Hence the need to organise the data into a format suitable for further analysis.

The data collected in the interview process were transcribed verbatim in this phase of analysis. The interview transcripts were printed for each of the banks. By doing this, the researcher was able to identify information according to each bank. In addition, the transcripts were analysed and key points were highlighted using contact summary forms (for further details see Miles & Huberman, 1984). This process was carried out after the interview to allow the researcher to make additional notes. Similarly, the interview notes written were organised in a form under the headings: date, time, event, branch office, what was said, and the researcher's opinion and feelings. Finally, the contents of the documents collected throughout the study were condensed in a document summary form (see Miles & Huberman, 1984 for an example). The purpose of this form, similar to the contact summary form, was to summarise the document and assess its ability to corroborate interview evidence.

#### **5.4.1.5 Data assembly**

This is the process by which the data is assembled together according to categories, themes, and patterns which is also referred to as content analysis (Patton, 1987; Weber, 1990). It has been suggested that in order to analyse qualitative case evidence in a meaningful and productive manner the researcher should arrange their narratives around the concepts or topics of interest (Yin, 1981). In this study, the contents of interview transcripts were organised under the following categories: the formulation and use of the performance budgeting system, formulation of corporate strategic plans, control of performance budgets, perception of the budgeting process, CBN policies, deregulation and competition, performance measurement and reward and punishment system. Other themes identified included issues relating to legitimacy, power, and formal and informal structures. Cross section analysis was used to compare themes among the three banks. The documentary evidence is analysed by reviewing and making relevant notes from



these documents. These notes are converted into phrases and sequentially numbered within the confines of organisations and objectives they referred to so as to be analysed alongside the rest of data. Overall, the documentary evidence supported the themes identified through the interview data.

Each of these headings was predetermined by the study objectives and researcher assumptions, which suggest that MCS should be studied as a control package. This approach which is similar to the pattern matching approach suggested by Yin (2003) therefore aided the process of the identification of themes mentioned above. For example, phrases that were repeated or repeated observations across the cases (Yin 2003) were used as themes to organise the analysis.

#### **5.4.1.6 Data Coding**

The third phase of analysis of data required the data to be coded. This involved a refinement of the categories created in the previous stage or a further reduction in data (Marshall & Rossman, 1999; Miles & Huberman, 1984). This technique was carried out manually in this study to identify the processes of MCS. Consistent with the theoretical framework the categories used were: evolution and motivations for control practices, institutionalisation, characteristics of MCS, and behavioural implications. By doing this, the researcher was able to address the research questions. For example, data were now available on why the organisation adopted the particular type of budget, the process of adopting this budget, the characteristics of the budget system and any subsequent implications.

#### **5.4.1.7 Testing the Emergent Understandings**

In this phase, the researcher developed an in-depth understanding of the data. To begin with, the coded data were arranged in folders according to the codes developed in the previous phase. This involved a process of cutting and filing the interview transcripts. Observation documents and archival sources were also added to the folders in accordance with their contents and the folder code. Data was then analysed based on the quality of data and its ability to contribute to answering the research questions. Specifically, the

contents of the transcripts were compared to see where answers converged (i.e. data triangulation). The findings were then compared with observation and documentary sources to see if any of the information was validated by other methods. Where variations existed between data from different sources, alternative data was sought to try and test its validity (Patton, 1987; Yin, 1994).

#### **5.4.1.8 Searching for Alternative Explanations**

In this phase the researcher reviewed his understanding of the phenomena by testing explanations of what had occurred in the organisation against the sociological theories which is the New Institutional Sociology as outlined in Chapter 4. During this phase the researcher looked for alternative explanations for the recorded events and behaviours other than those originally formed (Glaser & Strauss, 1967; Marshall & Rossman, 1999). The purpose of this phase was to determine the most plausible and empirically grounded explanation for the phenomena. Essentially, the patterns identified in the data were compared or matched with the predicted theoretical patterns to test their validity (Glaser & Strauss, 1967; Yin, 1994).

#### **5.4.1.9 Report Writing**

Ryan et al (1992) discussed the sensitivity of case study reports. The sensitivity of the report was a major issue raised by all the banks in the study. The major issue raised was that the report should not identify the specific banks as this is likely to expose the issues considered confidential to the banks. The banks were operating in a highly competitive environment and therefore this concern was justified. Though the names of the banks have been disguised, their individual organisational features are clearly identified together with their budgeting systems. For each organisation, the report identified its historical development, management structure, as well as its MCS.

The findings of the study will be presented in Chapters eight of this thesis. Direct quotations and narrations will be used to convey to the reader the respondent's emotions, views, and interpretations of specific issues and events (Ferriera & Merchant, 1992). Documentary sources such as annual reports, instruction and information circulars, and

Operating Budgets were also used to corroborate this information. In a number of cases, information was also reviewed from the subject files and will be included in the research findings chapters to improve the credibility of findings. Documentary data will also be reported in the research findings as a further source of information used to triangulate the findings and to improve their validity.

## **5.5 Chapter Summary**

This chapter outlined the research strategies applied to the study of the design and operation of MCS in the Nigerian banking setting.

The chapter suggested that the choice of a particular strategy is dependent on the philosophical assumptions underpinning the research questions and research objectives. With this in mind, this chapter argued that the study of MCS requires an in-depth case study approach capable of locating and capturing the complex relations between the accounting system, other interrelated control systems, and the wider environment. Although the case study method is limited in its ability to generalise findings, it is argued in this chapter that this was not the intention or aim of the study.

Based on preliminary investigations, it was expected that the banks under study would provide rich and interesting data suitable for an equally interesting case study. The research methods suggest that data triangulation methods will be used to improve the validity and reliability of research findings.



## **CHAPTER SIX**

### **Pilot Study Results**

#### **6.0 Introduction**

This chapter presents the results of the pilot study conducted as part of the thesis. A pilot study is a feasibility study conducted to gather information before a larger study (Yin, 2003). By conducting a pilot study any potential deficiencies can be identified and corrected before the main study. Thus the pilot study would allow necessary adjustments to be made before the final commitment to the research design. It is thus an attempt to gain assurance that methodology was appropriate and prudent and also help to focus the research by eliminating unnecessary questions and duplications. The pilot study which was conducted between June and August 2003 was based on one bank hypothetically referred to as the International Bank (IB). IB was selected for the pilot study because it is one of the oldest and large scale banks in Nigeria. It therefore provided a perfect opportunity to explore some of the research issues and to lay the foundation for the subsequent fieldwork.

The research methods consisted of two parts: a series of semi-structured interviews and documentary materials on the bank's MCS practices. A total of ten face-to-face interviews of approximately one hour each were conducted at different functional levels. The subjects for the pilot consisted of high ranking officers of the bank. They consisted of corporate managers, zonal/regional managers, and branch managers as can be seen in table 5.1 below.

Position of Interviews	Case	Total No. of Interviews
Head office/Corporate management	IB	4
Regional/ Zonal management	IB	4
Branch management	IB	2
Total		10

Table 6.1: Samples of managers interviewed at IB

The ages of the respondents ranged from 26 to 53 years. The working experience of the respondents ranged from 2 to 20 years, with the respondents having very high formal education and professional qualifications in banking and accounting.

The remainder of the chapter is structured as follows. The next section provides some background and historical context of the pilot case organisation. Following this, the organisational changes that occurred in IB are described. This is then followed by an overview of the performance and current structure of the bank. The MCS that were observed in the bank are discussed after this. The final section provides chapter summary.

### **6.1 Background and Historical Context of IB**

IB was formed in 1979 by a group of Nigerian private investors. It was among a number of banks that were established during that period as a direct response to allegations of anti-Nigerian activities levelled against expatriate banks operating in the country. The bank was established with the sole aim of assisting indigenous businessmen and -women who were discriminated against in the provision of credit facilities by these expatriate banks (Adegbite, 1994). During its early years, the bank was beset with a number of problems that new banks of its generation faced: lack of a strong management and an inadequate capital base. In 1992, IB's management decided to embark on a major reorganisation of the bank as a response to an increasingly competitive environment. The

bank, like many others within the industry, decided to embark on process reengineering as a “survival” strategy in the face of dwindling margins, increased competition and growing sophistication of customer demands.

Internally, the management structure of IB can be described as stable. The majority of board-level directors had been working in the bank for an average of 15–20 years. Most of these managers and directors rose through the ranks and had wide experience of the Nigerian banking scene. This stability at the top was as a result of the bank’s human resource policy, which put a lot of attention into building a family of employees - named the “IB family.” This policy had seen the bank achieve a low staff turnover over the years. Manager 2 (Head office)<sup>21</sup> noted that: *“While over the years IB was not among the highest paying banks in the industry, this was compensated for by the bank’s stable human resource policies”*.

The culture of IB branches prior to reengineering typified the general culture of banking in Nigeria before liberalisation. As argued by Manager 1 (Regional office): *“A prevalent issue then was the poor quality of service and consequently a poor bank - customer relationship, as staff did not see any need to foster a closer relationship with customers except for personal gains”*. Evidence gathered from the study suggests that the average length of time for transacting business within the branch was between half an hour and 2 hours, even for simple transactions such as checking account balance or cash withdrawal.

The implication of this is a practice known in local parlance as “man know man.” This is the practice whereby a customer sees it as important to make friends with one of the branch staff to be able to get through the cumbersome process of banking - in return for some form of gratification. People who are unfortunate enough not to know anyone are thus left to spend hours in the bank. As suggested by Manager 5 (Branch office): *“A side effect of this practice is the lack of orderliness and the absence of the habit of queuing up in bank branches”*.

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<sup>21</sup> Many of the quotations from the managers in this chapter come from interviews for the study on which the chapter is based and don’t have a published source. Confidentiality agreements mean names cannot be revealed.



## 6.2 Organisational Changes

In this section some of the major organisational changes that took place at IB are explored. This is necessary to understand the context within which the bank's MCS operates. By the end of the 1980s, competition had heightened within the industry following the deregulation of the economy and the liberalisation of the banking sector as discussed in chapter 2. In its response to the increased level of competition, the management of IB embarked on strategic planning, which was viewed by the chief executive officer (CEO) at that time as the "way forward" for the bank (IB annual report 1987). In October 1988, the board approved the appointment of a multinational consulting firm to handle the project. Work on the plan started in May 1989 between the consultants and members of IB, and by the end of August 1989, the team came up with the bank's first strategic plan.

The strategic plan was based on achieving substantial level of change in three key areas: geographic spread, business focus, and image management. A shift in geographic coverage was to see the bank open new branches in areas other than the state capitals of the country in which about 90% of its current branches are located (Internal document produced by IB's BRP team in 1994). Changing the business focus entails building and sustaining a viable marketing culture for the bank that would portray an image of an urban bank and that would ultimately bring in new sets of customers. Finally, the focus on image management would see the increase in private ownership of the bank to 60% and thus improve its corporate standing.

The 1st Strategic Plan lasted till the end of 1992, after which it was replaced by the 2nd Strategic Plan in 1993. The main focus of the 2nd Strategic Plan was a branch process reengineering project. The bank, like many others within the industry, decided to embark on process reengineering as a "survival" strategy in the face of dwindling margins, increased competition and growing sophistication of customer demands. In the words of manager 8 (Regional office):

*When the new banks came in and people started seeing things being done differently, they realised that the world is rather different. Also, a lot of people*

*that travelled out of the country came back with their own experiences and expectations of what banking should look like. When they saw what the new generation banks were offering, words started going round that a new dawn has arrived for branch banking in Nigeria. As a result, old generation banks were forced to sit up in order not to be left behind.*

According to the IB internal memo, 1996, the main thrust of the BPR initiative was a comprehensive restructuring of branch activities to “achieve better service delivery to customers.” The BPR project was hinged on three smaller interrelated projects: branch computerisation, interconnectivity and networking of branches in a Wide Area Network, and branch process redesign. In branch computerisation, it was recommended that the bank should aim to make more effective use of IT in branch operations and to automate some of its head office functions. New banking application software, called Phoenix Banking Software, was to be installed along with new and powerful PCs on which to run the software. To aid inter-branch transactions, it was also recommended that branches should be linked up in a wide-area network, as this had become the “standard” within the industry.

According to the bank’s management, with regard to branch process redesign, the aim was to achieve “quantum leap improvements in quality, speed, efficiency and effectiveness of customer delivery.” To achieve this aim, it was recommended that major changes in branch operations, including a complete overhaul of staff profile, was to be undertaken. New sets of staff, mostly university graduates, were to be employed to work in the redesigned branches. To improve processes, attention was focused on “empowering” cashiers and giving them some freedom in carrying out their duties. This was in line with management’s desire to adopt “efficient and effective computer-based controls in the form of on-line approval” and to reduce the long process of cash- and cheque based transactions, where previously each cheque being cashed went through four different authorisation points. To achieve this, authorisation levels were programmed into the new software so that cashiers could pay out cash (up to a limit) without having to refer to a superior. A new computerised customer service point was to be established to



take care of all noncash transactions, such as opening of new accounts and checking account balance. The role of information technology is quite prominent, as data are now captured electronically at the start of the process (i.e., at the point of opening an account or at the teller point). As a result, staff can have better knowledge of customer account history and queries can also be answered more correctly and speedily.

To complement process changes, it was also decided that branch infrastructures would be overhauled. Previously, cashiers were confined to sit in cage like structures on their own with very little interactions with other staff and customers. To reflect the new focus on customer service, it was suggested that cages be removed and replaced with open workspaces to allow for better interaction with customers and staff. This open platform was essentially seen as symbolising the new era of openness with which the bank wanted to deal with its customers.

In addition to structural reorganisation, changes in the organisation and management of branches involved changing branch staff nomenclature and reorganising roles and responsibilities of staff. The roles and responsibilities of the branch manager and the accountant were regarded as not clearly defined. Therefore, it was proposed that the branch manager would shed most of the daily operations management duties to focus more on marketing and winning more customers for the branch. The accountant would take on these administrative responsibilities and oversee the day-to-day management of branch operations. In addition, the title of the branch accountant would be changed to head of operations to reflect the new emphasis on teamwork in branches and the new role of the accountants. Cashiers' titles would also be changed to "tellers" to reflect their new status and increased responsibilities within the branch.

#### ***6.2.1 The Implementation Process***

The BPR project at IB was initiated by management as "a statement of intent" to transform the fortunes of the bank. However, the researcher discovered a gap between the intended plans and what was eventually implemented. Implementation decisions and actions were influenced by a number of factors, including economic, social, political, and



cultural influences from within the organisation as well as the external environment. In tracing the actions comprising the implementation process, the researcher identified two classes of adaptations, namely, adaptations at the management level, when management redefined BPR to suit the bank's strength and weaknesses, and adaptations at the branch level, where the original plans from management and consultants were redefined by branch management and staff to suit local work practices at the branch level.

#### **6.2.1.1 Restructuring Approach**

The first type of adaptation was the adoption of "a careful and calculated approach to computerisation" and branch reengineering. It involved a cautious approach to branch automation and investment in IT. According to the CEO in a company bulletin, "Although, we aim to invest in technology, we are not specifically aiming to lead the industry . . . We will be pragmatic as to the choice of technology and the extent of automation." In practical terms, the bank's pragmatic approach meant that the BPR project addressed the diversity of branches in its network. The bank introduced new computer systems only in selected branches, and the level of restructuring that took place was based on the size of the branch, the volume of transaction, the types of customers, and whether it was a rural or urban branch. This entailed a redefinition of BPR, quite different from what was envisaged, and it therefore led to the total exclusion of the bank's 16 rural/cash centre branches and a three-tiered approach to restructuring the remaining 41 branches.

The first of these three tiers of the BPR project was *reengineering*, which involved investing in state-of-the-art technology, new banking application software, and network interconnectivity in a small number of "strategic" branches, which contribute the most to the bank's earnings. The second layer was *redesigning*, involving the largest number of branches regarded as important to the bank's earnings but not "strategic" enough to warrant investing in new technology. These branches were restructured but did not have any new technology introduced. Rather, existing software and hardware were upgraded and then put back to use. The third approach - referred to as *streamlining* - involved restructuring the operations of branches without implementing any IT. Existing manual

systems were revamped and changes made to the physical location of files. However, data were still kept on card files and signatures were verified manually with the use of mandate cards.

The decision to tailor the project to reflect the diversity of branches was influenced by both organisational and external factors. External factors included the rural banking scheme, which meant that, in compliance with government regulations, the bank had to open branches in areas that were regarded as unprofitable. These branches - referred to as “political branches” - were seen as loss making branches. As a result, noneconomic factors informed the opening of the branches, and they have been kept alive because government would not permit their closure - even after the rural banking scheme had been abolished. An organisational factor was the sheer cost of computerising the branches vis-à-vis the financial strength of the bank and the productivity of each branch. Given the huge cost of implementing the new banking software (Phoenix Banking Software), the bank decided to introduce Phoenix Banking Software only into those branches regarded as “strategic” in terms of volumes of transactions and contribution to the bank’s overall earnings.

#### ***6.2.1.2 Rotation of Staff***

At the onset of the project, the bank was advised that it would need to lay off members of staff without a university degree, as these were perceived as not qualified to work in the new environment of a reengineered branch. However, management took an important decision not to lay off staff, but instead to adopt a system of rotating staff and moving them around the branches. In effect, this approach saw that reengineering at IB did not result in any massive lay off of staff as was the practice in other banks - which resulted in serious collision with the unions and in one case a total collapse of the BPR project in that particular bank.

A factor contributing to this decision was an established tradition regarding the bank’s human resource practices, which had led to what is known as the culture of “IB family.” This tradition related to the fact that over the years, the bank’s recruitment policy had been geared toward building a team or a “family” of employees not purely based on



academic qualifications or other formal methods of recruitment. Management therefore redefined the concept of BPR as stipulated by the consultants based on its own construction of IB “reality” in terms of the bank’s recruitment policy. The consultants on their part defined IB’s needs in terms of overhauling the entire staff profile, but to management this conflicted with the bank’s long-established policy of promoting a “family” of staff.

#### **6.2.1.3 Old Branch Practices Accommodation**

One of the important tenets of BPR at IB was in the desire to eradicate the practice known in local parlance as “man know man” and the idea that with reengineering, “everybody gets treated equally” (*Manager 4 (Regional office)*). This equal treatment was meant to translate in practice such that it was not necessary for customers to know anyone in the branch before conducting business, and all that was necessary was for customers to take their turn by queuing up until they get served. However, the reality of the situation, given the culture of the Nigerian society, is that certain groups of people with leadership status within the society are not expected to queue up in bank branches. Therefore, there was a need to accommodate such people even within the reengineering initiative. According to manager 10 (Branch office) interviewed:

*Given the type of our branch and the type of customers we have, we still try to accommodate some set of people, like for instance, the chairman of the local government council or the traditional head of this community. If such a person comes in to the bank we cannot ask him to queue. What we do is to send him up to the bulk room away from the main banking hall and from the glare of other customers; here he can get service quicker.*

In other branches of the bank (such as corporate branches) that the researcher visited, this was not the practice and branch management did not see a need for this, given the type of customers it served. In effect, this local form of accommodation led to a toning down of the initial plan to serve every customer equally. Given the demands of its local setting, a branch of the bank had to find ways to accommodate some of the idiosyncrasies of its local context.



#### ***6.2.1.4 Semi-automated Authorisation***

Another important expectation from implementing BPR was the adoption of “efficient and effective computer based controls in the form of on-line approval” based on new authorisation limits at reengineered branches. These new authorisation limits were in line with the “empowerment” initiative of reengineering where more customer facing members of staff (such as tellers) were given increased autonomy in paying out cash so as to improve customer service. Authorisation limits were subsequently programmed into the banking application software and thus only allowed staff to authorise the limits awarded to them.<sup>22</sup> Any claim or transaction in excess of 50,000 Naira was referred to the branch manager, who has the highest authorisation limit within the branch.

However, this translated to some form of restriction for the branch manager, who, based on the new reengineering initiatives, was expected to focus more on marketing related activities and building strong and viable relationships with customers. Focus on marketing and customer relationship meant that the branch manager operated more outside the branch, trying to win more customers and keep existing ones. Due to the high rate of inflation within the Nigerian economy, banks handled several cash withdrawal requests of over 50,000 Naira daily. As a result, a potential conflict existed when the branch manager was out on marketing duties and there were cash withdrawal requests of over 50,000 Naira waiting to be approved. To get around this problem, manager 10 - in one of the branches visited- took the decision that the head of operations should take charge of such situations and authorise these payments in his absence.

Although the software would not allow the head of operations to authorise the transactions electronically, he could still give the go-ahead and do a manual authorisation pending the arrival of the branch manager, who would do the electronic authorisation on his return. In the branch manager’s views, the new authorisation limits presented a constraint to service delivery because customers would have to wait for his approval -

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<sup>22</sup>With reengineering, tellers could pay out as much as 5000 Naira without getting authorisation. Withdrawal requests in excess of 5,000 Naira are referred to the head of tellers (whose limit is set at 25,000 Naira) for authorisation. If the amount in question is more than 25,000 Naira, then approval is sought from the head of operations, whose limit is 50,000 Naira.

which may compromise the faster response time promised with reengineering. In effect, what we have is a mixture of both online (electronic) and manual authorisation as opposed to the all-electronic authorisation envisaged at the onset of the project. Here, the Nigerian economic situation (in terms of high inflation and the large number of over 50,000 Naira withdrawals) influenced the manager's decision and thus led to a need to adapt the original plan.

### ***6.3 Performance and Current Structure of IB***

Over the years, IB has experienced phenomenal growth. With a share capital of N55.6 million in 1980, the Bank's share capital grew to N813 million as at 2006. The Bank's total asset base was N212.9 billion while its deposit base stood at N148.3 billion as at March 2006. In order to reposition its operations and to take advantage of opportunities in the changing environment, the Bank embarked on several restructuring initiatives. In 1985, the Bank introduced a decentralised structure with zonal/regional administrations. This was reconfigured in 1992 to enhance the Bank's operational efficiency.

With its recent re-engineering exercise, culminating in the full implementation of state-of-art banking technology (Phoenix Banking Software) - a most advanced integrated banking software in Nigeria which delivers on-line real-time banking services across its branch network, in order to revolutionise its operations in line with the dynamics of the environment, IB has effectively positioned itself as one of the leading, strong and stable commercial banks in Nigeria. IB has continued to be involved in financing long-term development of the economy. To demonstrate its commitment to its customers and the development of the Nigerian economy, the Bank has since broadened its loan and credit portfolios to various sectors of the economy (IB Annual Report 2006). It is also one of the founding shareholders of African Export-Import Bank (Afreximbank), for which the bank acts as a pioneer Trade Finance Intermediary (TFI) to the Nigerian clientele of African Export-Import Bank (Afreximbank).

The Bank has improved tremendously judging from a number of parameters including number of branches, growth in deposit base, asset size and size of loans and advances.



Furthermore, its record of profitability and reliability in sound banking has placed the Bank in a good position. In line with its mission statement "to provide the best financial services possible", the Bank has consistently transform itself as it forges ahead in its decades of qualitative banking to the nation. IB's vision, mission and corporate values are formulated keeping in mind the shape and posture envisioned for the future and their implications carefully analysed (IB's annual report 2004, p.2).

*Our mission is to deliver to the customer high value, at all times, in a broad range of universal banking products and services, at competitive price in order to provide the best financial services possible. To our shareholders, we promise good return on investment while maintaining a positive work environment in which every employee of the bank counts. Our aspiration is to remain within the top 10 banks in the Nigerian Financial System -a strong brand that is equated with quality and integrity such that our growth is sustainable.*

IB has identified that its strategy is to grow by gaining more of the existing market and by developing new markets. The annual report stated that: "*Our thrust into investment banking and consumer finance products opens a new vista of opportunity for growth in service offerings*" (IB's annual report 2004, p.2). With continuous process re-engineering, the bank claimed that its organisational arrangement has produced substantial gains in efficiency. They have reviewed their IT resources and have enhanced automation in all areas. Their investments in networking make it possible to offer on-line, one stop banking services to customers from any location of the bank. The bank's investment in a more robust software package has further enhanced the quality of these services and sharpened their competitive edge.

Manager 1(Regional office) interviewed noted that: "*In IB we believe that our people constitute the most valuable asset of the bank. The bank prides itself on the high ethical standards and professionalism of its staff*". It has been mentioned in various documents (for example company annual reports) that the bank understands that success is enhanced by their ability to identify customers' needs and to provide products and services that make them the bank of choice. To IB, everything is designed to add value beyond



traditional financial prudence. The decision making structure of IB is provided in Figure 6.1 below.

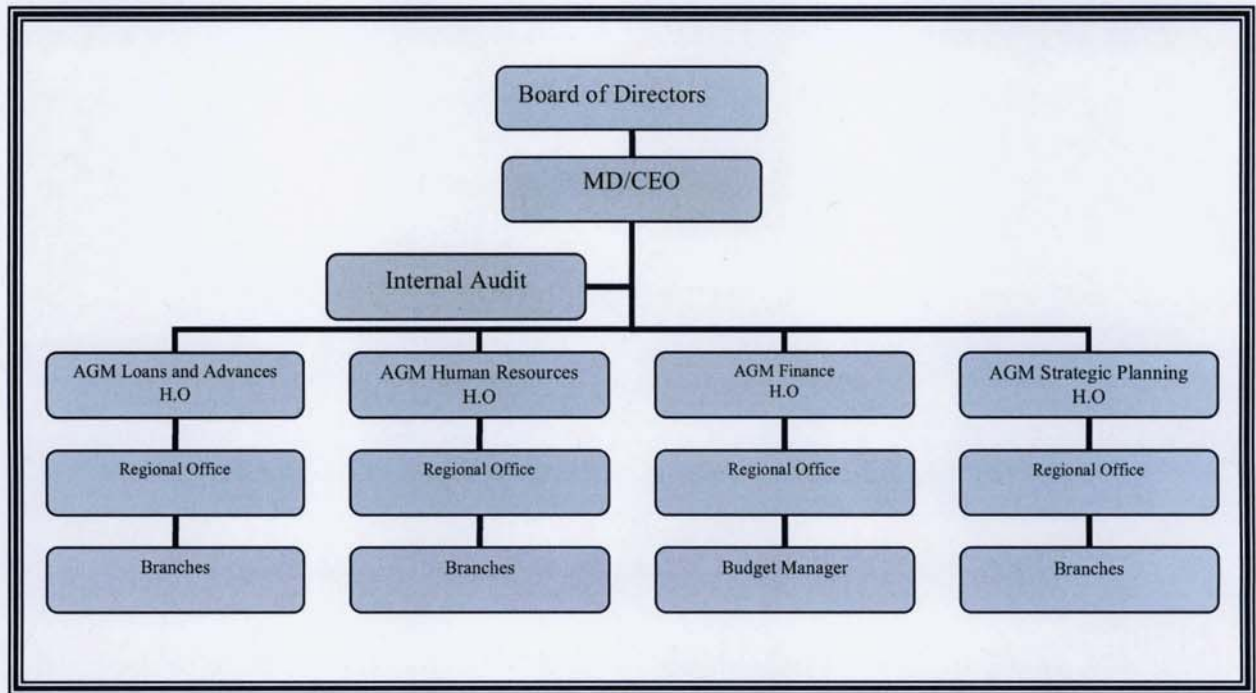


Figure 6.1: Decision making structure of International Bank (Source: Developed by author based on data collected from the IB).

As shown in figure 6.1 above, the main decision making body of IB is the board of directors. The bank has an 8 member board responsible for all strategic decisions. The day-to-day decisions are the responsibilities of the CEO and the senior management team. The branches operate as profit-centres, and are responsible for generating bulk of the business for the bank. Branch managers report to the AGM Zonal/Regional office operations. The bank has an internal audit department that reports directly to the CEO. The budget is coordinator within the Finance department.

#### **6.4 The Management Control Systems (MCS)**

This section discusses the key management control systems that were observed during the study.

##### **6.4.1 Strategic planning**

There was evidence from the pilot study that IB's MCS were influenced by the bank's corporate strategy. The bank has a long-range plan which encompasses the identification of identifying resources, skill, technology and system gaps and recommendation of specific actions to bridge them. As part of the long-range planning process, the schedule, responsibility and accountability of different aspects of the plan are determined and the monitoring and review process of actual performance developed.

Once strategic plans are formulated they have to be controlled through a strategic control process. According to manager 2 (Head office) interviewed: *"Strategic control implies, monitoring and reviewing the performance of the organisation as a whole as envisaged in the strategic plan"*. A strategic control in IB for example exercises results in decisions on the changes in the strategy or the manner in which its different components are being implemented by the bank. This exercise is a pointer to remedial actions and new initiatives that the bank needs to undertake to ensure successful implementation of the strategy and to achieve the corporate vision, mission, values and strategic objectives despite the continuous changes in the business environment.

##### **6.4.2 Budgetary Controls**

The system of budgeting identified in the bank is the performance budgeting system. The performance budgets start with the preparation of branch budgets. These budgets are prepared based on careful analysis of the corporate policy guidelines as well as the business potential assessment note compiled by the branch managers. This assessment enables the branch managers to propose performance targets for different aspects of the branch. Manager 6 (Regional office) interviewed commented that: *"Zonal/regional and branch managers make a business potential assessment of their respective areas of operations. The business assessment note prepared by the branch manager will be*

*reviewed by the regional manager and firmed up after incorporating the changes found necessary by the latter”.*

In terms of the process, the respective zonal/regional managers prepare the budget for the zone after consolidating the budgets for the regions within their zone along with the administration expenditure and other information concerning the zone. The draft budget for each zone is sent to the general manager in charge of planning at the head office. The zonal budget is also finalised through discussion and analysis in a budget settlement conference of the chairman, full time directors, departmental heads and zonal/regional managers. After incorporating the changes suggested, the budget for each zone is revised and sent to the planning department at the head office. The budgets for each of the departments at the head office are also discussed and finalised at this conference. The above process has been summarised by manager 4 (Regional office) during the interview as:

*The regional budget is formulated by each regional manager after consolidating the branch budgets incorporating administration and other information of the regional office. It is, therefore, more than just the aggregation of the branch budgets. The draft of the regional budget is finalised through an in depth discussion in a performance settlement meeting conducted by the zonal manager. After incorporating the changes suggested at this stage, the respective regional managers finalise the budget and send the same to the central office managers concerned, lamented by the regional office manager.*

The overall budget for the bank is formulated by consolidating the budgets for each of the zones as well as the departments at the head office. It is then presented to the board of directors. The process for formulation of the budget for the bank usually takes two and a half months. This process is a top to bottom and bottom to top exercise wherein, at each stage the coordinating manager and the performing executive jointly participate and discuss/divide up the responsibility for attainment. Manager 3 (Head office) at the head office described the process of the bank’s corporate budget as:



*The budget for the bank is formulated by consolidating the budgets for each of the zones/region as well as the departments at the head office. It is then presented to the board of directors. The process for formulation of the budget for the bank usually takes two and a half months. This process is a top to bottom and bottom to top exercise wherein, at each stage the coordinating manager and the performing executive jointly participate and discuss/divide up the responsibility for attainment.*

From the discussion of the budget setting process above it can be argued that there is some evidence of participative budgeting in the bank. Managers at the regional/zonal offices have some inputs in setting the budget. In addition to the formulation of the budget, the pilot study also explored the process of controlling the budget. The study revealed that branches are controlled by the head office through either direct visitation/inspection of branch operations or indirectly through branch returns. Indirect control is exercised through 'control returns submitted fortnightly to the head office. Direct control on the other hand is exercised through senior managers undertaking quarterly visits to regional/zonal offices to monitor budgetary and other aspects of performance. There have however been some changes in recent years as a result of increasing regulatory pressure from the Central Bank of Nigeria. Manager 7 (Head office) interviewed at the head office identified the major change in the control process as:

*Recently, a system of 'concurrent audit' has also been introduced in the bank. Here, the functioning of selected large branches is observed by identified 'auditors' on a daily basis and reports sent to the controlling office/head office periodically.*

#### **6.4.3 Performance Monitoring and Evaluation**

Performance measurement was identified by the interviewees as important for the achievements of the banks strategies and plans. The bank periodically monitors and reviews the performance of its branches, regions, and head office departments. Feedback and guidelines on fresh initiatives are equally necessary. Manager 2 (Head office) commented on the rationale for its bank's performance measurement system as:

*When performance is monitored the bank can formulate improvement decisions. Performance is arrived at through a joint discussion between coordinating manager and the performing executives. Further, self-monitoring by performing executives and suggesting actions for performance improvement is to enhance a sound practice.*

It was observed that budgetary variances reports play a significant part in the performance monitoring process of the bank. This involves a comparison of the budgeted figures with the actual performance to unearth the causes of the variances. According to manager 9 (Head office) at the head office; *“In a typical commercial bank, the variance analysis is designed on the basis of tracking down factors that cause variations from the set targets”*. The performance of the entire bank is reviewed every quarter by the board of directors. Manager 4 (Regional office) interviewed at the regional office indicated that: *“The performance reviews affect the entire bank. They are part of our operational processes”*.

The performance measurement system of the bank has however been criticised by some of the managers interviewed. Manager 10 (Branch office) noted that: *“The superiors are showing more concern towards the short term target achievement rather than long term effectiveness of the system”*. It appears that the current systems provide few incentives to motivate managers to improve their performance. The managers also noted that the performance measurement system is constrained by the under developed information system in the bank. Manager 2 (Head office) at the bank’s head office noted that: *“Every control system to be functional needs an information system that would act, in such a way as a nervous system act in the human body- to give direction and receive feedback”* *Sometimes I think our information system is under developed to support our operations”*.

#### **6.4.4 Factors Influencing the MCS**

It is evidently clear from the study that the diverse factors shaped the ways MCS operated in the bank. The deregulation and the liberalisation of the Nigerian banking sector is one of the key driving forces in the ways in which the bank made decisions. The Central

Bank of Nigeria (CBN) introduced diverse measures to control the operations of the banks. Moreover, the liberalisation has created a much more competitive environment that is forcing the banks to be more proactive. This was summarised by manager 3 (Head office) as: *“Before the liberalisation we believed that every product or service which is offered will be sold. This is different from the post liberalisation era which has now created consumers market where products are offered as per the dictations of the customers”*.

Thus, the bank is now beginning to focus attention on understanding its customers as reiterated by manager 5 (Branch office) as:

*The basic questions as to why a particular customer is dormant in his accounts, or why certain number of customers have shifted to other branches or what is the further potential with the existing customers which needs to be explored through certain marketing techniques can be answered by the analysis of the accounts of the existing customers.*

The key findings from the pilot study discussed above are summarised in table 6.2 below.

Elements of MCS in the Bank	<ul style="list-style-type: none"> <li>- Budgetary controls (performance budgeting)</li> <li>- Performance measurement systems/reward systems</li> </ul>
Budgetary process	<ul style="list-style-type: none"> <li>-Some evidence of participative budgeting</li> <li>-Also some evidence of top down approach</li> </ul>
Key institutional/environmental factors <ul style="list-style-type: none"> <li>- CBN policies</li> <li>- Deregulation of the banking sector</li> <li>- Competition</li> </ul>	Impact of these factors on MCS <ul style="list-style-type: none"> <li>- MCS such as budgets imposed on the banks</li> <li>- But also more proactive MCS to cope with competition (e.g. focus on customers)</li> </ul>

Table 6.2: Summary of main issues from pilot study



By analysing table 6.2 above it can be observed that the key MCS used by the bank are the budgetary control and the performance measurement system. Both systems are well developed and appeared to be recognised by the managers interviewed. The performance measurement system was in a way linked to the reward system where some managers get bonuses based on achieving some financial targets. In terms of the budget there was some evidence that regional and branch managers are involved in developing their own budgets. However there was also strong head office influence setting budget targets. Various institutional factors including CBN policies, deregulation and market competition have been identified as shaping the design and uses of MCS.

### **6.5 Chapter Summary**

This chapter has presented the results of the pilot study. The pilot study focused on one of the banks in Nigeria, the International Bank (IB). Data was collected through documents and semi-structured interviews with 10 managers from the head office, regions and branches. The key findings from the pilot study suggest that the bank has undergone major restructuring over the years. This restructuring was influenced by changes in the Nigerian economy in general and the banking sector in specific. The Central Bank of Nigeria (CBN) was instrumental in engineering most of these changes. However few of the changes can also be attributed to internal management policy.

Overall, the Nigerian banking sector and hence the operating environment of IB can be described as competitive and turbulent and this has resulted in the need to design more proactive MCS. The study found that budgetary planning and control, and performance measurement are the main MCS operating in the bank. The study also explored the process of setting the budget in order to understand whether lower level managers participate in setting the budget or not. The findings suggest that purely participative or purely imposed budgets are unlikely to be achieved in practice. Instead the budgeting approach is likely to combine elements of both participative and imposed budgets.

The findings from the pilot study and the lessons learned from the process of the pilot study were used to inform the design of the main study which is presented in the next

chapter. For example, in designing the main study careful attention was paid to the fact that the banks operate under central bank (CBN) regulations. It was therefore necessary to examine the regulatory regimes as part of the main study. The finding from the pilot study also helped in focusing on the types of MCS to study. The pilot evidence suggesting that budgetary controls and performance measurement are the main MCS used in the banks thus enabled the researcher to pay particular attention to these two elements of MCS during the main study. The literature review was also updated based on the pilot evidence which showed that the banks use the performance budgeting system.

## **CHAPTER SEVEN**

### **Background of the Case Organisations**

#### **7.0 Introduction**

This chapter presents the background of the three case study organisations. Several researchers including Hopwood (1987) and Burchell et al., (1980) have argued for management accounting systems to be studied within their organisational context. This chapter is important for us to understand the organisational contexts within which the studied MCS are located. The chapter discusses among other things the history, structure, organisational changes and strategy of each bank. The chapter is divided into five main sections. After this introductory section, the next section presents the background of the East Bank (EB). This is then followed by a presentation of the background of the South Bank (SB). The next section is on the background of the North Bank (NB). The last section provides a chapter summary.

#### **7.1 Background of East Bank**

East Bank (EB) was incorporated as a Private Limited Liability Company in the 1980s. The bank converted to a public liability company in the early 2000s. Established on a tradition of conservative and highly ethical banking that had a strong underlying efficiency, EB has managed over the years to become the leading bank in Northern Nigeria (EB's annual report 2006). The bank has targeted a broad range of corporate and institutional market segments, from off-shore companies and SME's to government ministries and State-Owned Enterprises (SOEs). EB provides a range of services including corporate, international trade and project finance, loan syndication, correspondent banking, discount brokerage, securities trading, private and public equity, financial advisory, wealth and funds management, insurance brokerage, consumer loans and mortgage finance. The bank also offers multi-channel payment systems and full e-banking solutions, including Internet and cellular banking.



With a client base of over one million customers who are served at 106 branches in the metropolitan areas of the country, EB boasts total assets of over N50 billion, total and shareholders' funds surpassing N8.433 billion<sup>23</sup>. The bank registered 372 percent growth in revenues in 2006 with a pre-tax profit growth of 418 percent over the same period. EB attributes this phenomenal success to the harnessing of its optimal asset deployment and rigorous portfolio management. In addition, EB has anchored this accelerated growth in a strong risk management structure that is guided by compliance with the Basel II international capital framework. According to the EB's annual report (2006), the CEO has been the mastermind behind creating a seamless operating platform as well as a shared vision, culture and value system for the entity.

EB's annual report (2006) identified its main vision as to be a leading financial institution committed to providing superior customer service by redefining its standards. The same annual report also identified its mission as to provide innovative solutions to the bank's customers with passion, while creating optimal value for stakeholders. The bank also identified certain values that it deemed necessary for achieving its vision. These core values include delivering on promise, professionalism, excellence and integrity; team spirit; and respect for the individual. Some of the interviewees were asked during the interviews the extent to which these values are communicated to managers in practice. Manager 3 (Regional office) indicated that: *"Clearly these values are contained in official documents and are consistently mentioned during staff meetings. I can say that to a high degree employees are aware of them. Of course it is difficult to measure the extent to which these values have been attained in practice"*.

In order to understand the role of management controls in EB, the bank's decision making structured was examined. A partial organisational chart of the bank is shown in Figure 7.1 below.

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<sup>23</sup> The exchange rate of the Nigerian Naira to the British Pound as at the end of March 2008 was 230 Naira to £1

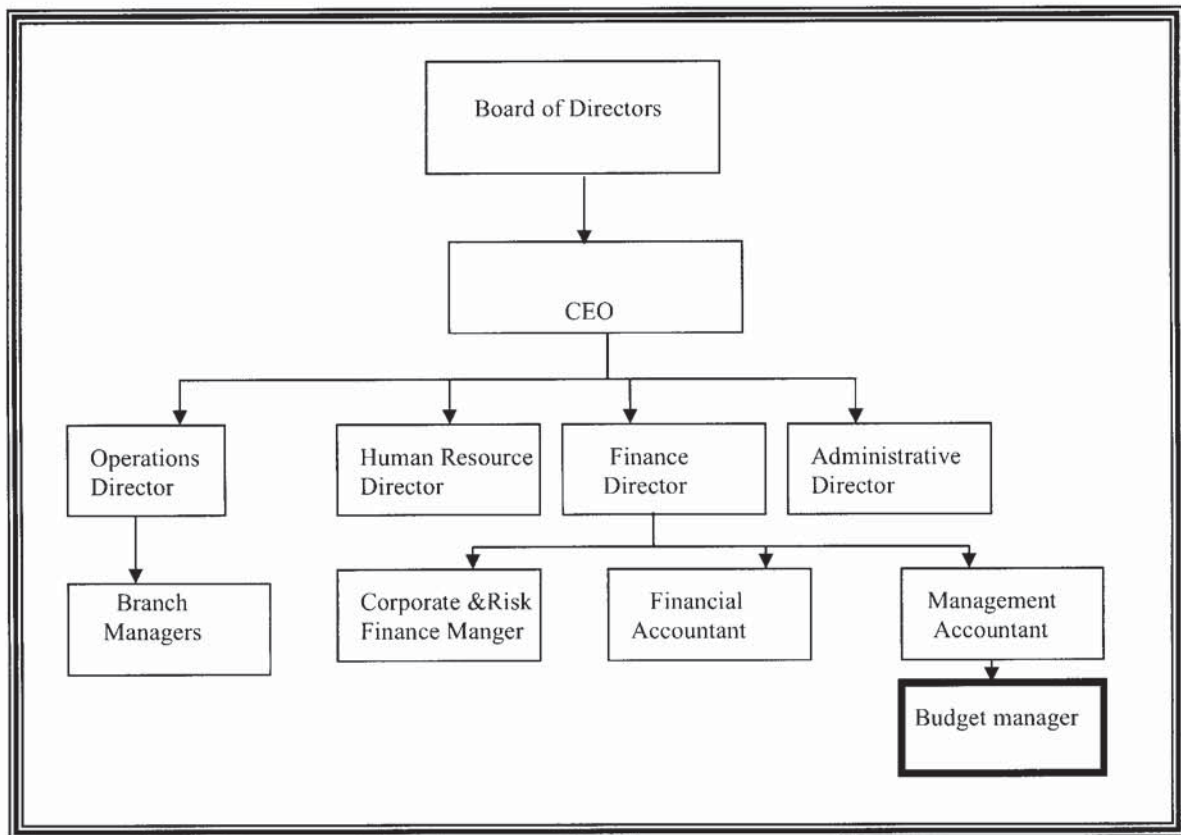


Figure 7.1: Decision making structure of East Bank (Source: Compiled by author based on information collected from the bank).

The main decision making body is the board of directors. The bank has a 10 member board of directors responsible for formulating the bank's strategies. The CEO together with the line managers are responsible for the day-to-day running of the bank. The bank has various committees in charge of specific decisions. For example, the Finance Committee which is headed by the Finance Director is responsible for all finance decisions. The finance department has a corporate and risk finance, financial accounting, and management accounting sub-sections. The budget is coordinated within the management accounting sub-subsection. The bank has a designated person called the budget manager responsible for budgeting.

## **7.2 Background of South Bank (SB)**

### ***7.2.1 History and Operations***

SB was established in the 1940s and is one of the “old generation” banks in Nigeria. The bank was initially set up by a consortium of foreign banks. In 1977, when the Nigeria government introduced the Indigenisation Decree, government bought 60 per cent of its shares and therefore became the majority shareholder. The government however sold off its interest when the bank was privatised in 1994. These shares were bought mainly by indigenous investors (Vanguard, 1998).

SB has its branches spread more widely across the country. This wide spread is reflected in its staff mix. Therefore, the influence of foreign investors, the highly political climate as a result of heavy government involvement before privatisation and the wholesale change at the top after privatisation meant that there was little or no emotional attachment to staff, which perhaps made the task of laying-off staff much easier. It could also be seen as an attempt by the new Board to sustain the long-term relationship the bank has with the foreign investors and international shareholders who maintain a major stake in the bank.

SB offers a wide spectrum of commercial and investment banking services to a clientele ranging from individuals to leading international corporations and public-sector entities. The bank's total assets reached N1.051 trillion compared to the N332.604 billion it attained in 2005 (SB's Annual Report 2006). SB's profit before tax rose from N6.520 billion in 2005 to N12.611 billion in 2006, representing a 97 per cent increase. A further analysis of the bank's annual accounts showed that its deposit base soared by 278 per cent, from N205 billion in 2005 to N776 billion in 2006.

SB's branch network of over 428 is the largest in Nigeria and the bank has deployed the largest Automated Teller Machines (ATMs), network across the length and breadth of Nigeria, estimated at over 400, in a continuing effort to make banking services available



24 hours of the day, and positioning the bank as truly "the wise choice within reach" as per its brand strap line (SB Annual Report, 2006).

SB has greatly expanded their investments in all parts of the country with the objective of enhancing their competitiveness. Customer satisfaction has been identified as one of the top priorities of bank management. Manager 2 (Head office) who is a corporate manager at the head office commented on the reason for the customer-focused strategy during the interview as: *"In essence, we are working to build a stronger and deeper base of trust by returning to the basics of bank management and putting ourselves in the customer's place by responding flexibly and aggressively to the environment"*.

SB's management promised quality services by promoting teamwork among its network offices and providing the highest quality financial and information services. They were aware of the bank's activities in the community. In light of this, manager 2 (Head office) further commented that *"We have always maintained a strong presence in the community. Many of our state offices make donations regularly to charities and participate in community volunteer programs"*. Furthermore, the interview results revealed that individual employees take part in many volunteer activities, with top management's support for this and matching gift programmes for employees' donations. The two corporate managers interviewed at SB's head office indicated to the researcher during the study that SB regards these various community-related activities as an important part of its corporate social responsibilities and intended to continue these efforts to contribute to the wellbeing and further development of society. The manager 7 (Head office) emphasised that: *"The social work is considered to be a tool to create awareness of the bank's corporate name in a given population. At the same time, it is an achievement of the vision of the bank. Community perception has changed over the years and the bank has been developed with this in mind"*.

An analysis of SB's vision, mission, and core values which were contained in the bank's annual report shows that these reflect the bank's aspirations to become a truly one stop bank and a neighbourhood bank in Nigeria, delivering unrivalled value to customers. For

example, the vision of the bank identified in its 2006 annual report states that: "*The bank aspires to be the undisputed leading and dominant financial services institution in Nigeria*" (SB Annual Report, 2006, p.2). The same annual report identified the bank's mission as being a role model for Nigerian businesses by creating superior value for their stakeholders, abiding by the utmost professional and ethical standards, and by building an enduring institution. The Bank's core values also identified in its annual report defines its corporate identity which rests on four fundamental values: H. E. I. R (see SB's Annual Report, 2006, pp. 5):

*Humility:* This is synonymous with meekness and a belief that the "Customer is king". SB's products and services cover every segment of the market and staffs are taught not to despise small beginnings. By a deliberate business philosophy, numerous start-ups and new business initiatives have been supported from incubation to maturity.

*Empathy:* Knowledge of the customer and intimate understanding of their businesses is an integral part of the SB's marketing strategy, and this is done with a view to developing mutually beneficial and enduring relationships. The bank is constantly driven by a strong desire to assist their customers in their efforts to create value. The bank creates partnership with their customers in a way that reflects understanding and appreciation of their business.

*Integrity:* Under integrity, the bank explains that every member of SB is taught to uphold in the purest human form, the virtues of moral excellence, honesty, wholeness and sincerity in all interactions with everyone - customers, service providers, fellow staff and all other stakeholders. This value it has been suggested in the annual report has proven tremendously helpful in building the Bank brand.

*Resilience:* It is part of the culture in SB to proactively conceptualise, design and develop products and services, which surpass the expectations of customers, no matter the odds. The Bank's innate strength also enables it to adapt to fast changing economic trends and cycles. The bank was formed out of a desire to lead the sector to a new era of global

relevance by championing the creation of the Nigerian consumer finance market and leading a private/public sector partnership aimed at accelerating the economic development of Nigeria.

In terms of decision making, SB's partial organisational chart is presented in figure 7.2 below.

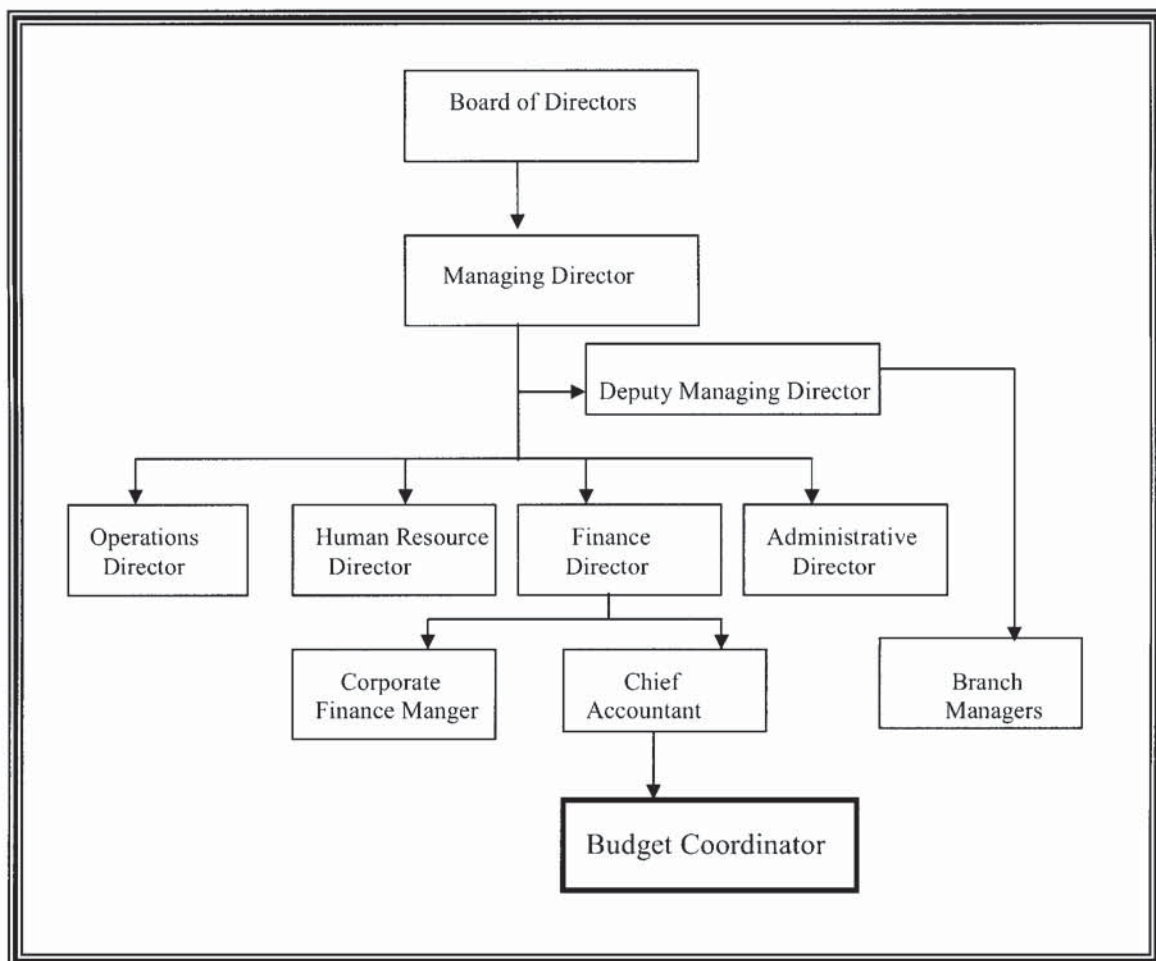


Figure 7.2: Decision making structure of South Bank (Source: Compiled by author based on information collected from the bank).

SB's main decision making body is the board of directors. The bank has a 17 member board responsible for all strategic initiatives. Day-to-day decision making is delegated to the managing director and the various managers in the bank. The managing director is



assisted by the deputy managing director. All branch managers report to the deputy managing director. The finance department has an accounting section which also coordinates the budget. In addition, there is a corporate finance section which deals with the risk management and derivatives of the bank.

### **7.3 Background of North Bank**

North Bank (NB) was incorporated in the 1980s as a State-owned Bank. In order to meet the statutory Central Bank of Nigeria (CBN) minimum capitalisation requirement, the bank was privatised in the late 1990s. The privatisation was necessary to increase the capital base of the bank from private sources. NB currently has 215 branches located in 29 of the 36 states of the federation and the Federal Capital Territory (FCT). The bank is a full-fledged financial service centre with strong capital presently in excess of N30billion and deposit base of over N150billion (NB's 2006 annual report).

Analysis of NB's 2006 annual report reveal that the bank has recorded a profit after tax of N1.37 billion in the 2006 financial year. This represents about 235 percent growth when compared with a profit of N409.61 million declared in 2005. The bank's total assets also rose to N139.68 billion in 2006, up from N38.56 billion in 2005 representing an increase of about 262 percent (NB's 2006 annual report). The chairman of the bank noted in the bank's annual report that the bank's impressive performance is due to the passion, integrity, and resourcefulness of the board, management, and staff.

The chairman's report further noted that: *"The bank recorded this performance amidst of the challenges of heightened competition, and increased risks, which the changing environment of the banks in the country brought"* (NB's annual report, 2006, p.3). One specific area that the bank intends to focus attention on according to the chairman's report is improving the quality of service delivery in all the bank branches. This the chairman noted would enable the bank re-capture the lost market shares, as well as deepen existing market penetration that will enhance returns to shareholders.

As part of its efforts aimed at promoting rural banking, NB has concluded arrangement to establish seven micro-finance banks in some rural areas of the country (NB's annual report, 2006). The motivation for this decision was noted by the chairman in the company's annual report as: *"We are doing this as part of our objective aimed at promoting the culture of banking in the rural areas. We are also doing this in order to address the banking need of our small customers"* (NB's annual report, 2006, p.3).

NB's vision as identified in its annual report is to be a leading customer-driven financial services institution (NB's annual report, 2006). Its mission identified in the same annual report is to deliver innovative financial solutions leveraging on skilled and motivated workforce, leading edge technology and strategic alliances to enhance stakeholders' value. NB's banking philosophy is encapsulated in the concept of creating success stories for all stakeholders. The bank noted in its annual report that they are driven by the desire to empower their customers to succeed in their pursuits (NB's annual report, 2006). The bank gives preference to financing projects with capacity to empower people and impact positively the lives of Nigerians. They have a branch expansion policy that seeks to take banking to places not currently served by other banks demonstrated by the micro banking concept discussed above. Among the bank's core values are passion, integrity, resourcefulness, and dependability (NB's annual report, 2006). The researcher asked some of the interviewees the extent to which these values are communicated to managers in practice. Manager 7 (Branch office) commented on this as: *"I am aware of these values so are the staff of my branch. I believe this applies to the other branches as well. I think we are good when it comes to communication so I believe these values are communicated to managers and employees of different levels"*.

In order to understand the role of management controls in NB, the bank's decision making structure was examined. A partial organisational chart of the bank is shown in Figure 7.3 below.

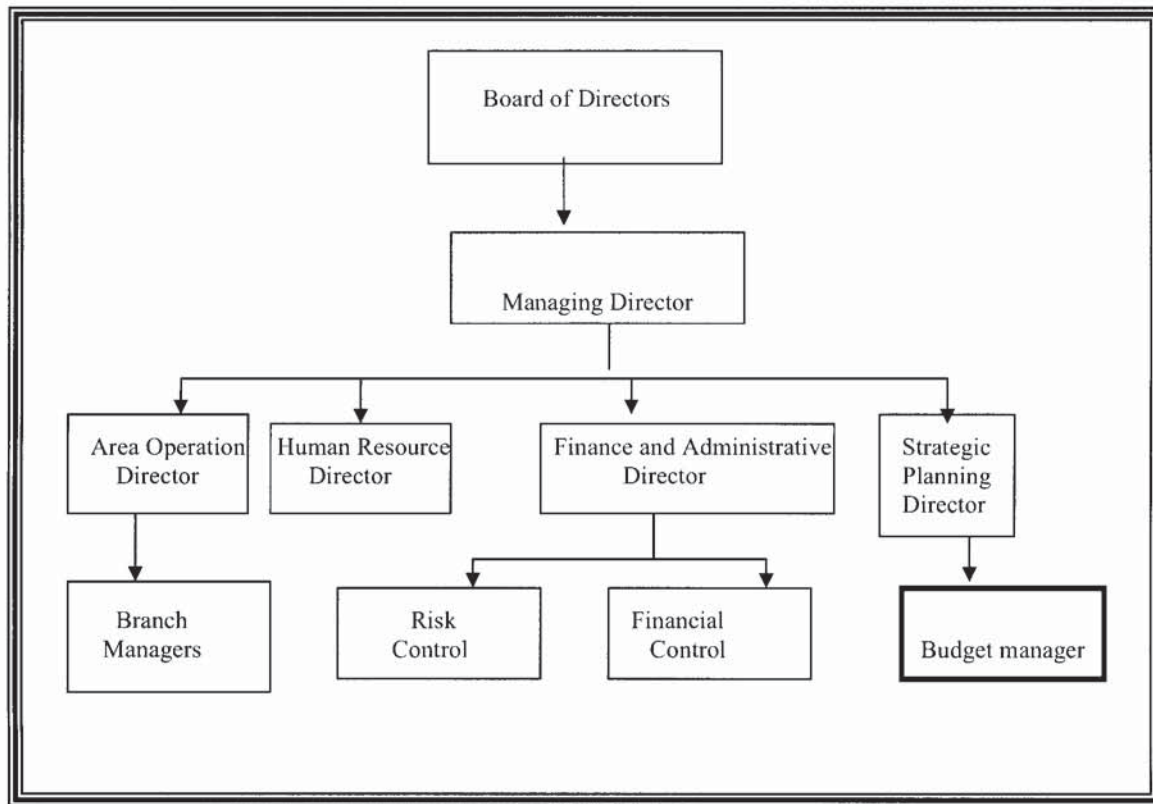


Figure 7.3: Decision making structure of North Bank (Source: Compiled by author based on information collected from the bank).

The main decision making body of NB is the board of directors. The bank has a 17 member board responsible for all strategic decisions. The bank's website summarised the professional skills and qualities of its board as: *"Our Board of Directors consists of accomplished professionals who have brought their complementary skills to bear on the future direction of the Bank"* (NB website)<sup>24</sup>. The day-to-day decision making of the bank is the responsibility of the managing director and his team. Branch managers report to the director of area operations. The accounting and finance function is divided into two main areas – financial controls and risk control. The financial controls area is responsible for preparing the company's annual reports and preparing some internal decision making reports. The risk control is responsible for managing the company's financial risk. NB's

<sup>24</sup> Unfortunately the url to the bank's website is not provided due to the need to maintain anonymity.



budget is coordinated within the strategic planning department. Manager 3 (Head office) interviewed at NB explained the reason for this as: *“Budgeting is a very important strategic issue. It requires top management attention all the time. We feel it will better serve the whole organisation if the budget is coordinated by the strategic planning department. They have experienced staff who can manage the budget”*.

Appendix IV of the NB’s Corporate Structure Document identified the roles of the strategic planning unit as: budget preparation; preparation of quarterly reports on the direction of the budget; monitoring implementation of strategic plans; preparation of annual reports on the implementation of the bank’s strategic plans for the attention of management and the board; assist in policy formulation and marketing; branch network expansion and serving as the secretariat for the bank’s strategic plans. Thus budgeting is a significant function of the strategic planning unit.

#### **7.4 Exploring Changes in the case organisations**

The purpose of this section is to examine the various changes that occurred in the case study organisations. This analysis is necessary in order to shed light on how and why these banks have designed organisational structure to cope with the external pressures for change discussed in chapter 2. In other words, analysing the organisational changes will help in understanding the various ways in which the banks have responded to the changes in the banking environment. Instead of presenting the changes in the individual banks, it was decided to compare and contrast these changes in order to be able to make sense of whether these institutions have responded differently or similarly. A critical analysis of the evidence gathered suggests that the structure of the four banks have changed over the years (the case of IB, the pilot bank has already been discussed in chapter 6). The majority of the changes observed during the study were undertaken in response to the changes in the Nigerian banking environment (discussed earlier in chapter 2). While some of these changes were judged successful by the participants others were judged less successful. These issues will be discussed in this section.

During the study it emerged that all the banks studied have implemented business process reengineering (BPR). SB was among the first banks to have implemented this innovation in the mid- 1990s. The success of BPR at SB meant that it later became the norm or standard within the banking industry, as subsequent change initiatives in other banks were modelled around this approach. This assertion was confirmed by manager 7 (Head office) interviewed at SB as: *"To the best of my knowledge we were among the first banks in the country to have implemented BPR. Our approach at the time was to reengineer all our processes. This approach was so successful that it later became a practice in the banking sector in Nigeria"*. It was pointed out to the researcher by the managers interviewed in the banks that the deregulation and liberalisation had stimulated banks to start engaging in strategic planning, which was seen as appropriate response to the changing environment.

SB's BPR was implemented largely by consultants engaged from a western country. As noted above, SB's implementation of BPR was deemed to be very successful and this was also emphasised by Manager 2 (Head office) interviewed at SB: *"The management of the bank and the consultants found BPR to be very successful. Its promise of improvement was realised by the bank and this increased the bank's commitment to it. The consultants then sold the concept to other banks in the country"*. SB did not limit the BPR to the head office but also extended it to the regional and branch operations. SB therefore proceeded to restructure all its branches and ensured that they all embraced the BPR philosophy. Not surprisingly, EB and NB have also implemented BPR. The interviewees at both EB and NB confirmed during the interview that BPR was sold to them by consultants. Manager 1 (Head office) at EB reiterated this as: *"The first time we heard of BPR being used in the banking sector was in the 1990s. We were approached by some consultants who managed to convince us of its value. They informed us that other banks in Nigeria have already adopted it and it was working for them hence our decision to embrace it as well"*. This is consistent with the views expressed earlier by the managers interviewed at SB (see above) that other banks started adopting it after its success with SB.



The study revealed that the organisational changes as a result of the adoption of the BPR could be described as a top down approach. First, consultants came in and did a SWOT analysis of the bank and its branches and based on this design strategic plans that formed the basis of the reorganisation initiatives around the theme of BPR. In the banks studied, there was no consultation with the branch managers as noted by Manager 1 (Branch office) at SB as follows: "BPR was considered as a strategic decision and therefore it was purely a top management decision. The branches were considered 'too small' to have a say in this". Similar, manager 7 (Branch office) at EB commented that: *"We were not consulted about all these decisions. These are strategic decisions which are taken at the headquarters"*.

The entire period of the 1990s and early 2000s witnessed the implementation of new ideas after ideas. For example, consistent with the need to evolve a coherent business strategy and respond to environmental changes, SB Plc embarked on a comprehensive, realistic and practical restructuring exercise in 1995 which involved changes in structure, staffing, systems, skills profile and shared values (SB, 1998:3). SB's privatisation in 1994 created impetus for experimentation with innovations as a private sector organisation. Privatisation immediately brought about a change in management, especially at the board level - where over 60 directors regarded as government 'cronies' were sacked and replaced by young professionals (Vanguard, 1998).

The liberalisation of the industry and the attendant increase in number of operating banks, coupled with the new and emerging focus on customer service and improved technology use, led SB's new management to embark on strategic planning. The aim of its strategic plan was to combine the strength of SB (SB, 1998), - which, being an old generation bank, were its huge customer base and the availability of cheap and stable deposit - with the flexibility, responsiveness and focus on quality service delivery of a new-generation bank.



The result of adopting the strategic plan was the bank's 'restructuring and repositioning' exercise, which commenced in 1995. Describing some of the challenges that had forced the bank to embark on this exercise, the chairman of the bank noted that:

*The international and local contexts of banking business have been faced by such emerging challenges as sustained attack on the market share of the big banks by leaner and younger players; ....(and) the growing sophistication of bank customers in an increasingly competitive environment (Vanguard, 1998).*

According to management, changes within the banking industry demanded that the bank transformed itself completely and that this transformation was to encompass all areas of the bank. This was made clear by the CEO:

*The board of SB was convinced that the prevailing corporate culture, organisation structure, sheer size, and degree of efficiency of resources needed to be significantly reviewed if the bank was to enter the 21<sup>st</sup> century as a major player in the country (SB Annual Report 1998).*

A change-management team, consisting of key officers experienced in different aspects of the bank's operations, was brought together to work with management consultants. Their brief was to assess the bank in terms of its strength and weaknesses and to come up with a vision of how it would progress in years to come, especially in the context of changes in the banking environment. The team produced a report that formed the nucleus of the bank's strategic plan on which much of the restructuring and repositioning was founded. The prime features of this plan were based on achieving substantial levels of change in four main areas: computerisation; operations process reengineering; branch development; and staff training and development (SB 1998).

Inspired by the recommendations of consultants, management treated the task of restructuring SB with the utmost urgency, based on their perception of the pace of developments within the industry. As such, it was decided that the projects in the four

key areas would be carried out concurrently, so that the bank would not lose ground to changes in its environment. As suggested by manager 2 (Head office) interviewed: *“Work commenced immediately on the implementation of the plan, and teams were formed to handle the different projects”*.

The entire strategic change was linked to the BPR discussed earlier. Strategic management team was formed to handle branch network development and the Business Process Reengineering team for dealing with process reengineering and staff training even though as mentioned earlier the branches were not directly involved in the implementation process. For SB, the existing IT unit was upgraded by bringing in new staff to take over the computerisation part of the plan. Much of the computerisation initiative centred on implementing at all the branches the home-grown applications software named Branch Accounting and Information Systems (BRAINS). However, as indicated by manager 4 (Regional office): *“In 1999 on the status of the restructuring exercise, much of the original contents in the strategic plan had been either dropped or modified”*.

The approach adopted by SB could be described as radical or a revolutionary change (Burns and Scapens, 2000). On the other hand both EB and NB adopted an approach that could be described as incremental or evolutionary (Burns and Scapens, 2000). Thus, both EB and NB made a decision to implement the strategic plan in a piece meal approach, as opposed to the radical overhaul that was SB had undertaken. SB's radical approach nearly backfired as by the middle of 1997, about 18 months into the strategic plan's implementation, the restructuring exercise took a turn. Management realised that the implementation was not going smoothly as expected. Due to the changes taking place, there was a series of strikes by staff who were fearful of the impact of the restructuring of their jobs. As commented by manager 7 (Head office) at SB: *“The bank spent the whole of 1996 in negotiations with the union about the impending rationalisation of staff, and appeasing staff complaints about the pace of change taking place”*. In addition, the interviewer was informed by some of the managers that during this period, the bank



realised that it did not have the required skills and staff to carry out the intended plans at the required pace. In an interview with manager 7 (Head office) of SB, he stated that:

*In 1995, we started off with grand design to change every area of the bank. However, in reality the implementation proved difficult; we realised we could not change everything all at once. We cannot change things overnight because people have limited ability to absorb change and also because we are short of people to lead the change. Even the ones who are leading the change now have a limited ability to control things; there are only 24 hours in a day and 7 days in a week.*

In effect, this led to management's decision to reconsider its strategy. At the onset of the change programme, management – armed with the recommendations of the consultants and burning with eagerness to wipe the slate clean – had decided the best way forward was to change everything, all at once. However, the reality of the organisation's resource context was that there were not adequate resources to carry on as intended, with all projects carried out at the same time. Instead, it was decided that, given the available resources, the scope of the change should be redefined and implemented in phases. NB and EB did not have experience such a tumultuous approach to their organisational restructuring. In fact the process in both banks went smoothly. Even though branch managers were not involved, the fact that the change in both banks was incremental and accompanied by the education of the branch and lower level managers resulted in minimal resistance to the change contrary to what was the case in SB.

As these banks operating in a competitive and dynamic environment, the banks in the study also invested heavily in information technology. Attempts were made to computerise operations in all three banks. However, some of these attempts were less successful than others. SB is more diversified than the other banks and therefore for them it was necessary to computerise so as to facilitate coordination. However as suggested by SB's managers during the interview, this turned out to be a very costly exercise. SB's computerisation strategy especially the branch networking was influenced by the resource characteristics of the bank – in terms of the diversity of its branch network. Given the



variety of types of branches in its network and the level of business activities that takes place in them, management decided that it was not going to be cost effective to connect all the branches. Instead, a two-way strategy was adopted, in which 'strategic branches' were connected using the VSAT<sup>25</sup> technology with all other branches connected via a hub system. In the hub system, a networked regional branch acts as a gateway to other branches with the region. In an interview with SB's manager 2 (Head office) at the head office, he explained the major reason for this choice of system:

*Although it is desirable for the bank to have all its branches connected and to be able to access and to determine the financial situation or balance of every branch at a go and at the beginning of every day, but there are constraints. Do you install expensive systems in marginal branches, or do you first concentrate on key branches and then expand the scope for the others?*

The financial strength of the bank and the bank's customer reach in terms of its branch network, which is the third largest in the industry with over 400 branches, of which 87 are in rural areas. The cost of installing state-of-the-art technology and wide-area networks into all these branches (especially those regarded as 'unprofitable') led to the adoption of the two-hub system to link up branches. EB and NB had also invested heavily in information technology. Manager 1 of EB (Head office) summarised the bank's efforts as: "We are very good when it comes to IT in Nigeria. I believe our IT facilities are as equally good as that of the other top banks in Nigeria. We have invested heavily in it". Similarly, manager 4 of NB (Head office) commented that: "We are one of the innovative banks in the country. To keep up with this innovation we have always made commitments to investment in IT. We want to be ahead of the game. Of course this is not the same standard you see in the developed countries. But by Nigerian standard, we are definitely on top of IT".

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<sup>25</sup>VSAT is the generic term used to describe Very Small Aperture Terminal earth stations. These earth stations are high-capacity digital satellite communication technology, capable of accommodating a host of interactive communications applications.

## 7.5 Chapter Summary

This chapter has presented the background information on the three banks studied. This analysis is important to understand the context within which the management controls are located. All three banks have organisational structures that depict the formal authority and decision making. There are some similarities in these structures but there are also differences. For example, all three banks have structures that can be described as hierarchical with strategic and major decisions concentrated at the top. They also have departments responsible for the supervision and monitoring of the branches suggesting that systems of controls are likely to be operational in the banks. However this is an issue that will be examined in the next chapter. Table 7.1 below provides a summary of the three banks described above.

<b>Bank</b>	<b>EB</b>	<b>SB</b>	<b>NB</b>
Age	25 years	60 years	20 years
Ownership	Public Limited Company	Public Limited Company	Private Limited Company
Number of branches	106	428	215
Total Assets	N50 billion	N1.050 trillion	N139 billion
Recent Operating Profit	N1.4 billion	N12 billion	N1.37 billion
Organisational Changes	Introduced some strategic and IT changes. Some of these changes successful and others not.	Implemented various strategic changes. Recognised as one of the first movers of BPR in Nigerian banking.	Very innovative bank with investments in IT. Various organisational changes introduced.

Table 7.1. Summary of the three banks.

As can be seen from the table above, the three banks have long established history in Nigeria. Their assets based and branch networks also suggest that they can be classified as large scale banks in Nigeria. The three banks have also implemented several organisational changes with BPR being the most significant of these changes.

It was identified that all three banks are large scale banks with reported good performance. The banks also have well laid down mission, vision, and strategy which are well laid down in their annual reports and other company documents. Overall therefore the analysis of the background of the banks is expected to contribute to our understanding of how and why MCS operated in the banks the way they did. The role of MCS in the banks is examined in the next chapter.



## **CHAPTER EIGHT**

### **Case Results**

#### **8.0 Introduction**

The study was designed to explore the management control practises of selected Banks in Nigeria. The research was motivated by the dearth of empirical evidence on management control systems (MCS) in the developing world in general and Nigeria in particular. The study is therefore in a response to calls for more individual developing country studies to enhance our understanding of how MCS operates in these environments (Hopper et al., 2003). The empirical part of the data was gathered from both semi-structured interview with managers of diverse levels of the four commercial banks and the analysis of various internal and external documents. One of these banks was used as a pilot study and the result of this was presented in chapter six. This current chapter presents the results of the three banks used for the main study.

The chapter is structured as follows. Following this introductory section, the next section presents an overview of the MCS in the banks. This is then followed by a discussion of the budgetary control systems of the banks. After this, the performance measurement systems are discussed. The last section provides a chapter summary.

#### **8.1 Overview of the Management Control System**

This section examines the MCS in the three banks studied. The objective is to understand the rationale and the nature of MCS in these organisations. MCS are designed in the banks keeping in mind the characteristics of banking business operations. The banks involved in the study all have highly diversified profile and several varieties of financial products/schemes both for resource mobilisation and credit dispensation. Interview evidence obtained from all three banks suggests that there is the pressure to keep non-performing assets (NPAs) within the limits prescribed by the central bank. Further evidence from the interviews suggests that the banks are also continuously subject to rigorous system of supervision and close monitoring by the central bank.

All the three banks could be described in the context of Nigeria as large organisations (given the assets size described chapter 7). These banks also have wide geographical spread of retail offices and have structured their operations into head office, zonal offices/ regional offices, and branches. In all the cases, the branch is the lowest operating unit and is the main performing unit with direct customer contact. The banks also operate under intense competition due to the deregulation of the banking sector (Agusto 2001; Brownbridge, 2005). Evidence obtained from the interviews shows that this competition has increased the concern for quality of service and customer care and the need to design innovative customer-oriented financial products from time to time. Manager 2 from NB (Regional office) indicated during the interview that: *"The bank has been under constant pressure in recent years to improve profits and enhance non-fund income as the spread between interests earned on loans and interest paid to depositors has been falling in Nigeria due to the increasing competition and government regulation"*. Manager 10 from EB (Head office) noted how all these factors require long-term corporate vision alongside a retailer attitude, effective treasury and risk management, and internal controls and decision-making.

Even though the initial attempt was to investigate the entire MCS, it emerged during the initial stage of the study that budgeting and performance measurement systems are the predominant forms of MCS used in all three banks. Other forms of MCS are rarely mentioned. As a result, the empirical results reported in this chapter focuses on these two elements of MCS – budgeting and performance measurement.

## **8.2 The Budgetary Control Systems**

This section examines the budgeting practices in the case study organisations. Budgeting was one of the key MCS identified during the study in all three organisations. The section seeks to document the budgeting models used in the banks under study. Issues discussed include the rationale, the process and the importance of the budget in the banks.

### **8.2.1 The Evolution of the Budgeting System used in the Banks**

The system of budgeting used in all three banks is referred to as *performance budgeting*. The origin of performance budgeting in the banks has been traced to government pressure. The Federal ministry of finance (FMF, 1986) in its report made it mandatory for the banks to adopt a performance budgeting system for improving their operational efficiency. Osaze (1996) noted that: The ministry of finance (banking department) of the federal government of Nigeria directed all banks to prepare annual business plans and take measures to introduce performance budgeting. It was pointed out to the researcher that the Nigeria institute of bank management then sponsored top management seminars in May 1986 and April 1987 to promote and facilitate the implementation of the performance budgeting system in the banks. The committee on productivity, efficiency and profitability of commercial banks in Nigeria set up by the Central Bank of Nigeria (C.B.N) in 1987 stressed the need for adopting the performance budgeting in the following words;

*The performance budget helps the management to proceed along the projected goals and the performance evaluation at monthly or quarterly intervals indicates the deviation and corrective action that should be initiated. The performance budgeting was, thus introduced by the CBN in 1986 followed by other banks in the same or subsequent years. Since 1986 the majority of the banks in Nigeria have adopted this system of control (CBN Report, 1987).*

According to the Federal ministry of finance (FMF, 1986), the main objectives of introducing performance budgeting are:

- i. To prepare a realistic operational plan for the bank from the grass root level of branches upwards and workout its financial and manpower requirements, so as to ensure a satisfactory growth in business’.
- ii. To enable the operational managers at the branch level to acquire competence in planning and controlling the branch operations and assist them in self- assessing their performance;



- iii. To enable the region and head office management to exercise effective control over the performance of branches and for identifying the strengths and weaknesses and initiating corrective action.
- iv. To facilitate communication between the different management levels in the organisational hierarchy of the bank, and
- v. To involve the different levels of management in the formulation of plans and their implementation, thereby ensuring their motivation for the achievement of organisational goals.

Evidence obtained in all three banks indicates that budgeting is driven by the external regulatory requirement (banking commission requirement). Manager 5 from SB (Branch office) commented that: *“All organisations need to plan. We would have undertaken budgeting even in the absence of the CBN requirement. But I must admit that the performance budgeting we are currently using is because of CBN requirement. CBN has obviously made banks attach more importance to the budget”*.

Before we discuss the budgetary process it is necessary to explain the corporate strategic planning process. This is because the evidence collected from the field suggests that the budget in all three organisations is driven by the requirements in the corporate strategic plan. For example, manager 1 from EB (Head office) noted that: *“Our budget is based on our corporate strategic plan. Before we develop the budget we take a broader look at our strategic plan”*.

### **8.2.2 Corporate Strategic Plan**

The empirical results suggest that all the three banks have a strategic planning and control process delegated from the respective board of directors. In terms of strategic planning, corporate objectives for the planning period are clearly spelt out in all three banks according to the interview results. These objectives though differ from bank to bank generally relate to among other things market share, ratio between income and expenditure, net non-performing assets, the share of low cost deposits to total deposits, profit to the bank, non-interest income, customer base, new products to be introduced,

housekeeping standards, productivity per employee, and extent of computerisation. Evidence relating to this was obtained from the interviews.

Generally, strategies and action plans are directed towards achievement of corporate objectives and relate to growth, expansion and diversification of the bank; resource mobilisation; marketing; credit policy and management; and new product development. Strategies are also formulated to Manage non-performing loans, treasury and funds management including risk management, asset and liability management; improving profits and non-interest income and preventing leakage of revenue; internal control systems and decision making; human resource management and development; and information technology and management information system.

In NB for example, the implementation of the long-range plan involves identifying resources, skill, technology and system gaps and recommending specific actions to bridge them. For this, the schedule, responsibility and accountability of different aspects of the plan are determined and the monitoring and review process of actual performance developed.

Once strategic plans are formulated they have to be controlled through a strategic control process. According to manager 3 interviewed at NB (Head office): *“Strategic control implies, monitoring and reviewing the performance of the organisation as a whole as envisaged in the strategic plan”*. A strategic control in NB for example exercises results in decisions on the changes in the strategy or the manner in which its different components are being implemented by the bank. This exercise is a pointer to remedial actions and new initiatives that the bank needs to undertake to ensure successful implementation of the strategy and to achieve the corporate vision, mission, values and strategic objectives despite the continuous changes in the business environment.

Manager 7 at SB (Head office) added:

*The strategic control exercise is carried out by the top management of the bank. For this exercise, information reports are compiled by the corporate planning cell. While some of the reports focus on performance on organisational parameters – for example, growth, share of market, return on capital employed and economic value added. Others focus on environmental developments including political, economic, social, technological changes and the developments in the industry.*

Strategic controls in all three organisations therefore involve monitoring and review of performance in relation to the long-range plan/strategic plan. The period that this is undertaken differ from bank to bank. In SB for instance, strategic control is undertaken every two months. In the other two banks this is undertaken twice a year. The interview evidence obtained demonstrates that overall, strategic control enables these banks to evaluate their performance on some organisational performance parameters. It also enables them to study the current environmental developments as well as the changes likely to occur. Finally, strategic control enables the banks to decide on the modifications required in strategies and policies to enhance future performance.



### 8.2.3 The Performance Budgetary Process in the Banks

Table 8.1 summarises the budgeting process in the three banks.

	<b>EB</b>	<b>SB</b>	<b>NB</b>
Budget Guidelines issued	Yes	Yes	Yes
Source of Budget Guidelines	Accounting & Finance	Accounting & Finance	Strategic planning
Committee responsible for budget guidelines?	Yes	Yes	Yes
Draft branch budgets prepared?	Yes	Yes	Yes
Involvement of divisional/regional managers	Yes	Yes	Yes
Regional budgets prepared?	Yes	Yes	Yes
Budgets discussed at corporate level?	Yes	Yes	Yes
Budget performance reviewed?	Yes	Yes	Yes
Control returns preparation	Weekly	Daily	Daily

Table 8.1: The budgeting process in the three banks

Interview data shows that in all the three banks, budgetary projections are made on various parameters of performances and cover aspects such as branches; aggregate deposits and the break up into savings, current accounts and term deposits (proportion of low-cost deposits to total deposits); advances (including credit-deposit ratio); credit to priority sectors, for example, agriculture, exports, small-scale industry (SSI); staff strength; staff productivity; and Net (non performing assets) NPAs as percentage of advances. These parameters shape the budgeting process.

The system of budgeting in the banks presupposes a grass root budgetary system where the budgets of all the responsibility centres are formulated through the bottom-to-top approach and mutual consensus between the leader and the led. The whole process of performance budgeting essentially involves, budget formulation, settlement, and

performance monitoring. Manager 1 from EB (Head office) stated the process as follows:  
*“In performance budgeting, the budget is supposed to be developed and owned by the people who use it. I mean the different departments. This is intended to make them appreciate and respect the budget”.*

As the performance budgeting was mandated by the CBN, it is not surprising to find that the process is similar in all three banks. This process is detailed below.

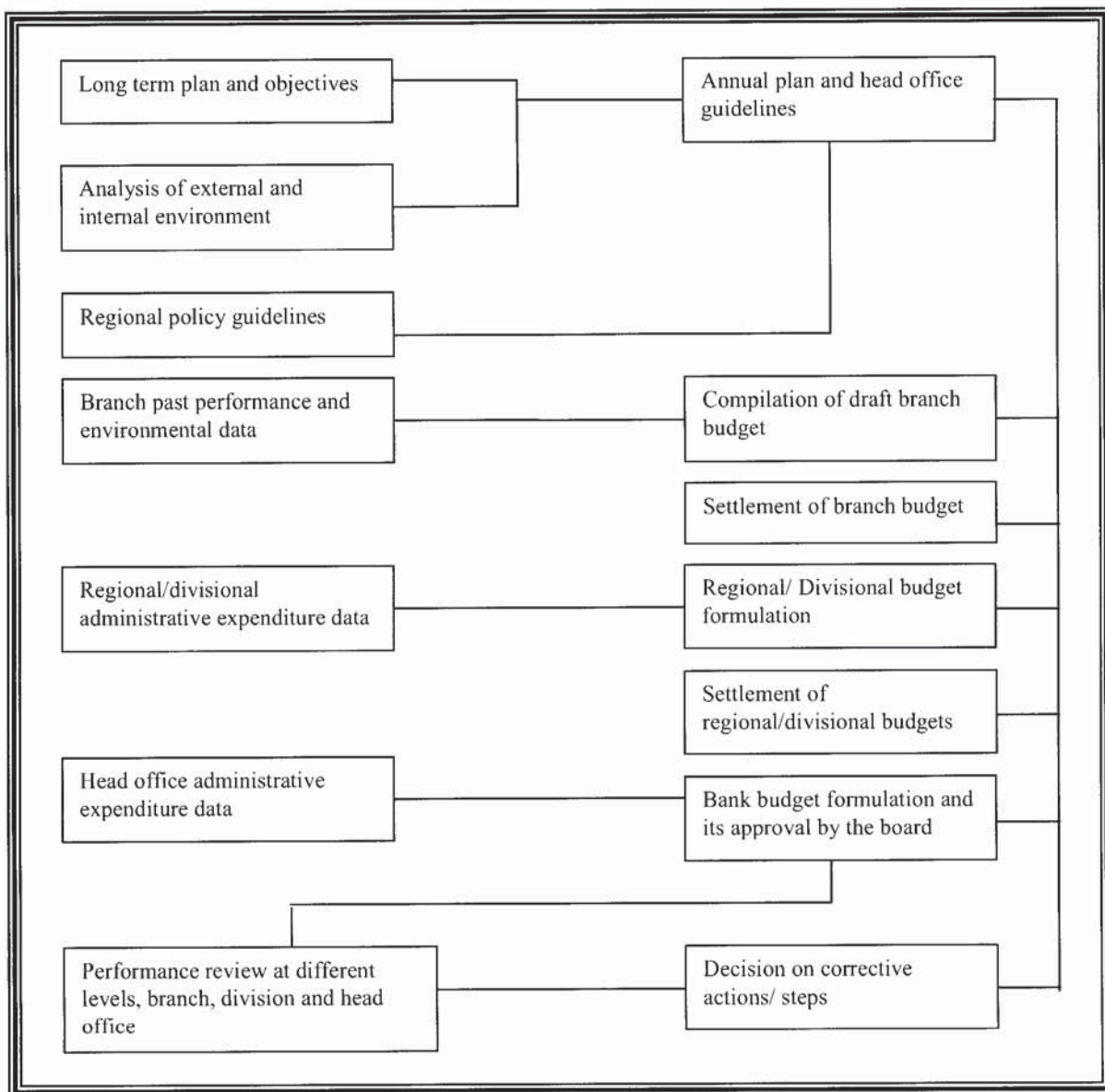


Figure 8.1: The process of performance budgeting (Source: Produced by the Author based on interview evidence)

***Stage 1: Formulation of Policy Guidelines in the Light of Strategic Plan.***

The first stage of the budgeting process is the issue of guidelines in the light of strategic plan of the bank (see figure 8.1 above). Evidence obtained from the interviews suggests that the sources of these guidelines differ from bank to bank with the source corresponding with where the budget is coordinated from. For example, in EB and SB



where the budget is coordinated within the accounting and finance department, the budget guidelines are normally issued from the Finance Director. In NB where the budget is coordinated within the strategic planning unit, budget guidelines are issued by the director of strategic planning. These guidelines however serve similar purposes irrespective of their source of origin. The guidelines are particularly useful when it comes to budgeting at the branches. Manager 3 interviewed from NB (Head office) noted that:

*In performance budgeting system the budgets are prepared from branches to head office, but branches can hardly prepare meaningful budgets unless they have some understanding of the top management's thinking, regarding the future thrust and direction of the banks activities. Thus branches need some guidelines from their respective head office for preparing their performance budgets hence the importance of the budget guidelines.*

Further evidence from the interview shows that in all the three banks the corporate strategic plan serves as the basis for developing the budget. The budget guidelines are therefore issued having this corporate strategic plan in mind.

The process of developing the guidelines is:

- (i) In all three banks a task force consisting of senior executives and functional heads in the head office are requested to prepare working papers relating to expected conditions in businesses /products in each region during ensuing year. This exercise is done keeping in view the both inputs-hardware (composed of staff, capital, materials, machinery and infrastructure) as well as software (consisting of external and internal environmental factors such as long-term plans, objectives, and strategies of the bank, past performance, anticipated changes in the environmental factors) of each region and the bank as a whole. The working papers thus prepared are then consolidated and crystallised into draft policy guidelines for sectorial performance in various regions. In the final analysis, these guidelines formulated for various regions are in the form of estimates of future targets. Manager 8 interviewed at SB (Branch office) noted that: *"As part of the budget preparation we as branch*

*managers are requested to collect data relating to our business and general environments for our respective regions. We would examine our inputs both hardware and software to tap business potentiality in our area*". All the other managers interviewed in SB shared a similar view that the budgeting process is very thorough. This was however not the view obtained from EB and NB.

- (ii) The draft guidelines are then discussed with the members of the top management team, i.e.; the CEO /managing director, general managers, deputy general managers etc. with a view to arriving at a consensus about the broad direction and the expectations of the top management regarding the desired levels of sectorial achievements in various divisions. This process is however more rigorous in SB than the other two banks. Manager 2 at SB (Head office) explained the reason for this: *"Our board is very strict. As a result budgeting is taken very seriously. We have to make sure we get everything right before it goes to the board"*.
- (iii) The next stage of the process is for the regional managers to be invited by the head office for a meeting with the CEO/ managing director and other senior executives with a view to finalising the head office policy guidelines for each region. It was found out that in all three banks, the regional managers indicated during the interview that they are fully involved at the stage of formulation and finalisation of head office policy guidelines. Thus this view was consistent throughout all three banks.
- (iv) The final head office guidelines are then sent to regions. The regional offices in turn, will formulate and finalise their own guidelines by involving their subordinate branch offices. Again this process is similar in all the banks. The process for formulating and finalising would be the same as that of head office guidelines i.e.; at this stage a task force at the region would prepare the draft policies and branches would give a detailed account of their business potentialities after evaluating their input factors both hardware and software



and then in a meeting of branch managers and regional managers, the regional policy guidelines would be finalised. The regional policy guidelines are consistent with the head office policy guidelines.

- (v) The regional policy guidelines are now sent to various branches along with printed performance budget formats with the request to prepare the budget in conformity with the guidelines. The format of the performance budgets was examined and found to be similar in all the banks. This is not surprising given that this system of budgeting has been prescribed by the CBN who even offered training to the banks on its design and implementation.

### ***Stage 2: Preparation of Draft Branch Budget***

According to the interview evidence, in all three banks, after receiving the guidelines from the regional office (which carry the central office guidelines as well); the branch managers start making preparations for branch level budgeting (see figure 8.1 above). It was pointed out to the researcher by the interviewees at the branches that branch managers make analysis of the internal and external factors affecting the operations of the branch when developing the branch budgets. In this way, the strengths, weakness, opportunities and threats facing the branches are assessed before the budget is developed. In this process, the internal and external environmental factors (such as accounts of existing customers, employees' strengths and weakness, infrastructural facilities of the branch, economic policies, and competition) are analysed and their impact estimated upon the branches outputs and inputs before budget is formulated. Manager 3 interviewed at SB (Branch office) noted that: *"This analysis is important as it determines how input budgets such as manpower requirements, expenditure budget, and output budgets such as advances, deposits, and ancillary services are prepared"*. However, the interview evidence shows that the process of environmental analysis is less rigorous in NB than the other banks. No sophisticated tools or techniques are used in NB but in EB and SB the environmental analysis involves using some quantitative models. Just to note that, although the procedures are the same in the three banks, NB is least sophisticated and SB the most rigorous. There are differences in the implementation of the procedures.



According to manager 7 from EB (Branch office); *“Generally the environmental data are collected by the branch managers according to the worksheets provided by the central office and then this information is translated into the branch budget”*. In view of the competition that these banks face a large number of branch managers are taking keen interest in collecting the relevant data of their branch environment and translating that into their budgets. In addition branch managers rely on information generated through various sources such as social contacts in the branch area; personal survey of the area, and special reports and documents published by government agencies like the Central Bank.

The steps involved in preparing a branch budget at SB are described below. These steps are based on the evidence collected from the interviews at SB. Interview data collected from EB and NB was also compared with the results at SB to identify any similarities or differences in the budgeting process. The process can be divided into fourteen stages as enumerated below.

- (i) Classifying the existing customers (both depositors and loans accounts) by their occupations and residences. This will give an idea about the geographical area the branch is effectively serving at the moment.
- (ii) On the basis of the past behaviour of various existing accounts, estimate the growth of new business including interest growth in these accounts during the budget year. So also the additional requirements of funds in case of loans accounts are to be estimated.
- (iii) Identifying the area of the branch for the budget year both in terms of geographical area and customer cluster based on different branch products/services;
- (iv) Dividing the area into smaller subdivisions such as Road Nos. etc or village A, B, C,-etc, with a view to assessing the total size of the potential clients. This process is not undertaken at NB.

- (v) The residents of each sub-sector are then classified as; household sectors, traders, industrial units, social and religious institutions, government/semi-government, offices etc;
- (vi) Tabulation of the data pertaining to each such group in each part of the area as given in above and put it along with occupation-wise list of existing customers as obtained from (i) above for each geographical sub-sector;
- (vii) Analysing people who are not currently banking with SB. Those presently not banking with SB may be doing so because;
  - (a) They are already banking with rival branches;
  - (b) They are so poor that they are un-bankable;
  - (c) They are not poor, but their banking habits are not developed.
- (viii) Analysing the chances of new activities coming up in the area during the budget year and assess if one or more of these units can be brought into the fold of branch business;
- (ix) Examining the possibility of available expertise in the area who, can exploit local natural resources and formulate a viable project that can be financed by the branches on the basis of above potentiality. In this respect, the branch may also render technical help in the preparation of the project report. Only SB undertake this process.
- (x) Estimating the new deposits and advance accounts that can be possibly canvassed this year and convert these into money values (figures). Manager 1 interviewed at SB (Branch office) explained this as: *"For instance, one can budget for canvassing 10 deposit accounts of professionals (M/s A, B, C-J) and they may give a deposit of Nigerian naira. This is based upon the knowledge of the branch manager about the area"*.
- (xi) Adding in the amount column, the deposit growth from the existing depositors as well as the additional needs of present borrowers. In the same way, the budget for ancillary services like remittances, collections, exchange, guarantees, locker services etc. are prepared. It has been observed that, all the banks follow this process.



- (xii) The summation of amount columns of all items would be the final business figure of the branch for the year.
- (xiii) On the basis of the estimated business reached, a matching of existing manpower and infrastructural facilities of the branch is undertaken. If the increase in business requires additional hands or additional facilities, say one more room, one more clerk/ officer etc; its financial impact can be shown in input budget under the heading salaries and rent etc. In this way the branch will prepare the input budget wherein all the expenses and overheads are estimated.
- (xiv) When the input budget is prepared showing the budgeted expenditures and output budget is prepared showing amount of business (advances as well as deposits), a clear picture of the revenues and expenses of the branch are carved out. Manager 5 interviewed at SB (Branch office) further noted that: *“Based on these input and output budgets we can prepare an operational profit budget for the branch”*.

The process iterated above is similar to those in EB and NB except for some minor variations. For instance, stage vii described above where SB analyses people who are not currently banking with them is not undertaken in EB and NB. Also stage ix whereby availability of experts in the area is analysed is not undertaken at EB and NB.

### ***Stage 3: Settlement of the Branch Budget***

According to the interviews in all three banks, after the formulation of draft branch budgets, branch managers submit them to their controlling office (see figure 8.1 above). A budget settlement meeting is then fixed by the controlling office after receiving the draft budgets of the branches. In the settlement meeting, the draft branch budgets prepared by the branch managers on the basis of their perceptions and interpretations are discussed with their respective divisional managers. Manager 3 interviewed at SB (Branch office) noted that: *“The advantage of having the divisional manager involved is that he has wider experience, broader data base and deeper perceptions of the bank’s operations”*. The final budgets of deposit, credit, profit and input emerge only after they have been jointly considered by the branch manager on the one hand and the regional manager on the other. Manager 5 at NB (Regional office) commented that: *“The idea is*



*that we both must agree on the basis of the objectivity of the figures so this process is very important. Though in practice I must admit that, it is sometimes very difficult to agree on the figures”.*

Manager 4 at NB (Head office) observed that: *“Ideally, the branch manager should not feel that the divisional manager has imposed on him some unreal and imaginary figure which is beyond the possibility and competence of the branch. Similarly, the regional manager should not grumble that the budget figures are un-challenging and that the environment offers much more potential. But I do agree that sometimes differences are not easily resolved. Sometimes we at the head office have to get involved”.*

#### ***Stage 4: Formulation of the Regional Budget.***

As shown in figure 8.1 above, after setting the branch budgets, the regional manager consolidates the budgets of the branches under his/her control together with the regional/divisional office administration expenditure data and then formulates a draft regional/divisional budget and submits it to the head office.

The formulation of the regional budget in all three banks follows the following process.

*(i) Settlement of Divisional/Regional Budget:* After receiving the regional draft budgets, a settlement meeting is organised at the head office in which the regional managers hold a face to face discussion with the chairman /managing director and the chief of functional heads at the head office. The reason for this meeting is that certain planning gap might have remained between the draft regional budgets and the desirable head office budgets which might be bridged in the settlement meeting. The regional budgets are thus modified, if necessary, and adjusted to the need of the corporate plan on the basis of the suggestions for improvements /enhancement /reductions which emerge during the course of this discussion. Manager 4 at SB (Regional office) noted that: *“In addition, any changed directives received from the C.B.N since the issue of head office policy guidelines to regions are also taken into consideration during this meeting”.* The regional managers prepare the final budgets for their regions.

(ii) *Corporate Level Budget:* The performance budget at the corporate level of the bank is prepared by consolidating the final settled budgets of the divisional offices plus the budgeted estimates of the head office requirements. The compiled budget of the bank as a whole is then submitted to the board of directors (the highest policy making authority of the bank) for approval. Any modification suggested by the board is then introduced in the budget of the bank as a whole, which in turn may be passed to the regional and branch offices for accommodating in their respective budgets.

(iii) *Performance Monitoring:* After the budgets are formulated and settled at various levels of the bank (branch, region and corporate level), a review and evaluation of the performance of the organisation units is undertaken at each level to see whether the targets laid down and agreed upon are attained according to standards/budgets and schedule. The branches are required to send weekly, fortnightly, monthly, quarterly reports to their controlling office, which in turn, consolidates these reports and prepares the performance report of the region and submits it to the head office. Manager 10 interviewed at EB (Branch office) noted that: *"At each level, the reports submitting party is expected to explain the reasons for the deviations, and the corrective measures that could be taken are identified at the review meeting"*.

According to manager 10 at SB (Branch office), *"The reviews of the performance of branches are made in the review meeting between the branch managers and the regional managers"*. Likewise, the review of the performance of the regions take place in the meeting of regional managers with the chairman/ managing director and the chief of functional department at the head office. At these review meetings, matching the aspiration of the banks as embodied in the annual budget of the banks and the actual progress attained is made, and corrective measures are decided upon. Manager 6 at SB (Regional office) noted that: *"Sometimes, it may so happen that the plan itself may have to be revised in view of the changed external and internal factors"*.

After explaining the process of performance budgeting in the three banks, the next sub-section discusses the key factors influencing budgetary decisions in the banks.



#### **8.2.4 Market Segmentation and Budget Development**

Realising the importance of bank's planning from the grass root level upwards as is the case under performance budgeting, the plans and budgets drawn at the branch level are designed with outmost care. According to manager 4 interviewed at EB (Regional office):

*The branch managers after collecting and analysing the environmental data of the branches design certain strategies towards the mobilisation of deposits and increasing the potential of credit seekers. In this respect they use the eagle's eye to identify those who have extra money with them and want to lend and those who want to be lent. For this purpose they resort to segmentation of the market into various groups /classes, and design strategies as per each segment of the market. For the segmentation of the market they use the multiple criteria like income, status profession geography, age, sex, etc.*

The other two banks also have similar approach to that described in the quote above. The interviews indicate that almost all types of branches in the banks resort to some kind of market segmentation. According to manager 1 from SB (Branch office), *"We segment the market on the basis of income, profession and the status of the customers. In the case of the metropolitan branches they use income of the customers as a basis of market segmentation and the profession of the customers as a foundation for market segmentation"*. From the above analysis it is crystal clear that income has been the basic factor for market segmentation in the branches of the banks under study. Thus the decision to offer the varied products to the customers is influenced by the income followed by other factors like profession, status and geography. Other factors such as age and gender factors of the customers are of less importance in influencing the branch decisions.

#### **8.2.5 Controlling the Budget**

In terms of the control of the budget the interview results suggest that there are some similarities in approach though there are some minor variations. Branches are controlled by the head office through either direct visitation/inspection of branch operations or indirectly through branch returns. The direct control involves the controlling head or the



senior most officer of the controlling office visiting the branch periodically. The interview results further suggest that branch visits by senior managers from the head office are common occurrences in all the three banks. In NB this visit is usually undertaken every quarter. But in the other two banks head office officials usually visit branches every month. According to the central bank of Nigeria guidelines, branches in rural areas are to be visited once in a quarter and other branches at least once in six months by an officer from the controlling regional office. This enables the controlling office to get first-hand information about functioning of the branch.

In all cases these visits are pre-arranged with the branch managers. Manager 6 at SB (Regional office) noted that: *"We do not want to surprise our branch managers so we tend to pre-arrange all our meetings. These managers have to get the necessary documentation ready before we go hence the importance of informing them in advance"*. Direct control of branches is also exercised by the inspection and audit department of the banks through its team of inspectors either from the head office, zonal/regional office. Deficiencies noted by the inspectors are to be rectified by branches immediately. The interview result suggests that inspectors also send 'special reports' in case they come across serious irregularities, on which the head office/local office can instantly take remedial action; for instance, if the controlling regional office feels that the branch manager is not adhering to the norms of lending, it may cancel their discretionary powers.

Indirect control is exercised by the regional/zonal officer and the head office through 'control returns'. In NB and SB returns are made on a daily basis. In EB this is undertaken on a weekly basis. In this method of control, the controlling office/head office suggests the corrective steps to be taken by branches on the returns received by them. Some examples of returns by which such control is exercised based on interview and documentary evidence collected from the three banks are as follows:

- (i) *Daily position of cash*: where cash is maintained in excess of the retention limit, the controlling office may suggest that the branch remit it to the needy branches or deposit to the central bank.

- (ii) *Report of excess withdrawal in overdraft/cash credit accounts*: from this return, which is usually submitted on the day of such withdrawal, the controlling office can ascertain which parties the branch is frequently permitting excess withdrawals to and suggest suitable measures/corrective action.
- (iii) *Weekly report of temporary overdrafts allowed in current accounts*: this return shows the controlling offices who are the current account parties to whom the branch is frequently allowing temporary overdrafts. It can also get to know period within which temporary overdraft are adjusted, whether the parties can sanctioned regular limits, etc., and can guide the branch accordingly.
- (iv) *Weekly time and demand liability return*: from this return, the controlling office can discern growth in deposits/advances and other items of general ledger balances and suggest corrective steps to observed abnormalities.
- (v) *Monthly return of loans and advances sanctioned under the delegated powers of branch manager*: From this return, the controlling office can gauge whether or not the branch manager has been exercising the delegated powers judiciously.
- (vi) *Monthly statement of overdrafts/cash credits*: this indicates to the controlling office whether the advance accounts are operational or not. In case operations are allowed for 'overdue limits', it can guide the branches for bringing the accounts to order.
- (vii) *Monthly branch performance report*: this is a comprehensive report on the functioning of the branch sent to the controlling office every month. It enables the controlling office to assess the performance of the branch based on the parameters of business development, growth in number of accounts, prospective depositors/borrowers, position of review/renewal of borrower accounts, non-performing assets and recovery and the position of housekeeping including the latest position on balancing of books.

- (viii) *Quarterly return of loans /advances:* this return shows the sanctions, disbursements, outstanding and overdue in various categories of loans and advances including priority sector lending and loans sanctioned under government-sponsored schemes. Any deficit in achievement of targets can be easily identified from this return by the controlling office while reflecting on the quality of assets through 'overdue' position of advances. The percentage of 'overdue' to 'demand' can also be ascertained.
- (ix) *Inter-branch/interbank reconciliation statement:* this is a monthly/quarterly statement, which reflects the long-outstanding items in inter-branch/interbank accounts on the basis of which the necessary instructions can be given for improvement.
- (x) *Quarterly report of progress in suit-filed accounts:* from this return, the controlling office can gauge the progress in 'suit-filed accounts' and the steps initiated by branches can be known. In case any lack of effort is found on the part of the branch, suitable instructions can be given thereof.

It may be mentioned here that the foregoing list is not exhaustive, on how the controlling regional/zonal and head offices exercise control over the functioning of branches. This list represents a sample control reports at the various banks.

#### **8.2.6 Perceptions of the Budgeting Process and Relevance of the Budget**

The concept of performance budgeting discussed above has been embraced by the commercial banks in Nigeria. The three case study banks plus the (pilot study bank) all have a well developed performance budgeting system tied to the organisational structure. Performance budgets are initiated and developed from the branch level and discussed and approved initially at the regional level before being finalised at the head office level.

Performance budgeting has been identified by some managers as very important because of the concept of starting budgeting from the branch level. The branches it has been



suggested by the interviewees have better understanding of the environment. For example, most banks are focusing on what is termed 'social banking' such as priority sector lending. In this respect, it is necessary to involve managers who have understanding of specific sectors in budgeting decisions.

Several issues have been examined in this study to determine the perceived relevance of the performance budgeting system. For example, the researcher examined whether the budgeting system has been able to promote goal congruence between the various branches and departments. The researcher also examined the extent to which employees are involved at various levels of the budgeting process which is the basic spirit of the performance budgeting system.

Assessing the perceived relevance of the budgeting system is important because the efficacy of any management control system depends upon how it is perceived by different participants (Berry et al., 1995). The interview results with the branch managers reveal that branch managers regard performance budgets as enabling them to plan the business and workout their financial and manpower requirements. The budget also helps the banks to analyse their performance in relation to budgeting levels and decide on corrective measures. Nearly 70% of the interviewees also perceived that performance budgets promote the involvement of the branch staff in budgeting decisions. This increases the motivation of the branch employees and contributes to the effective control of organisational activities.

In all three banks the researcher observed some differences in the views between senior managers at the head office and branch managers. For example, 90% of the branch managers perceived budgets as enabling the branch to plan the business and workout its financial requirements. But they also recognise that the budget is not the only tool they use. On the average about 30% of the branch managers indicate that they rely on their personal experience and personal connection with people at the head office. Manager 6 at NB (Branch office) noted in this context that: *"Budgeting is good as it helps us plan. But sometimes we need more than budgeting. You cannot make decisions only on the basis of*

*some financial projections as these can be wrong sometimes". Similarly, manager 6 at EB (Branch office) noted that: "In Nigeria things are not stable. I mean inflation, interest rates, government policies, etc. This makes it unwise to rely on budgets all the time. Experience, personal knowledge and connections are very important in Nigeria".*

There were conflicting responses as to the ownership of the budget based on evidence obtained from the interviews. In SB, the majority (two third) of the branch managers interviewed noted that the branches own the budget as the budget is developed from the branch. Manager 9 at SB (Branch office) stated: *"The spirit of performance budgeting is clearly understood by the branch managers who are working at the lowest ebb in the organisational hierarchy. Performance budgeting requires ownership and participation by subordinates and I believe we have this"*. However all the branch managers interviewed in the other two banks were less optimistic about the ownership of the budget. Manager 7 at EB (Branch office) noted that: *"It is difficult to claim ownership of a budget which is controlled from the head office. Yes we do develop the budget but the directives and control comes from the head office"*. Also manager 7 at NB (Branch office) observed that *"In our bank the head office is very strict in terms of budgeting decisions. They control the process so I will say that we the branches have only minimal ownership"*.

The six senior executives interviewed at the head offices of the three banks agree that the budgets are the most useful planning device in the banks. Though the majority of these senior managers recognise that experience and personal connections are important they do generally agree that the budget overrides all these factors. For example, manager 2 at SB (Head office) noted that: *"Experience is important and you can't discount that. But in a banking environment you need proper planning and control and the budget helps to achieve that"*. Similarly, manager 1 at EB (Head office) stated: *"Budgeting is very important to us no matter what branch managers think. We invest a lot of money and time in it. It is the main tool for planning and control in the bank"*. The significance attached by top management to various objectives of performance budgeting is therefore different



from that given by the branch managers. Branch managers see it as only one of the tools they use. But the head office sees it as the predominant tool for planning and control.

In terms of the ownership, all the regional managers interviewed in all three banks were of the view that the budgets are owned by the branches. Manager 2 at NB (Regional office) noted that: *"Performance budgeting has attained the acceptance at the grass root level and the apex level as far as planning the business and manpower requirements are concerned, which is in-fact, the most essential ingredient of the system. Because of this the budget is directly owned and accepted by the branches"*. But as we have explained above in two of the banks (EB & NB) branch managers were of the view that budgets are owned by the head office due to the significant influence exerted by the head office on branches when it comes to budgeting.

The study found that the whole argument of ownership relates to how much influence and control the branches perceived themselves as having over budget decisions. In effect this also deals with the level of participation of branch managers in budgeting decisions. The involvement of personnel at grass root level of branches and winning their commitment in achieving the tasks ahead have been the twin bedrocks on which the concept of performance budgeting has been founded. Seksena, (1980) argued that if bank plans are not to remain on paper only, but are to become operational documents to guide, direct and control the growth of the organisation and to ensure the achievement of the desired results, both quantitatively and qualitatively, there cannot be any substitute to the involvement of staff in formulating the plan itself. Since branch budget is a quantitative plan of the branch it needs to be formulated after involving those who have to implement and operate it (i.e., the staff).

Manager 3 at NB (Head office) noted that:

*To reduce the possibility of the misunderstanding between branch managers and divisional managers, a branch manager must be fully aware of his branches strengths, weaknesses, opportunity and threats by making a comprehensive environmental scanning of his branch*



*for making his branch budget, so that he will be able to convince his superior about the veracity of his target/ claims. On the other hand, the regional manager must be fully aware about the capacity of his branch manager and repose trust in him so that he is convinced that the branch manager has done his homework well and has incorporated all the environmental factors into his plans, he will not find any necessity for revising the branch budget during settlement process.*

In terms of participation of employees at the branches in budget development the researcher again observed some differences among the banks. Even within the same bank some variations have been observed between branches. The interview results suggest that three out of ten of the branch managers involve their supervisory and clerical staff in formulating the branch budgets, while a half of the branch managers consult their subordinates only occasionally. Two out of ten managers however admitted that that they never consult their staff while drafting a branch budget.

Another thing which has come out of the study is that a wide gap exists between the formulating of operational plans at the branch and their implementations, as the supervisory and clerical staff are not involved in determining the branch objectives in majority of the cases. Even if they are being consulted, they are consulted very occasionally, this creates a gap between the boss and subordinates and reduces motivation and thus affects commitment to work; which is not a healthy sign for the overall progress of the banks. Manager 8 at SB (Branch office) summed this up as follows: *“Because branch strategies are dictated to us from the head office, the branch employees sometimes feel left out of the decision making process. This affects their attitude to budgets and decision making in general”.*

Among the managers interviewed four out of ten expressed that the targets/assessments were made jointly by branch managers and regional managers through participation and mutual discussion in a democratic way (for example 41% in SB; 38% in NB and 36% in EB), while three out of ten managers showed that target/assessments are first made by the higher authorities and then discussed with the branch manager for finalisation and modification, if any, (for example 27% in SB; 29% in NB and 31% in EB). However, two

out ten of the managers showed that targets/ assessments are made by higher authorities and announced, with hardly any opportunity to raise questions or offer comments in an autocratic and dictatorial way (for example 18% in SB; 20% in NB and 21% in EB).

Eight out of ten branch managers also expressed that regional managers had rough targets in mind at the time of budget finalisation in the budget settlement meetings. This makes the discussion of the budget targets very difficult for the branch managers concerned. Manager 9 from NB (Branch office) noted that: *"Some regional managers fixed the targets and did not permit branch managers to comment, raise questions, or offer any suggestions"*. In the finalisation of the budgets, the target are still set by controlling offices in the majority of the cases and not through mutual consensus which is the basic premise of performance budgeting. As per the views of the branch managers, a significant number of the interviewees indicated there was less scope for listening to the branch managers by regional managers. In this way, the meeting are held not in an amicable way, which defeats the very purpose of performance budgeting.

Regarding the conduct of settlement meetings it was revealed that in majority of the cases the branch managers give in to the authority of the regional managers and compromise on the decisions of the budget settlement while as the case could have been that both parties should have had mutual consensus for finalising the branch budgets based on the principles of performance budgets discussed in chapter 3 (Schmidtlein, 1999; Melkers & Willoughby, 2001). So far as the arguments in the budget settlement meetings are concerned, the branch managers try to plead their cases on the basis of the environmental analysis of their branches, but the regional managers advocate their views by stating that they had commitment to the top managements. If the principles of performance budgeting are strictly adhered to, then a proper environmental scanning of the branches should have been the main foundation on which the settlement of the performance budget for the branch are based rather than by any other basis (like commitment to top management etc.), which is contrary to the concept of bottom to top approach of performance budget formulation and settlement.



Though the branch managers in some of the banks have observed some improvements in the level of participation as a result of training offered to branch managers, all the branch managers admitted that the increasing competition meant that regional managers are forced to fix the targets at the higher side and then discuss with their branch managers, in the light of the pressures from the top management for increasing the overall target of the banks. Manager 4 at SB (Regional office) noted that:

*Of course settlement meetings are meant to provide opportunities for regional and branch managers to resolve issues around the budget. This enables the branch budgets to be discussed and amendments made as agreed upon between the two parties, i.e. controlling officer and branch manager. In order to make these amendments/ revisions, each party gives his justification for his point of view regarding revision. The justification may be based upon the potentials of the branch environment, past performance of the branch, regional managers' commitments to higher authorities and a promise for additional facilities.*

The views expressed by the majority of the managers at the respective head offices of the three banks indicate that one reason why the head office should control the branch budgets is to increase the credibility of the budgets. Manager 4 at NB (Head office) noted that: *"The budget has to be made as comprehensive and meaningful as possible so as to win the commitment of operating units (branches). To achieve this requires allowing the branches to develop their own budget but at the same time requires the head office to exercise some control".*

Thus it is necessary that inputs such as staff requirements, physical and infrastructural facilities etc. should also be budgeted and such budgets should be followed up and implemented as per schedule. Many banks have already introduced a system for assessing staff requirements for branches. It is amplified that majority of the branch managers expressed that they received partial support from their regional managers so far as the manpower requirements are concerned, and three out of ten of the branch managers complained that they received no support from their controlling offices, two out of ten of



the managers are satisfied with their regional managers that they supported them fully with regard to staff requirements.

Opinions also differ between regional and branch managers as to the amount of budgetary support provided to the branches. Six out of ten of the branch managers categorically stated that the regional managers either provided partial support or no support at all when it comes to budgeting (for example 61% in SB; 58% in NB and 57% in EB). Two out of ten of the branch managers reported that they receive full support regarding budgeting (for example 19% in SB; 21% in NB and 22% in EB). Manager 10 from SB (Branch office) noted that: *“Though we get support from the regional manager I think this is not enough. There is limited information in terms of feed-back information and involvement of the controlling offices in the development of the branch business and budget”*. Also manager 7 from EB (Branch office) noted that: *“There is minimal support regarding the contribution made by regional managers in the development of the business of the branch. There is the need for this to be improved”*.

#### **8.2.7 Factors Influencing Budgetary Decisions**

As discussed in the preceding section, the formulation of the performance budget starts at the branch level and the process of budget formulation begins by considering various input factors both macro and micro. The macro factors include the overall condition of the economy, government policies, activities of competitors, and customer needs and aspirations. The micro-level factors include factors relating to service/ product of the branch and policy guidelines issued by the head and regional offices.

The responses of the interviewees in all three banks indicate that the policy guidelines issued by the respective head office and regional offices and government directives are the most important consideration among all the input factors in formulating the branch performance budgets. Manager 10 at EB (Head office) commented that: *“These policy guidelines are critical for giving a direction to the budget formulation effort. This requires that these guidelines are prepared very carefully, by giving due recognition to the changes that take place in various macro-economic factors which have a strong*

*bearing upon the success and failure of the banks so far as its planning and control aspects are concerned".* These factors may be new CBN directives and guidelines, economic and political policy of the government, social and technological changes, new competition, and new corporate missions and objectives. In all the three banks, these policy guidelines affect the formulation of corporate plans which in turn affects the development of the budget. In terms of government guidelines for instance manager 5 in NB (Regional office) noted that: *"The reason for the high importance attached to government guidelines is that since the liberalisation the government has been active in regulating the banking sector. New guidelines mainly from the CBN are issued frequently that it is important for managers to be aware of these guidelines"*.

The respondents also perceived customers' needs and aspirations as very important in formulating budgets. Manager 3 in EB (Regional office) indicated that: *"Customers are becoming very important in Nigeria. This is because of the deregulation of the banking sector. There is now competition as a result of the several new banks (both foreign and local) that have entered the industry in recent years"*. As a result, it has been suggested by the interviewees that the banks now have to focus on new marketing techniques in order to target customers. Manager 8 at SB (Branch office) noted that: *"Customer satisfaction is now a must if we want to compete because of the competition unleashed by the foreign and new generation banks"*. Government legislation and customer satisfaction were not considered important factors as in the pre liberalisation era, because banks at that time faced minimal competition and pressure from the regulators.

The increasing competition also meant that the banks also started to consider the competitors' strategies. These were not considered in the past especially as there were only few banks in Nigeria before the liberalisation. Manager 2 interviewed from SB (Head office) reiterated that: *"I clearly remember that before the banking industry was liberalised we did not care about what other banks were doing. There were only few banks and enough customers for each bank so there was less competition. In fact we were turning customers away"*. The managers feel the threat from the new competition unleashed by the environment.



Social and technological factors have also been identified as influencing budgetary decisions in the banks. The main reason identified for this is that some of the bank branches are concentrated in areas (state) with underdeveloped technology. The banks therefore find it difficult to introduce innovative products or services to these areas. Manager 4 from NB (Head office) noted that: *"The problem is that sometimes we invest a lot of money in technology which cannot be used by all the branches. When this happens the investment is underutilised"*. As a result, it has become necessary for some of the banks to undertake technological assessment before any large scale investment in technology is made. For example, it was revealed during the study that in 2004 NB invested in a new multi-million Naira computerised accounts tracking system. Manager 3 at NB (Head office) explained the process of acquiring the computerised system as: *"The entire process of acquiring this system took nearly one year as we have to undertake rigorous evaluation of various options. We were not only looking at cost but also we have to look at the technology itself"*.

Budgeting decisions in all three banks is also shaped by several internal factors. According to manager 9 interviewed from EB (Branch office): *"The various internal factors that need a critical analysis include training and experience of the branch employees, commitment and initiative of employees, infrastructure of the branch, and the attitude of the manager"*. The importance attached to the internal factors however differs from bank to bank. In NB for instance significant emphasis is placed on customer account analysis. This is undertaken to determine whether customers are dormant or not or to ascertain whether customers have left the bank or not. Manager 10 interviewed at NB (Branch office) observed that: *"I believe the accounts of the existing customers should be analysed every year as this gives us the indication as to which customers are active and which ones are not"*.

The importance of employee training has also been emphasised by all the banks. Manager 3 from SB (Branch office) noted that: *"Training and experience of the branch employees with a belief that after all it is the staff who have to satisfy the customer on the counter. If the staff is well trained and experienced, the demands of the customer can be met without*



*any problem, while as untrained and in experienced personnel would not allow the bank branch to plunge into new activities and increase the tempo of the existing operations as well”.*

Commitment and initiative has been considered as important factor for formulating branch budget in order to determine the success of branch activities. The senior managers from the three banks interviewed at the respective head offices noted how Commitment and initiative of employees at the branch level determines the success of branch activities. As observed by manager 10 from EB (Head office): *“The lack of commitment can lead to an activity being abandoned even though this activity may have high potentials”.*

### **8.3 Performance Monitoring and Evaluation**

As explained earlier the budgetary control and the performance measurement systems were the two dominant MCS used in all three organisations. The budgeting system has been explained in the preceding section. This section analyses the performance measurement system of the three banks.

#### **8.3.1 The Rationale for the Performance Measurement System in the Banks**

All the banks involved in the study agreed that it is important to periodically monitor and review the performance of branches, regions, and head office departments and the bank as a whole. Feedback and guidelines on fresh initiatives are equally necessary.

Formulating and finalising a performance budget or plan involves, in essence, anticipatory decision-making in a changing context. According to manager 7 interviewed at SB (Head office):

*Accounting for performance evaluation/variance in the banks is an essential part of the exercises in budgetary control underlining budget preparation, targeting, accumulation of information on actual and sifting the grain from the chaff, orientation of the accounting systems towards fulfilling budget target and norms of operations and exercise of control are done through analysis and assessment of variances with reference to circumstances and corrective action by way of either removal of snags or revision of targets.*

The six executives interviewed at the head office of all three banks were of the view that the performance reviews were an integral part of the banks to improve management processes. For instance, manager 2 from SB (Head office) remarked: *"I think performance review in the bank is critical. We take it very seriously, it enable you know where you are, what problems do you have and how do you fix it"*.

Manager 1 at EB (Head office) reiterated that: *"Under performance evaluation and review, it is necessary not only taking corrective steps for eliminating weak spots but also for ensuring that the budgets are scientifically reviewed and reframed, as performance review and variance analysis sharpens the budget target through the mechanism of feedback by identifying the causes for each of the variances through a joint discussion between the controlling authority and the performing units"*.

Also manager 3 at the NB (Head office) observes, *"Linking with factors causing variances from targets and analysis of variances with references to their character, class and content are essential preparatory steps for initiating corrective action by centres of incidence or responsibility"*.

Manager 10 at the SB (Branch office) commented, *"In the actual operating situation these changes may occur due to the following reasons; Environmental factors do not always move in the anticipated way and forecasts do go wrong; The outcomes of strategies are uncertain; The priorities of the operating people are subjected to occasional stress; and The provision of the resources support is often inadequate and or delayed."* Whatever the causes of variances as mentioned above their controllability differs from one level of management to another in the organisational hierarchy depending upon their character and magnitude.

In this way, performance evaluation systems in the banks in operation are at the three levels of the banks and is exercised at three stages discussed as under;

### **8.3.2 The Process of Performance Measurement in the Banks**

In all the three banks studied, periodic performance reports form a central part of the performance measurement process. The interviews and document analysis suggests that performance review is usually undertaken on monthly, quarterly, half yearly and yearly basis. In SB and NB for example the performance of the branches and the regions is reviewed on quarterly basis. There are quarterly performance reports of both regional and branch operations. In EB performance review for branches and regions is undertaken on monthly basis. Manager 8 at EB (Branch office) noted that: *“Our performance evaluation system which is undertaken every month starts with the periodical performance reports compiled and submitted by the branch managers, to their regional managers, in which the actual performance is compared with the budgeted level”*.

All three organisations rely on the budget to measure the performance of branches and regions. There is some limited use of non-financial measures of performance as we will discuss later in the section.

#### **8.3.2.1 Budgetary performance reports**

The interview evidence suggests that there was a wide use of budgetary variances reports in measuring the performance of the branches and regions in all three banks. A comparison of the budgeted figures with the actual performance achieved, are done to unearth the causes of the variances.

As manager 7 of SB (Head office) observes: *“The interface between physical and qualitative aspects and between these two and the financial aspects is underlined in this context with particular emphasis on the measurement problem. Considering the typical features for banking functions and the diffused nature of operations, variance analysis demands a lot of attention (on the part of executives). The reasons, therefore, are several, some of which are common place while some others are not”*.

Similarly, manager 3 from NB (Head office) noted that:



*Whatever the causes of variances, it is universally admitted in the banks that variance analysis assists management in setting the ongoing budget targets for the year higher or lower in consonance with the experience gained during a shorter span of the budget, acting as a form of monitoring for enhancing the predictability of performance. All this helps us to delineate the conclusion that every bank should analyse the variances for taking corrective measures.*

Variance analysis is undertaken regularly in all the banks. According to manager 5 at NB: (Regional office) *“It is no exaggeration of the facts that, the variance analysis system is incomplete unless actions are taken by the authorities on the variances found and are duly communicated to the organisational levels where they are to be implemented”.*

Also manager 10 at the EB (Head office) revealed that: *“If these variances and action suggested is not communicated to the action points quickly and regularly, they may not serve the purpose and on the contrary, may create an undue pressure affecting motivation”.* Depending on their nature, the reporting system is geared towards corrective action. The banks have reported making significant policy changes as a result of adverse variances. Manager 3 at EB (Regional office) for example observed that: *“We have relied on variances to make some important decisions such as changing deposit mobilisation strategies and changing our credit policies due to adverse variances”.* In NB an adverse variance in labour cost at a branch resulted in the redeployment of some employees to other branches.

In SB, policy changes are only implemented after a committee is set up to investigate and review the adverse variance performance reports. The review meetings are called to investigate the causes of the variances which may be implicit and decide upon the corrective action. In some cases responsible managers are called to the head office to explain the causes of the variances.

In two of the banks (EB and SB), as part of the performance evaluation process the performance of the branches in a particular region are compared with each other. However in all the banks, for bringing competitive spirit at the regional level, inter-region

comparison of performance is made. Thus, in all the banks, the top managements make a comparison between regions/divisions so far as their performance is concerned. Manager 5 from EB (Regional office) noted that: *“By making inter-branch comparison and inter-region/division comparisons, the executive who has attained the targets is applauded by the management which motivates other executives for furthering their efforts towards working for better performance”*.

#### **8.3.2.2 Providing feedback through budgetary performance reports**

Even though all three banks involved in the study provide some feedback to managers, the frequency varies from bank to bank. For example, EB provides yearly, half-year, and quarterly feedback to its regional and branch managers. NB and SB have monthly, half yearly and yearly variance feedback reports without a quarterly report. Manager 2 in SB (Head office) noted that: *“So far as the periodicity of submission of performance reports to head office is concerned monthly, half-yearly and yearly reports are required by the head office. We then provide feedback to regional and branch managers on the basis of this”*.

In SB, it was identified during the interviews that the controlling office gives a feedback to the branch managers to enable them to compare the performance of the branch with other branches in the region and thus motivate them to take an active part in the achievement of the goals of the region and the head office. Manager 7 at SB (Head office) noted that: *“In the process, the controlling office selects branches that require constant attention, and enters into a dialogue, irrespective of their negative or positive performance, with a view to initiating corrective measures needed for improving their performance”*. The branch managers revealed during the interview that they find this process very useful as it provides them with the opportunity to engage with the controlling office.

In EB and NB, the cause of the variances is also included in the performance reports. In both banks, regional managers scrutinise the variances of each branch's performance vis-à-vis budgets for individual performance areas and market segments, and analyse them in



terms of underlying causes. Manager 2 at NB (Regional office) observed that: *“It is necessary that we analyse the underlying causes of the variances to determine whether they are of a temporary nature or indicative of trends; caused by untrained and inadequate staff and infrastructural facilities; and controllable or un-controllable by the branch”*.

According to the interview evidence, the branch managers prepare a performance report on key parameters of performance; for example, profits, deposits, advances, recovery, non-fund income, non-and performing assets and sends it to the regional manager every month. The regional manager in turn review the performance of the branch every quarter for the previous quarter and propose the steps required to be taken to improving performance in the subsequent quarter. Likewise, a similar review is made by the regional managers to ensure that the actual performance conforms to the budgeted performance at the end of the subsequent quarter. The performance of the entire bank is reviewed every quarter by the board of directors.

According to manager 5 at the NB (Regional office): *“the performance measurement process takes the shape of comparing the performance achieved with the figures of the settled branch budget and finds out the deviations, if any, for which corrective actions may be initiated or if the deviations are due to change in environmental factors, the targets themselves may be revised depending upon the merits of the each case. Feedback is then provided to the managers on the basis of this”*. Also, the interview evidence suggests that in EB for example, branch performance report is usually prepared at the regional office, followed by a meeting of all the branch managers with the regional managers at the periodic performance review meeting. In the other two banks (NB and SB) the interview evidence suggests that performance report is initiated at the branch level.

Apart from branch performance reports, the interview evidence demonstrates that all three banks also have regional performance report. This report is used by the head office



to monitor and review the performance of the various regions and to provide feedback to the regions. Manager 3 at EB (Regional office) asserts that:

*The regional office consolidates the branch performance reports and compiles a performance report for the region indicating the actual achievement against the budgets level for the region as a whole. The regional performance reports are submitted to the head office. The head office reviews the performance of each region and functional departments to identify the discrepancies and to analyse the underlying causes for positive as well as negative performance and also to provide suitable feedback to the regional manager for undertaking corrective action wherever needed.*

According to the interview evidence, the performance review of the regions in all three banks is done in the meeting/conference at the head offices in which CEO, and functional heads at the head offices are usually present and the review process is done through joint-discussion. In EB inter-regional comparison is also made. This practice is not observed in any of the other banks.

As shown by the interview evidence, all three banks also undertake a half year review of the performance of the banks as a whole which is done after consolidating the performance of region and functional departments at the head office. In all three banks this process is jointly undertaken by the CEO and the various functional heads and regional managers before it is sent to board of directors. In NB, the mid-term review enables the bank to study major changes in external and internal condition influencing the budget; assess the continued validity of the basic assumptions; and review the emphasis and strategies, if needed. These processes further contribute to the feedback process.

### **8.3.3 Non-Financial Performance Measures**

The interview result suggests that non-financial performance measures are relatively under-developed in all the studied banks. Where they do exist, they are rarely formalised. As a result the three banks have often relied on financial measures as they are easy to collect data on and use in practice. Some managers in some of the banks have complained about the strict use of the budget to evaluate their performance. In EB for example, the

problem of over-reliance on accounting measures of performance is being addressed by the inclusion of non-financial measures. Manager 1 at EB (Head office) noted that: *"We require all the branches and the regions to report on a wide array of performance information including deposit mobilisation reports, priority sector lending report and budget performance review report"*. With regard to the non-financial indicators, the number of customer complaints, the total number of customers/accounts, and the state of industrial relations are used by the banks. However SB also uses non-fund based business and number of specialised branches in a region or division as performance indicator.

Overall however we find that the non-financial measures of performance are under-developed in the banks and are not widely used in practice. Manager 4 at NB (Head office) observed that: *"We are still working on the non financial performance measures. We are far behind on this. But we hope in the next few years we should be able to have a formalised system to measure performance using non-financial information"*. Similarly, manager 4 at SB (Regional office) indicated that: *"Unfortunately we have not yet developed our performance in terms of qualitative information such as customer satisfaction, employee motivation, etc. We know the importance of this and hope to do something about it in order to formalise it"*.

#### **8.3.4 Reward and punishment**

According to the interview evidence, in all three banks, budgetary systems are used for rewarding good performance and punishing for bad performance. All three banks have monetary compensation, rapid advancement in the organisational hierarchy, and official recognition for good work. For example, bonuses are tied to the performance of managers and therefore managers receive incentive payments based on their profitability and deposit mobilisations. To instil a competitive spirit, the SB has recently launched the best branch award scheme which is given to such managers who show excellent performance in different parameters like profitability, production, advances and deposits targets achieved.



The interview evidence also shows that the punishment for bad performance, often judged by unfavourable variance, is normally in the form of loss of bonuses, non-promotion and in some few cases transfer to positions of lesser importance or even dismissal in case of extreme bad performance. An instance was provided where a regional manager was dismissed from EB because of persistent poor performance. Manager 9 at EB (Branch office) noted that: *"I have seen it before. A manager was fired few years ago for not meeting targets. So we take performance targets seriously"*. A similar example was provided at SB where a manager was suspended for poor performance. However in most cases (in nearly all the banks) in the case of unsatisfactory performance, explanations are sought from the heads of the responsibility centres. Action is only taken against managers if the reasons given are not justified.

A significant number of the branch managers (70% for all managers) especially those at EB, (80% for SB) have criticised the reward system. Manager 8 at EB (Branch office) noted that: *"While administering rewards and punishments, it should be borne in mind that the budget standards are based on certain anticipations which may not be realised"*. Thus sole reliance on budget performance is unfair to managers. The senior managers especially at SB have recognised this problem with manager 6 at SB (Regional office) commenting that: *"We know that too much concentration on standards may induce undue caution among managers at the time of budget preparation and may motivate them to act in ways not in the larger interest of the bank. We take all these into consideration in designing our reward system"*. The reward and punishment system must thus motivate managers to act in the best interest of the organisation. It should neither create undue fear nor blunt their initiative to act in ways appropriate to actual circumstances.

Evidence gathered from all the banks suggest that the reward system discourages managers from maintaining quality performance, innovation and improvement. Managers are preoccupied with short-term financial performance targets with limited scope to be innovative. Manager 10 at SB (Branch office) summed this problem as: *"Because we are under pressure to deliver immediate profit, this does not encourage us to be flexible and try new things unless we can determine whether this is going to bring immediate profit"*.



This view is however different from those expressed by senior management/executive during the interview. All the 6 executives interviewed felt the reward systems are necessary to motivate employees in view of the competitive banking environment. For example, Manager 4 at NB (Head office) noted that: *"If we don't have a reward system linked to performance, managers will underperform. It is important that they understand this fact. In my view, even though some of them may have negative views, the reward systems are good"*.

#### **8.3.5 Perceptions of the Performance Measurement System**

According to the interview evidence three out of ten branch managers have developed negative attitudes to performance reports. Four out of ten managers (especially in NB) argued that they did not get enough support from regional managers. Manager 10 at NB (Branch office) noted that: *"Regional managers ought to educate the branch managers that performance budget is a tool in their hands for monitoring the performance of their branches rather than a form-filling exercise. However, if performance review of branches takes place in an unsatisfactory way as we sometimes have, the branches will not be expected to take adequate interest in budget implementation and monitoring of their performance"*.

The procedure adopted in the banks under study as mentioned above recognises the general perception that it is only the controlling authority that does evaluation. According to manager 6 at EB (Branch office); *"It becomes as it were, an examination situation in which the branch is the examined and the controlling authority the examiner, the assessor and valuer. Thus the budget of the branch, an instrument to be handled by the branch, remains a target for the branch only rather than a tool in their hands to monitor the progress and performance as is expected under the performance budgeting system"*.

Budgets have been viewed by most of the branch and regional managers as fixed standards of performance against which they will be judged. In other words once objectives are set they are fixed and failure to achieve them will be seen as unsatisfactory

performance and will have repercussions. This view has been expressed by the branch and regional managers in all three banks.

The performance process has been criticised by nearly all the branch managers in all three banks though the level of criticism differs from bank to bank and even from branch to branch. The common type of criticism in all the banks is that the performance measurement process absorbs significant amount of time. Manager 2 at EB (Branch office) noted that: *"The performance process can take a lot of time, especially as the infrastructure is very poor and the uncertainty surrounding the economy is massive and clarity of methods for achieving the objectives is not there"*.

Furthermore, manager 1 at NB (Branch office) suggested the extent of the reporting requirements required placed an unnecessary burden on them. He noted that:

*There seems to be an increase in reporting, a lot of requirements contribute to record keeping and so forth, and the responsibility falls mainly on the manager. For example, this week I got information request to provide some reports that I have already sent to the regional office by the central office. We have to provide the reports and other information, which I would have thought would normally have been sent to them by the regional office.*

Also manager 6 of NB (Branch office) went on to suggest that the process should be streamlined to become more efficient and make more effective use of time in order to have more time for marketing and other branch responsibilities than duplicating reports.

More specifically, the regional and branch managers (mostly in all the banks) suggested the monthly performance review, as a measure of performance does not befit their full job requirements. In particular, it was suggested that performance review privileges profit and deposit mobilisation at the expense of other activities of the branch. Manager 7 interviewed at EB (Branch office) offered the following comment: *"At the moment the performance measurement system is skewed to profit and deposit mobilisation and that kind of thing. And so it gives the impression that there would be some managers in the bank that take the view, why should I care so much about other activities in the branch. If*



*that is the case I might as well go for deposit mobilisation and make profit. If I do that, I can get promoted”.*

In addition to this, several of the managers (70%) expressed concerns about the outcome of the performance process. A further issue that was identified from the current process stems from the rigidity of the system. Manager 10 interviewed from SB (Branch office) offered the following explanations:

*While using the performance budgeting in the performance evaluation, in my opinion, sufficient care is not taken by the superior managers you know, as they try to relate a technical instrument with human behaviour, and in return this give rise to various dysfunctional issues which has proved to be counter-productive for the organisation.*

Manager 9 at EB (Branch office) corroborated this view: *“The superior managers failed to understand that they are dealing with complex human beings and sometimes the budget variances can be confusing and misleading and cannot be a true measure of one’s performance”.*

It appears that the current systems provide few incentives to motivate managers to improve their performance. Managers in all three banks have also indicated that the performance measurement system is hampered by the under developed information system. The information system prevalent in all three banks is more or less traditional as reported by various managers during the interview. The analysis of the interviews reveals that eight out of ten of the respondents in NB reported that their Management Information System (MIS) is based upon manual reports prepared by managers at various levels and very little on electronic methods through computers. A comparable number in EB also expressed a similar view. In the interviews, the managers have attributed their bad performance to this state of affairs with the argument that manual information system always gives delayed and inadequate information which affects badly their decision-making and action-taking capabilities. Manager 3 from NB (Head office) noted that: *“The aspect of MIS needs to be pondered over, as in the age of information technology;*



*we should have computerised all our operations so that the information required would have been provided timely and adequately*". Surprisingly, the interview evidence suggests that the views expressed about MIS is consistent between senior management/executives and regional and branch managers as they attribute this to the rampant power outage in Nigeria.

#### **8.4 Chapter Summary**

This chapter has presented the empirical results of the study. It was revealed that the main MCS used in all three banks are the budgetary and performance budgeting system. It was argued in the chapter that the performance budgeting system was prescribed by the Central Bank of Nigeria. The performance budgeting system encourages the development of budgets from the lower level, and in the case of the banks from the branches. However some conflicting results have been observed from the interviews. While some managers felt that the performance budgeting system is working others were of the opinion that the overall system needs improvement. In some of the banks, budgeting is still controlled at the head office despite the need to devolve this to the branches which is a requirement under the performance budgeting system.

Regarding the formulation of draft branch budgets, it was observed that the branches have started recognising the market factors as banks, of late, have begun to give preference to customers' needs and aspirations in their areas since the deregulation of the banking sector in Nigeria and entry of foreign and new generation banks into the industry.

The possibility that designing the objectives of an organisational unit in consultation with those who have to implement the system may result in better result and good performance has been suggested by various research studies, (Drury 2000; Brownell 1981, 1982; Hofstede 1967, 1968, Argyris 1952; Anthony and Govindarajan 2001).

Chong, et al., 2006, suggested that the empirical studies on participative budgeting have generally been focused on the motivational and/or cognitive roles of participative

budgeting on subordinates' job performance. The motivational role of participative budgeting suggests that subordinates' participation in the budget-setting process induces them to accept and commit to their budget goals, thereby enhancing their job performance (see, e.g., Nouri & Parker, 1998; Chong & Chong, 2002a; Wentzel, 2002; Chong & Leung, 2003).

On the contrary, researchers have also documented many problems associated with budget participation. It has been argued that participative budgeting has ignored interpersonal processes, like leadership style, including authoritarianism (Chow et al., 1988; Brownell, 1985; Chenhall & Brownell, 1988). Vroom (1960) found that high participation was effective only for individuals who were low on the authoritarianism measure; individuals at the other extreme on this measure performed better under conditions of low participation. Bryan and Locke (1967) found a negative association between participation and performance, and Stedry (1960) produced similar results, showing that a more authoritarian structure resulted in higher productivity. French et al. (1966) found no significant relationship between participation and performance. One explanation offered for these conflicting results was the different cultural setting (Brownell, 1981; Hofstede, 1967; Waller 1988). Brownell (1982, p.124) concludes as, "it remains fraught with contradiction, overlap and a general lack of conclusiveness on the question of whether participation works or not." Therefore, a positive relationship between emphasis on meeting the budget (a rigid budgetary control style) and the propensity of managers to build slack is expected (Van der Stede, 2000). However, the three banks studied rarely consulted branches when formulating branch strategies. This creates a gap between the boss and the subordinates with regard to their initiative and commitment.

With regard to performance monitoring and evaluation, the procedure adopted in the performance review shows that in general, the controlling office is the main authority that evaluates the branch performance and the spirit that every branch has to use its budget for the self-evaluation has been defeated altogether. For appraising performance at the



regional levels the discussion takes place between the regional managers and CEO along with functional heads.

In the variance analysis process the banks do not involve the subordinate managers at various levels in the majority of the cases as the banks have not fully realised that participative performance budgeting and variance analysis have special significance for banks to make targets operationally feasible and variance analysis sincere, serious and purposive.

The chapter also observed that the banks are still following traditional and out-dated management information (MIS) system which hinders performance reporting. This adversely effects decision making which has strong repercussions upon the performance of the branch/regions.

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Having presented the empirical results, the next chapter now discusses these results. This discussion is necessary to develop a better understanding of the MCS observed in the case organisations.

## CHAPTER NINE

### Discussion

#### 9.0 Introduction

Chapter eight presented the results of the empirical study. The purpose of this chapter is to discuss the results in line with the institutional theory framework which underpinned the study and was developed in Chapter four. The discussion is necessary to make sense of the observed management control practices in the banks. The argument is that MCS operate in a multifaceted set of institutions (Burchell et al., 1980; Mouristen, 1994) and could therefore be construed as social and institutional practices (Miller, 1994).

The remainder of the chapter is divided into five sections. The next section presents the institutional isomorphism in Nigeria. The section after this then discusses how management control practices in the banks were shaped by institutional isomorphism. Following this, there is a section that discusses how management controls in the banks were shaped by intra-organisational power relations. Then a section discusses the impacts of market forces on the design and use of management control systems in the banks. This is followed by a section exploring the notion of loose coupling in the banks. The final section provides a summary to the chapter.

#### 9.1 Institutional Isomorphism in the Nigerian Banking Sector

The reforms in the Nigerian banking sector is designed to ensure a diversified, strong and reliable banking sector, which will ensure the safety of depositors money, play active developmental roles in the Nigerian Economy and become competent and competitive players both in the African and global financial systems<sup>26</sup>. The process of the reform is however shaped by several factors. These factors include globalisation, political economic, pressure from foreign donors, such as the International Monetary Fund (IMF) and World Bank (WB), pressure from the public, and the economic crisis that led to the country's financial problems. Some of the institutional forces identified are discussed in the following section.

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<sup>26</sup> See chapter two for more details

### ***9.1.1 Globalisation/Competition as isomorphism***

In addition to the economic pressures for change, globalisation has also induced pressures on the banking sector in Nigeria to change. The competition created by globalisation for example has introduced a new ethos which embodied profitability, cost awareness and shareholder value creation. This is a marked shift from the past, when the success of banks was measured by the size of their assets. The change in emphasis also affected control systems in the banks. Granlund and Lukka (1998) have identified globalisation as an isomorphism driving management accounting change. In a globalised world banks are under market pressures to compete for deposits, resources, and become globally competitive. According to CBN (2001), Nigeria is responding to the global economic situation by maintaining open regimes. Cooper (1995) has discussed reasons for change in several aspects of the organisation such as cost, quality and time bases of the new “hyper-competitive” environment. Fisher (1995) and Brancato (1995) have identified three principal reasons for improving the control systems of organisations, one of which has been competitive pressure. The Nigerian banking sector faces increased competition partly from deregulation, including competition with foreign and new generation banks.

The Nigerian government has moved towards allowing foreign banks to set up branches in Nigeria. This deregulation has removed barriers to competition in the Nigerian financial services industry and significantly increased the level of competition. For example, the deregulation increased competition for the personal customer account and hence reduced the profit margins that could be achieved on these accounts. Many foreign banks from several countries, including the US, the UK, South Africa and Ghana, have opened their offices in the wake of the deregulation to offer financial services and to compete with local banks. Under such a competitive environment, banks are under pressure to compete for deposits, resources, and become world renowned. In addition, the competitive environment is allowing the banking industry to continue to develop and expand, and the domestic job market is becoming more and more competitive, leading to concerns over the low quality and short fall of qualified and experienced staff. Manager 3 at EB (Regional office) noted that: *“To be able to compete, the Nigerian banks need to train and retrain their staff because of the highly competitive nature of the environment”*.



In this case, regulation could be vital tools to help the country to benefit from globalisation.

### ***9.1.2 Political Pressure***

Political pressure has been identified as an important coercive isomorphic pressure that drives organisational practices (DiMaggio and Powell, 1983, 1991). It is important to examine the key political pressures facing the banks in Nigeria and how this subsequently drives their MCS. Nigeria obtained independence in 1960 but has faced unprecedented turmoil over the years, facing first financial crisis in the 1990's, then the bloody inter-ethnic and religious conflict, and unending corruption scandals.

The two Nigerian Military Juntas of 1966-1979 and 1983-1998 were a pair of military dictatorships (Falola, 1999). In 1966, Major-General Johnson Aguiyi-Ironsi overthrew Prime Minister Abubakar Tafawa Balewa in a coup d'état, and declared himself Head of the Federal Military Government of Nigeria. Aguiyi-Ironsi was then overthrown and murdered in a coup the same year by General Yakubu Gowon, who held power for nine years until he was overthrown in a bloodless coup by a group of soldiers that wanted to return civilian rule to Nigeria. General Murtala Mohammed succeeded General Gowon. A year later, General Mohammed was overthrown in a violent coup, and General Olusegun Obasanjo then succeeded General Mohammed. Three years later, in 1979, General Obasanjo handed power down to President Shehu Shagari, who ended the military regime, and installed a second Nigerian republic (Falola, 1999).

President Shagari, however, was overthrown in a bloodless coup, and succeeded by General Muhammadu Buhari, who was appointed Chairman of the Supreme Military Council of Nigeria and Commander-in-Chief of the Armed Forces by the junta. General Buhari ruled for two years until he was overthrown by General Ibrahim Babangida, who appointed himself with the position of President of the Armed Forces Ruling Council of Nigeria. President Babangida promised a return of democracy when he seized power, which barely took place during the President Babangida regime (Falola, 1999). He ruled Nigeria for eight years until he temporarily handed power to the interim head of state

Ernest Shonekan, being part of his promise to return democracy (Lewis, 2004). Two months later, however, Head of state Shonekan was overthrown by General Sani Abacha. Head of state Abacha appointed himself Chairman of the Provisional Ruling Council of Nigeria. After Abacha's death in 1998, General Abdulsalami Abubakar took over, and ruled for one year until President Olusegun Obasanjo again became head of state (via an election), and ended the junta. Nigeria had no history of stable democratic government, bore the scars of more than 30 years and authoritarian rule and possessed armed forces deeply entrenched in the political and economic life of the country (Lewis, 2004).

The Niger delta people have been unsatisfied with the way the federal government has kept them under tight control while exploiting them of their rich natural resources. The separatists have been fighting a guerrilla war against the federal government, kidnapping of people and thousands of people have been killed since the separatist rebellion began in 1998 (Douglas, O. et al 2003).

In addition, shortly after the collapse of the Abacha regime, violence erupted in the southern Zaria region. Thousands of people have been killed in the region as a result of fighting between Muslims and Christians, and also as a result of clashes with the security forces. Many Nigerians believe that the roots of conflict seem to be a more basic struggle for territory and identity. Many Muslims believe that Christians have preferential access to government jobs under president Obasanjo, but, on the other hand, Christians think that they do not receive adequate protection from the government and fear that the Muslim will leave them a powerless minority.

### ***9.1.3 Economic Pressure***

Nigeria has experienced high unemployment to a near collapse of social services, decayed infrastructure, and crime and perennial fuel shortages. The plight of the average Nigerian is more hellish than hell, a popular saying in Nigeria is your regular job doesn't pay you a living wage, people struggle on public transport that is falling apart, and people live in very sub-standard housing with no electricity and running water.



In the late 1970s, when annual budgetary expenditure was around US \$30 billion, Nigeria was widely touted as the world's next newly-industrialised country. Today, after years of mismanagement and systematic corruption, per capita income is around US \$390, and Nigeria is classified as one of the least developed nations<sup>27</sup> - despite abundant natural resources and an energetic population of 140 million.

To ease potential instability, international donors have prepared a US \$1.5 billion aid package. It is conditional on the government backing the free-market reform programme initiated by the former administration. Among donor demands are a credible, transparent privatisation programme and the elimination of corruption.

Furthermore, many scholars have suggested that economic constraints increase managers' needs for an effective use of organisational systems such as management control systems (see Gordon and Narayanan, 1984; Govindarajan and Gupta, 1985; Miles and Snow, 1978; Modell, 1996). The literature in this area suggests that organisations facing a high level of economic uncertainty are likely to use effective management control systems to a greater extent (Lynch and Cross, 1991; Kaplan and Norton, 1996). Further, Brignall (1997) suggests that management needs to focus on measures that reflect the more uncertain environment. In recent years Nigerian banks have faced an uncertain economic climate because of their mounting bad debts. Such an economic climate seemingly creates pressures on management to improve their control systems.

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<sup>27</sup> It is becoming increasingly worrisome that after eight years of democratic governance, the country's ratings in critical areas of national development by credible international agencies are still very dismal. In a new survey entitled "Index of State Weakness in the Developing World", the Brookings Institution classifies Nigeria among 28 countries in the world that are critically weak. The report defines weak states as countries that lack the essential capacity and/or will to fulfil four sets of critical government responsibilities.

The Brookings report says that many of the critically weak states, exhibit across-the-board weakness in all four core spheres of state performance of economic, political, security and social welfare. "Failed and critically weak states", the report says, "are those least capable of fulfilling most, if not all, of the four critical functions of government.

According to the report, Nigeria, which is described as the most populous country in sub-Saharan Africa, garners an especially low security score and does not perform above the two bottom quintiles in any area of state function. It then concludes that communal violence and a history of political instability place the country at risk of wider conflict". (Brookings Institution Report, 2008)



#### ***9.1.4 Pressures from Foreign Donors in Nigeria***

International Financial Institutions such as the International Monetary Fund (IMF) and the World Bank (WB) have a long history of intervention in Nigeria (Pinto, 1987; Lewis and Stein, 2002). This started during the early 1970s when the Nigerian economy experienced a crisis caused by a collapse in the price of oil. As a result, the WB offered substantial loans to Nigeria, conditional upon the implementation of severe austerity measures and the privatisation of public enterprises. Foreign donor organisations, like the IMF and World Bank, have issued almost-irresistible demands for economic law reforms, backed by the loans needed for economic and political survival. A dependency of the Nigerian government on the IMF has been caused by the credit given by the IMF, which has become bigger and bigger every year (Beck et al., 2005). The government was forced to turn to the IMF for an emergency debt-relief package in 2006. In return for this, the strategy adopted by the Nigerian government has to reflect the agreement between the government and the IMF, such as slashing the social budget (subsidy cuts in fuel, etc), privatisation programmes, re-capitalising insolvent banks, liberalising foreign trade and investment, increasing the transparency of public sector activities to enhance the quality of governance, and dismantling domestic monopolies (Lewis and Stein, 2002).

IMF demands included creating greater transparency in the issuing of government loans and subsidies, and stricter enforcement of laws and regulations in the area of government procurement, which is widely known as due process. The government has announced several reform initiatives since receiving the IMF bailout package, including the privatisation of several sectors of the economy and reforms the financial institutions. In its effort to satisfy the donor institutions in order to secure ongoing funding, the government has pursued these policies (Lewis and Stein, 2002).

In addition, the IMF and the other donor agencies have also worked with the government by providing the government with some technical assistance on a number of public sector related issues. The IMF, WB and the African Development Bank placed some of their advisors in the Ministry of Finance to assist the government in these issues (Sobodu, and Akiode, 1998; Beck et al., 2005).

There is no doubt the activities of these international organisations have shaped the Nigerian economy, especially the banking sector.

#### ***9.1.5 Societal Pressure***

It has been argued that Nigeria's economic and political crisis has led to less and less public trust in formal institutions, the government, or even in public groups in the country (Aina, 1982; Hoffman, 1996). As discussed in chapter two, Nigeria is a highly pluralistic country and a diverse nation, reflected by its national credo: 'Unity in Diversity', with hundreds of existing ethnic groups and several hundreds different local dialects (Toyin, 2001). Limbs and Fort (2000) for example identified ethnicity, language and religion as the three major contexts that shaped Nigerian business practices. A common trend among the different tribes and peoples, which could have implication for the MCS discourse, is the communal philosophy of life and concern for the less privilege. This trend is rooted in the concept of 'extended kinship', which is common to all the groups (Limbs and Fort 2000). The family network is very important in Nigeria and almost if not all ethnic group in Nigeria believes that individual responsibility extend beyond the boundaries of immediate family. This practice has been described as Nigeria's form of social security (Limbs and Fort 2000). In establishing a firm, the founder represents not only the company but also the family (Limbs and Fort 2000). Therefore in his business judgement the founder balances the demand of business with his responsibility to the extended family, which could be a whole community sometimes.

According to Limbs & Forth (2000) 'the family-owned nature of most private businesses and the cultural notions of extended kinship suggest a propensity toward communitarian identity. Further, there appear to be strong notions of group identification according to ethnicity, language and religion.' In this regard, it can be argued that the meaning and practice of MCS amongst indigenous Nigerian firms would be shaped by the socio economic conditions in which these firms operate.

## **9.2. Institutional Isomorphism and MCS in the Banks**

Earlier in chapter four it was argued that the central thesis in institutional theory is that organisations design systems and structures to maintain external legitimacy rather than for the sole purpose of achieving economic efficiency. The chapter then identified coercive, normative and mimetic isomorphism as the three main institutional pressures confronting organisations (Powell and DiMaggio, 1983; Oliver, 1992).

This section therefore explains how MCS in the four studied banks were shaped by these isomorphic pressures. It is argued that the design and operations of MCS in the banks are inextricably linked to the changes that have taken place in the institutional environment (Brignall and Modell, 2000; Collier, 2001; Tsamenyi, et al., 2006; Hopper and Major, 2007). It will be illustrated that certain aspects of the structures, policies and processes of the four banks (including the pilot bank discussed in chapter six) demonstrate conformity with rules and regulations expressed by external constituents such as the government and the society (Powell and DiMaggio, 1983). For example, the banks had to operate within the rules imposed by the regulatory environment so as to be able to gain external legitimacy. Table 9.1 below identifies some of the key institutional factors observed in the banks and their likely effect on the MCS.



<b>Institutional Factor</b>	<b>Description</b>	<b>Type of isomorphism</b>
Government and central bank regulation	Various forms of regulations from the government/central bank changed the structuring and decision making in the banking sector in Nigeria.	Coercive
World Bank and other international organisations	World Bank and IMF led economic reforms were implemented in Nigeria in response to the country's financial crisis. These reforms have brought pressure on the banks to reform their practices.	Coercive
The Basle agreement	The Basle agreement stipulates how banks should operate. The capital adequacy requirement put pressure on the banks to reform their practices.	Coercive
Corruption and societal expectation	Corruption permeates everyday life in Nigeria. Corruption influences how business is conducted in Nigeria. The banks are under pressure to be seen by the society as eradicating corruption	Normative – cultural expectations
Uniform structures	Over the years the banks have started to adopt similar structures.	Mimetic

Table 9.1: The different types of institutional isomorphism in the banks

It is argued in table 9.1 that the process of the banking sector reform is shaped by several factors. These factors include globalisation, political economic, pressure from foreign donors, such as the International Monetary Fund (IMF) and World Bank (WB), pressure from the public, and the economic crisis that led to the country's financial problems. These institutional factors and their impact on the MCS of the banks are discussed under the various isomorphism in the chapter.

### **9.2.1 Coercive Isomorphism and MCS**

Institutional theory suggests that some institutional sectors (or fields) contain powerful environmental agents imposing structural forms or practices on subordinate organisational units (see for instance, DiMaggio and Powell, 1991; Carpenter and Feroz, 2001). This is referred to as coercive isomorphism and occurs as a result of pressures from those that the company depends on externally such as external resource providers including the state and the credit markets as well as the regulatory environment. Coercive isomorphism is therefore concerned with how organisations are constrained by external resource providers (Oliver, 1991). Coercive pressures reflect the enforcing and regulative aspects of certain institutions (DiMaggio and Powell, 1983, 1991). It has been suggested that coercive isomorphism is more prevalent during periods of crisis and uncertainties (Pfeffer and Salancik, 1983; Mizuchi and Fein, 1999; Carpenter and Feroz, 2001).

Political pressure for change is a major coercive pressure/tendency in the Nigerian banking sector. Poor government policies have led to unprecedented financial crises in Nigeria over the years (Bakre, 2008). In the late 1970s, when annual budgetary expenditure was around US \$30 billion, Nigeria was widely touted as the world's next newly-industrialised country. Today, after years of mismanagement and systematic corruption, per capita income is around US \$390, and Nigeria is classified as one of the least developed nations - despite abundant natural resources and an energetic population of 140 million. These crises have been blamed on the government's poor macroeconomic management (see for instance Bakre, 2008).

One consequence of the inappropriate economic policies is that despite the size of the Nigerian economy, the country's reserves are still deposited in foreign banks due to the low capacity of the local banks (Lewis, 1994; Ezedinma, et al., 2007). The banking sector has failed to expand in relation to the size of economic activities. In addition the banking sector is highly concentrated structurally with the ten largest banks accounting for about fifty percent of the industry's total assets and liabilities. Most banks in Nigeria have a capital base of less than US\$10 million; this has rendered the system very marginal relative to its potentials and in comparison to other countries. The government has not



paid much attention to problems in the banking sector until being forced under pressure from the World Bank and other international financial institutions for reforms. Manager 5 at IB (Branch office) noted that: *“It took a long time for the Nigerian authorities to come to the realisation that the banking sector needs to be reformed”*. This statement has been supported by manager 1 at EB (Head office) as: *“The government has realised that there is the need to be proactive and to strategically place Nigerian Banks to be active players and not spectators in the emerging world economy”*.

Under the auspices of World Bank the Nigerian government is now vigorously pursuing a policy of financial sector reforms. It was identified in chapter two that this was part of conditions laid down by these institutions for bailing out a badly managed Nigerian economy (Bakre, 2008). Other conditions provided are the implementation of free-market reforms, credible, transparent privatisation programme and the elimination of corruption. The World Bank in particular was concerned about the level of corruption in Nigeria, especially as corruption permeates everyday organisational life (see for instance Madichie, 2005; Bakre, 2007; 2008). This finding is consistent with the argument of DiMaggio and Powell (1991) that these international organisations are very influential in exerting pressures on domestic policies of individual countries. Studies in Bangladesh (Uddin and Hopper, 2001; 2003), Ghana (Uddin and Tsamenyi, 2005; Tsamenyi, et al 2002, and *forthcoming*) and Sri-Lanka (Wickramasinghe et al., 2004; Wickramasinghe and Hopper, 2005) have made similar claims about the role of the World Bank and other international organisations in reforms in these countries. Thus, multilateral agencies often use their financial position to coerce domestic policy actors to adopt otherwise unacceptable reforms. In all these studies MCS change in individual organisations in response to deregulation and wider economic reforms.

One of the objectives of the economic reforms in Nigeria was to reduce corruption, collusion and nepotism in all institutions (including the banks in this study). The reform was legitimised through the introduction of diverse regulations. These regulatory requirements created and reinforced routine and structures in the banks. Manager 2 from SB (Head office) indicated that: *“If we fail to conform to these regulations, we risk losing*



*the support of the CBN and the government*". Thus, the banks needed support from the environment for their survival and continued operation. The legitimacy and external support from the CBN/government as the regulators is paramount for the survival of these banks (D'Aunno et al; 1991). Hussain and Hoque (2002) demonstrated that central bank regulation is one of the major factors that influenced the adoption of non-financial performance measures in four studied Japanese banks.

The CBN had argued that the banking sector reform was meant to make Nigerian banks more internationally competitive (CBN Report, 2000). CBN was given a significant amount of power to regulate and control the banking sector under the reforms. The results of this study revealed that the reforms and the new regulations have put pressure on the whole financial services sector to change. Consequently the financial services sector has become one of the most highly regulated sectors in Nigeria. One implication of the reforms for management controls is that banks are now required to submit regular performance documents to the central bank. The CBN is very strict on the submission of these documents. In addition, the banks have been compelled to implement different control measures. Manager 2 from IB (Head office) noted that: *"The change required that all banks analyse the cost and benefits of their activities for example unearned income from non-performing/delinquent accounts and report these to the central bank"*. Similarly, manager 9 at SB (Branch office) observed that: *"We have been forced to change our ways of doing things. We now have to be more proactive and plan properly. The CBN is very particular about how banks are managed these days"*. This statement has further been supported by manager 6 of NB (Branch office) that: *"We have seen a lot changes in recent years. The CBN is behind most of these changes. We have stricter regulations and we are now more aware of what we do"*.

From an institutional perspective, the regulatory changes constitute a form of coercive isomorphism. There is little doubt that the design and use of MCS in the four studied banks was shaped by the pressure from the government and the CBN (that is the regulatory environment). Hussain and Hoque (2002) also provided evidence to show that banks have to operate within the regulatory requirement of the central banks. The authors

found that performance measurement systems in the Japanese banks studied were significantly influenced by the regulatory environment. In the current study, it can be argued that the government and the central bank were the key sources of coercive isomorphism. It has been identified above that coercive isomorphism is more prevalent under periods of crises or uncertainties (Pfeffer and Salancik, 1983; Mizuchi and Fein, 1999; Carpenter and Feroz, 2001). The financial crisis in Nigeria provided an opportunity for the authorities to examine and identify the structural weaknesses within the financial sector and to undertake the necessary reforms. The regulatory changes are therefore partly the result of the financial crises. This supports the argument above that financial crisis is likely to induce changes from the regulatory environment. In the four case studies (the pilot and the main case studies), it was found that the directives from the CBN were usually backed by government legislations (either acts of National assembly or military decrees) to ensure that they are enforced. It has been identified in chapter two that CBN was given more autonomy and power as a result of the banking sector reforms. It can be argued that the various CBN decrees/regulations would lead to changes in the way the banking sector operates (see Powell and DiMaggio, 1983; Mizuchi and Fein, 1999; Carpenter and Feroz, 2001). The evidence presented in this thesis suggests that the CBN regulations have coerced changes in the control systems used in the banks (see also Hussain and Hoque, 2002).

In the present study CBN regulation introduced performance budgeting system in the banks. It was identified in chapter eight that the Federal ministry of finance (FMF, 1986) in its report recommended various management tools including those of budgetary control systems to be introduced in the banks. As a result, the ministry of finance directed all banks to prepare annual business plans and take measures to introduce performance budgeting. The CBN was subsequently given the mandate to ensure that banks in Nigeria adopt the performance budgeting system. It was not surprising therefore that this was the dominant form of MCS in the banks. Thus, though performance budgeting has been in existence in other countries since the 1980s, it was noted during the study that this has only caught up with banks in Nigeria after the deregulation in 1991.



It appeared from the observation that a major reason why these banks are using the performance budgeting system is the pressure from the government/central bank rather than for the purpose of efficiency. This supports the central argument in earlier formulations of institutional theory that organisations design systems for legitimacy purposes rather than for the purpose of efficiency (Powell and DiMaggio, 1983; Collier, 2001). Manager 9 in NB (Branch office) noted that: *"If we have a choice we would not have been using this system. But it is a requirement so we have to use it. But since we have started using it we have seen its benefits"*. This statement has been supported by manager 1 at EB (Head office) as: *"Before the performance budgeting system, we were doing our own thing. What the CBN has done now is to force everybody to use this system"*

This is not alarming, however, as the banks have been accustomed to working and reporting in environments where demands for data and evidence about the quality and extent of their responsibilities have been limited to aggregated summary data or "level-of-activity" measures.

The interview results suggested that the banks sometimes questioned the value of the performance budgeting system. Manager 5 from IB (Branch office) noted that: *"I know there are other budgeting systems that are superior to the performance budgeting system. But we cannot change the performance budgeting system because this is what the CBN want us to use"*. Similarly, manager 10 from EB (Head office) reiterated that: *"I am very sure that even in the developed countries that introduced the performance budgeting system, companies are no longer using the system. Even if they are using it, they have modified it. But because the CBN wanted us to use it we cannot change this"*. The benefits of the system identified in the literature may therefore not be realised in practice. Manager 4 of SB (Regional office) noted that: *"It is unfair that the banks are not allowed to adopt their own budgeting system. The performance budgeting system we are using is completely a CBN imposition"*.



The majority of the interviewees also indicated during the study that the CBN regulations tend to constrain the banks from being innovative. For example, adopting the budget performance systems require extensive goal-setting and measurement activities, this generally involves adopting new organisational values, missions, and operating requirements. The banks find it difficult to introduce new practices which are not in line with the regulatory requirements. D'Aunno et al; (2000) found that state legislatures produced several policies that aimed to promote or inhibit change in their studied organisations. This contradictory effect has been argued by D'Aunno et al. (2000) and Meyer and Rowan (1977) to be because institutional actors have multiple and often inconsistent interests.

The CBN in particular has committed itself to making Nigerian banks more internationally competitive by instituting appropriate measures that will improve the quality of services they offer, and also introducing more financial discipline into the banking sector (Uchendu, 1998; CBN, 2008). The CBN was very particular about the design of appropriate structures in these institutions largely because of the failure of some banks in the 1990s as a result of unsound practices which has led to a wide spread of financial sector distress and losses to depositors. Manager 7 at NB (Branch office) noted that: *"The performance budgeting was part of an overall CBN policy guideline to the banking sector. These policy guidelines arose because of the way the Nigerian banking sector was poorly run in the past"*. Similarly, manager 3 of EB (Regional office) observed: *"In the 1970s and the 1980s the Nigerian banking sector was characterised by weak management and corruption. As a result the CBN has to step in to correct the system"*. Other problems include; weak corporate governance evidenced by high turnover in the board and management staff, inaccurate reporting and non-compliance with regulatory requirements, late or non-publication of annual accounts that obviates the impact of market discipline in ensuring bank soundness; gross insider abuses, resulting in huge non-performing insider related credits; insolvency, as evidenced by negative capital adequacy ratios and shareholders' funds that had been completely eroded by operating losses (CBN 1991).

In discussing coercive isomorphism, it is important to highlight the influence of the Basle agreement. The CBN has often used the Basle agreement as a justification for some of the regulatory requirements. On the one hand, the adoption of the requirements under the Basle agreement can be seen as a way of maintaining external legitimacy by the banks. But on the other hand the Basle agreements are largely designed for enhancing the efficiency and profitability of banks and therefore the adoption of these requirements could be interpreted from a legitimacy and efficiency perspective. The Basle Committee's Core Principles for Effective Banking Supervision were identified in chapter two as setting out the basic framework of how banks are managed (IMF, 1998). One of the requirements under the Basle agreement which the CBN has enforced among banks in Nigeria is the capital adequacy stipulation. The Nigerian government passed a decree under the Banks and Other Financial Institutions Decree (BOFID, 1991) making the capital adequacy stipulation a mandatory requirement for all banks to follow. The capital adequacy rule stipulates the relationship between a bank's capital or 'own funds' and its risk exposure. The imposition of the capital adequacy requirements has had major implications for the required profitability of banking. This issue has proved to be of great importance because it is a restraint on banks' balance sheet growth and put pressure on banks to perform in line with stock market expectations in order to ease the raising of capital if it is necessary. Llewellyn (1991) emphasised that the imposition of equity capital requirements has major implications for the required profitability of banks and their ability to compete. This also influences the type of business they are likely to conduct. The effect of the capital adequacy rules was to increase the banks' cost of capital just at the time when the banks' had and still do have, an increased need for capital.

It was pointed out to the investigator during the study by the interviewees in all the banks that the capital adequacy requirement has put pressure on the banks to earn adequate rates of return on invested capital in order to enhance shareholder value. Attracting capital at an adequate cost means that these banks have to create shareholder value by producing a rate of return on equity in excess of their cost of equity. Manager 2 at SB (Head office) commented that: *"As we are a profit making organisation we know we have to create*



*value for our shareholders. This is not a problem. But since the passing of the capital adequacy decree we have been under constant pressure to create more value for shareholders. The emphasis now is more shareholder value creation. This requires us to be proactive and innovative in our operations*". The interviewees in SB indicated to the investigator that the bank has made it a priority to increase dividends from earning a return on capital in excess of others in the market, managing risk and trying to gain market growth. The study observed that the capital adequacy requirements have changed the approach to decision making in the banks studied. This has implications for management controls. For example the emphasis on market values under the capital adequacy requirements meant that the banks are now evaluating performance on the basis of the achievement of specific financial targets.

It came to light in the four banks during the study that in the past, performance measurement was very informal and subjective. However there has been a change since the capital adequacy requirement with a move to more structured and financial based measures. Performance-based budget is one of the new measures introduced as a result of the capital adequacy requirement. From an institutional perspective the requirement under the Basle agreement coerced change in the structure and decision making of the banks (Powell and DiMaggio, 1991; Collier, 2001). The institutional pressure has forced the banks to design structures and systems to be seen as legitimate. Budget targets are becoming stricter and there is now higher emphasis on the achievement of budget targets. As suggested by Carpenter and Feroz, (2001) successful organisations are those that are able to negotiate with the external environment for resources. Consequently if the banks want to be successful they have to comply with these external regulatory requirements. Tolbert and Zucker (1983) provided evidence to show that organisations sometimes adopt certain structures not because they are perceived as efficient but rather because they symbolise good governance. As argued by Meyer and Rowan's (1977) gaining legitimacy can be a sensible approach because it implies responsible management, pleases others in the external environment, and avoids potential claims of negligence if something goes wrong.



The importance of the regulatory environment can be seen from the empirical results reported in chapter eight. The majority of the interviewees in all the banks studied indicated that the policy guidelines issued by the respective head office are the most important consideration among all the input factors in formulating the branch performance budgets. However these policy guidelines are determined by CBN directives and guidelines. The argument presented here is consistent with Ansari and Euske (1987) who found that accounting information in the US Department of Defence has been designed to comply with institutional rules and hence to legitimise the decisions of the department. It supports the arguments that organisations need to conform to institutional rules and norms to legitimise their existence (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). Covalleski, et al., (1994: 11) had made a similar argument that "...such externally legitimated, formal assessment criteria as managerial accounting information play a heightened though ritualistic role in a variety of settings as organisations seek to find, conform to, and demonstrate for their internal and external constituents some form of rationality in order to gain legitimacy”.

The extent to which the banks in the study have complied with these external regulations is also consistent with the central assumptions in institutional theory of non-choice behaviour, adherence to rules and norms, and conformity to external criteria (DiMaggio and Powell, 1983; Oliver 1991). It is evident that political pressure provided the necessary momentum for the banks to change their routines (DiMaggio, 1991; Scott, 1995, Scott and Christenses, 1995). Overall, the findings reported in this study supports DiMaggio and Powell's (1983) argument that many organisations tend to design structures, policies and control procedures to accord with the institutionalised rules and expectations demanded by external constituents such as government agencies (see also Meyer and Rowan, 1977; Hoque and Hopper, 1994; Collier, 2001; Brignall and Modell, 2000; Tsamenyi et al., 2006; Hopper and Major, 2007).

In addition to the performance budgeting system the organisational structure adopted by the banks can be said to have been to some extent influenced by the coercive pressure for change discussed in this section. The banks were forced to open branches and to provide

services such as rural finance. To some extent these structures were adopted to cope with government and CBN requirements to provide services such as rural finance. While adoptions of these structures have some elements of legitimacy they also have elements of rationality. Thus, it has been recognised in the organisational study literature that sometimes organisations adopt structures for the purposes of efficiency but at other times structures evolve as a result of the struggles for political legitimacy (Pfeffer, 1981; Lounsbury, 2008). This argument was explored in the present study. In particular, the investigator wanted to find explanations for the types of structures adopted by the banks especially as it appeared that all four banks have similar structures.

The evidence gathered during the study suggested that while there might be some rational explanations for the adoption of these structures, political legitimacy was the predominant reason behind these adoptions. In EB for example, manager 1 (Head office) noted that: *"We did restructuring recently and while we believe this was necessary to improve decision making I believe that the decision to restructure was motivated largely by the desire of the bank to show how innovative we are. The government and the central bank are encouraging banks to be innovative so we have to restructure to show this".* A similar comment was made by manager 10 of SB (Branch office) that: *"Politics is very important in Nigeria. You can therefore not make any business decisions without thinking about the political consequences. Yes it is true that we are here to make profit but we also have to be seen by those in authority as being a modern and innovative bank".*

In effect it can be argued that both rationality and political considerations influence the design of structures and processes in the banks. In other words, the four banks studied adopted structures and processes for both efficiency and gaining legitimacy from external constituencies (such as the public and politicians). This supports the arguments of Oliver (1991), DiMaggio and Powell (1983), and Meyer and Rowan (1977) that the influence of both perceived efficiency gains and legitimacy are determinants of compliance with institutionalised practices (see also Covalleski, et al., 1993 for a similar argument).



### 9.2.2 Mimetic Isomorphism

Earlier in chapter four we explained that mimetic isomorphism occurs as a result of organisations copying or imitating those that they consider successful (DiMaggio and Powell, 1983, 1991). Imitation is the deliberate attempt by one organisation to copy any aspect of another organisation's system. This imitation brings the imitator's practice (or specific components of it) into reasonably close correspondence with the model being imitated.

Banks in Nigeria are clearly facing considerable challenges and there is, and has been, a need for an 'appropriate response'. This response is manifested, in part, in the management control systems that are being introduced into the banks. Imitation was observed in terms of the systems and structures of the banks. The banks studied were found to be copying systems and structures of the most successful banks. The most successful banks are usually the foreign banks (for example Citi Bank) that have entered Nigeria after the deregulation of the banking sector. Manager 9 from NB (Branch office) justified this as: *"Of course, there is value in learning from the experience and success of others. It is natural for the business community to recognise the innovative solutions or services an organisation comes up with to untangle a problem or create a market opportunity. Many organisations are saddled with similar challenges, so copying may seem like the ultimate shortcut to salvation"*.

Manager 3 of SB (Branch office) also noted that: *"In the end, best practices can produce very big benefits when adopted internally to grow people and their performance. Even bad practices can be taken as a reference in order to strengthen good ones and learn. Most of all, on the other side, by teaching, though not always being aware of it, people get stronger in their abilities, are more satisfied and rewarded and happier and more productive, and so on and so forth"*. It is no wonder most banks look astonishingly similar as they have been busy copying each other's best practices. One example provided in all four banks is the introduction of information technology. Manager 5 of NB (Regional office) noted that: *"All the local banks wait to see what information systems are being used by the big foreign banks such as Standard Chartered and*



*Citibank. These IT systems are then copied by most of the local banks regardless of whether they need them or not. We all want to be seen as innovative".* The information system referred to here is mainly the accounts tracking system which allows the banks to track their customers' accounts. This system provides on-time information for the purpose of monitoring and managing customer accounts.

Fitzgerald et al., (1991) and Brignall et al., (1991) describe the importance of linking organisational design, structure and strategy with management controls. Where management is unable to implement and utilise an effective control, for reasons such as inability to link strategy to operational activities, it often tends to copy publicly appreciated best practice from other successful organisations (Fligstein, 1985; O'Neill et al., 1998). Such a copying tendency occurs from a desire to gain legitimacy from the operating environments.

The extent to which the banks have tended to adopt similar structures is consistent with arguments in institutional theory that organisations operating under conditions of uncertainties would tend to imitate certain practices of other organisations they consider successful. This is necessary to identify the best course of action (Palmer, 1993; Carpenter and Feroz, 2001). This argument is consistent with Hussain and Hoque (2002) who studied Japanese banks and observed that banks imitated each other in order to cope with the competitive pressure in the Japanese banking sector. The Japanese banks were able to identify successful performers in the industry which they used as a point of reference. Mimetic isomorphism is particularly important to the banks studied in Nigeria because they are under pressure to appear innovative and as a result they tend to model themselves on the foreign banks that they perceive to be more legitimate or successful (DiMaggio and Powell, 1983, p. 152).

The performance measurement system adopted in all four banks appeared to be similar. This would suggest that there were some imitations going on. An analysis of the variance reports of these banks showed that they have been following a similar reporting approach in terms of both the structure of the variance report and the types of variances that are

reported. There is a general variance performance report with columns for targets, actual, variance, and percentage variance. In addition the banks also have monthly activity reports for deposit mobilisation and recoveries. For the deposit mobilisation, the variance report has columns for deposit target allocated; actual, variance and percentage variance and for the recoveries; the variance report has columns for recoveries target allocated, actual, variance and percentage variance (a copy of the variance report from EB is provided in the appendix. Other banks did not permit these copies to be taken out of the banks premises). The general variance report is on quarterly, half yearly and annual basis while the deposit mobilisation and recoveries variance reports are on monthly basis. When questioned about the similarities in budget variance reports, manager 3 at EB (Regional office) stated that: *“Well I am not surprised that you have indicated that our performance report is similar to that of the other banks you are studying. As you know we are in the same market and compete for the same customers so we have to learn from the better banks and try to catch up and hope that one day we will overtake them”*. While the performance budgeting explained earlier was attributed to coercive pressures, the performance measure can be attributed to imitations. Manager 4 at SB (Regional office) supported this view that: *“We do not have any regulations as to how to measure or report on our performance. But as you know it has become a standard thing for all banks to do the same thing. We get to know about what the other banks are doing through former employees, friends or even through reports submitted to the CBN”*. There were thus no regulatory requirements to use variance reports. The evidence provided supports the argument that when faced with uncertainties organisations will tend to follow structures and processes of other organisations they perceive as successful in the industry.

### **9.2.3 Normative Isomorphism**

It was explained in chapter four that normative isomorphism occurs from two main sources - the influence of professional associations and the need to seek cultural support (Powell and DiMaggio, 1991). Meyer and Scott (1983) argued the degree of cultural support enables organisations to gain institutional legitimacy. Thus, “Organisational legitimacy refers to the degree of cultural support for an organisation - the extent to which the array of established cultural accounts provides explanations for its existence,



functioning, and jurisdiction ...' (Meyer and Scott; 1983, p.201). Scheid and Suchman (2001) also noted that normative isomorphism occurs when organisations draw on larger cultural frameworks and value orientations”.

In the banks studied the need to maintain cultural support rather than professionalization was identified as the form of normative isomorphism. As a result the remainder of the discussion in this section is devoted to culture as a form of normative isomorphism. Evidence of organisations designing structures to conform to cultural expectations has been provided in the literature (such as Birnberg and Snodgrass, 1988; Granlund and Lukka, 1998; Collier, 2001). Culture that is developed in any of the various organisations in Nigeria is inseparable from a number of factors, which are the system of values accepted in general by society: for instance, the principle of consent, unanimous decisions, co-cooperativeness, loyalty, (family atmosphere); forgiving culture, and looking up to the top officers (Amadi, 1982; Limbs and Fort, 2000).

Hence, as has been also argued by Tsamenyi et al; (2004b); Hopper et al., (2003); that all cultural issues above may well explain some managerial practices in organisations in developing countries. Studies such as Granlund and Lukka, (1998) and Collier (2001) have argued that the success or failure of an adoption of MCS in an organisation depends on the relative strength of the culture. Collier (2001) provided an example of this by suggesting that managerial reform in an organisation could be impeded by a resistance that has been supported by a strong culture.

It will be demonstrated in this section that the four Nigerian banks studied adopted certain structures and practices to maintain cultural or societal support (DiMaggio and Powell, 1983). In the first place, all the banks were involved in some form of charity or community development work. There is therefore an emphasis on corporate social responsibility in these banks. It was identified in chapter eight that the banks have been focusing on what is termed ‘social banking’ which focuses on understanding the social environment and linking this to their financial objectives. It is argued that these strategies are adopted by the banks so that they can be perceived as legitimate (DiMaggio and



Powell, 1983). The cultural support here is very important as Nigerian organisations are under pressure not to be seen as corrupt. Corruption has often been construed as being largely culturally determined and this explains why it is tolerated in some countries more than others (Getz and Volkema, 2001; Smith, 2006). Olivier de Sardan (1999, p.25) commenting on the cultural context of corruption in Africa suggests that “Corruption is socially embedded in ‘logics’ of negotiation, gift-giving, solidarity, predatory authority and redistributive accumulation” and Smith (2006) writing on corruption in Nigeria emphasises how this is embedded in the social behaviour and attitudes of Nigerians. Fighting corruption means changing the mindset and behaviour of the people hence the argument in this thesis that the fight against corruption is an attempt to maintain cultural support and hence normative isomorphism.

It has been indicated in chapter two that corruption is endemic in Nigeria. The country has consistently been ranked very high on the World corruption index<sup>28</sup> (see also Madichie, 2005; Bakre, 2007). An estimated US\$521 billion have been alleged to have been stolen by past and present Nigerian rulers, politicians and public officials (see Bakre, 2008). Manager 1 at NB (Branch office) commented on the problems with corruption in Nigeria as: *“Nigeria is a country where the average public sector minimum wage is just US \$100 per month. It is not surprising therefore that a culture of bribe-taking has become entrenched at all levels of the society. Corruption festers in an environment in which economic crimes are very rarely punished, and the ones who should do the punishing are part of the bribe-taking environment”*.

The ongoing economic reforms have strongly emphasised the elimination of corruption and nepotism. It is therefore not surprising to see that all the banks in this study have identified the minimisation of corruption in their corporate objective. For example, it has been highlighted under section 7.2.1 how SB has specifically identified that it has taught its employees to uphold the virtues of moral excellence, honesty and sincerity in their dealings with stakeholders. Statements of this nature are very common among Nigerian businesses to instil public confidence. For example, the President of the Institute of the

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<sup>28</sup> See <http://www.transparency.org/>

Chartered Accountants of Nigeria in a recent address to the new members of the institute noted that “the qualification as a member of the profession and institute will impose on you an onerous responsibility in which excellence, honesty and transparency are expected to always underlie all your professional relations with clients and the public” (Bakre 2007, p.278). In EB manager 5 (Regional office) observed that: *“Unfortunately you cannot talk about Nigeria without mentioning corruption. If we are going to survive as a bank, we need people to have confidence and trust in us. We are doing everything to achieve this. We have educated our employees and even our customers. We have also designed systems as checks to detect and minimise corruption”*.

The implications of maintaining this external image or societal support are that control systems designed in the banks are intended to demonstrate to the public that these organisations have appropriate structures in place to protect or safeguard their investment. The findings reported here are consistent with Covaleski and Dirsmith (1988) who found that the articulation, enforcement and modifications of an organisation’s budgeting system reflected societal expectations. The arguments presented in the thesis suggest that it would be easier for the banks to legitimise their activities when such practices are culturally supported. This need to conform to the cultural expectations of the larger society (Powell, 1988; Covalevski and Dirsmith, 1988b; Mizuchi and Fein, 1999) was therefore a determinant of the types of structures and systems adopted by the banks.

Meyer and Scott (1992) also argued that such cultural support can come from professional associations both local and worldwide. As reported in the empirics the performance budgeting system was implemented through banking professionals. Moreover, the performance budgeting system has been regularly promoted in top management seminars sponsored by the national institute of bank management. Manager 2 from SB (Head office) commented on this as: *“Following CBN directives, the professional banking association of Nigeria also promoted the performance budgeting system. There are regular seminars where bank managers attend to listen to presentations on performance budgeting”*. Carpenter and Feroz (2001) also found in their



study in the USA that professional associations such as Government Finance Officers Association (GFOA) influenced state financial management practices in the USA.

### **9.3 Intra-organisational Power Relations and MCS**

The discussion in this section is provided to address one of the limitations in NIS identified in chapter four. It was argued in chapter four that earlier NIS analysis has been criticised for ignoring the issue of power relations between the different actors and its inability to show the role of management in accommodating or reconciling the competing interest (see for instance DiMaggio and Powell, 1983). This limitation has led some recent NIS researchers to consider the issue of power and agency. Organisational power relations produce opposing effects, either promoting or inhibiting change in the organisation's systems (see Burns, 2000; Collier, 2001; Tsamenyi et al., 2006). Collier (2001) highlights that organisational power may cause conflict where interests do not coincide. Organisations experience difficulties in changing their existing systems when faced with the ability of an individual(s) or an institution(s) to influence behaviour and overcome resistance (Burns, 2000; Pfeffer, 1992). On the other hand, Giddens (1976), Burns (2000) and Collier (2001) have argued that power has the potential to be enabling if the interests of different groups are shared.

In exploring the link between legitimacy and power, Collier (2001, p.467) argued that "the power of institutions arises both from the need for legitimation and from isomorphic processes". Thus, organisations "need the support of governmental institutions where their operations are regulated. Organisations are also dependent on the acquisition of resources to support purposive activity. The role of the state particularly through legitimation processes, is a powerful one and this is evident in some organisations" (p.467). Arguments in the institutional theory literature suggests that the role of interest and agency affects the institutionalisation of organisational practices (Goodrick & Salancik, 1996; Goodstein, 1994; Oliver, 1991; Kostova and Roth, 2002); The empirics reported in chapter eight suggests that interests and agency relational contexts were influential in the banks attempt to institutionalise the performance budgeting and other MCS. In other words, the evidence gathered suggests that the way the performance



budgeting system operated was influenced to some extent by the actions and behaviour of people in the banks. Individuals with vested interests promote aspects of the performance budgeting to their benefit. Manager 7 from EB (Branch office) noted that: *“People have their own agenda and they will rely on the performance budgeting system to achieve this”*. Thus, organisational power relations were prevalent in all the four banks studied and this power shaped the performance budgeting system.

The study results suggest that the various controls from the head office affect the branch manager's budget. Manager 8 from NB (Branch office) stated that: *Standard products are offered across Nigeria, and the interest rate and margins linked to those products are centrally controlled, with little scope for local deviation. Centralised personnel and premises functions mean that a large proportion of annual expenditure may be outside a branch managers' control. Risk control can restrict what a manger sees as potentially profitable business being taken on if those higher up the discretionary ladder disagree.*

There was power play between the head office, regional offices and branches. This interplay of power affected the design and use of control systems. Control systems designed at the head office were often negatively perceived at the branch level. The branch managers perceived these controls as being imposed by the head office. There was the lack of managerial autonomy that prevented managers from responding to problems relating to their sub-ordinates (such as rewards and sanctions). Branch managers obeyed these laws and regulations to support their survival and continued operation (Collier, 2001). The power relations predominantly observed in the four banks relating to MCS is presented below.

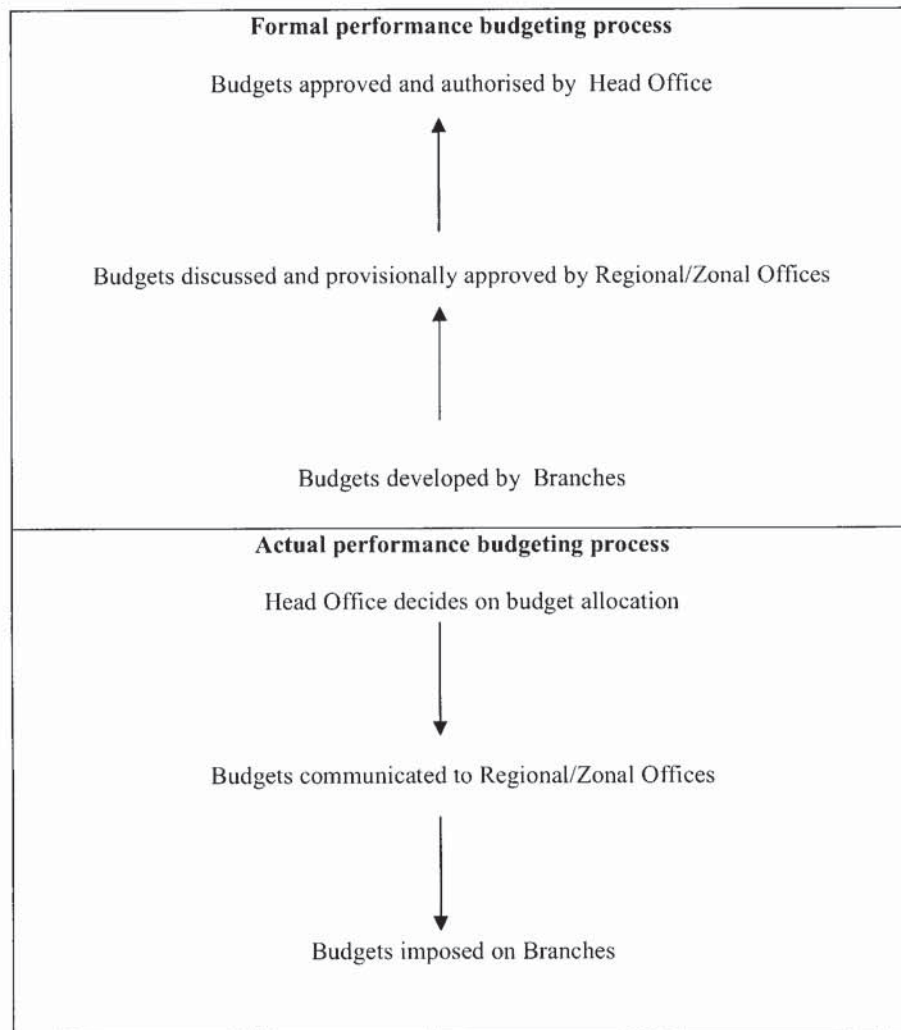


Figure 9.1: Formal and Actual power and agency relations in the budgeting process

Figure 9.1 above shows that the formal budgetary control process deviates from the actual control process. A similar frame of analysis has been provided in the study of Tsamenyi et al., (2008) on power relations in an Indonesia case study. The formal system showed that the performance budgeting was to be formulated at the branch level as identified by the interviewees. This is expected to empower and motivate the branch managers. However in practice a different relationship is observed as the controls were designed and imposed from the head office. The remainder of this section discusses issues around intra-organisational power relations especially relating to the performance budgeting process. While in theory performance budgeting proposes a grass root

budgetary system where the budgets of all the responsibility centres are formulated through the bottom-to-top approach and mutual consensus between the leader and the led (Seksena, 1980), it was found that very often budgets were designed and imposed by the head office<sup>29</sup>. This created conflicts between the head office and branches. Control is also exercised by the regional/zonal officer and the head office through 'control returns'. As discussed in chapter 8 the control returns are weekly and monthly reports that the branches submit to the head office (see table 8.1 and also section 8.2.5).

It was identified in chapter eight that one major conflict revolves around the ownership of the performance budgeting system. Some branch managers have challenged the dominant influence of their head office in imposing the performance budget on them and controlling the process of the budget. It was observed that the whole argument of ownership relates to how much influence and control the branches perceived themselves as having over budget decisions. In effect this also deals with the level of participation of branch managers in budgeting decisions.

The involvement of personnel at grass root level of branches and winning their commitment in achieving the tasks ahead have been the twin bedrocks on which the concept of performance budgeting has been founded. Seksena, (1980) argued that if bank plans are not to remain on paper only, but are to become operational documents to guide, direct and control the growth of the organisation and to ensure the achievement of the desired results, both quantitatively and qualitatively, there cannot be any substitute to the involvement of staff in formulating the plan itself. Since branch budget is a quantitative plan of the branch it needs to be formulated after involving those who have to implement and operate it (i.e., the staff). But the branch managers believed they have not been given the power to shape the budget hence the conflict. Manager 10 from IB (Branch office) noted that: *"This is a case where the head office controls the entire budgeting process. The branches have limited involvement and for that matter minimal influence. I think branch managers should be allowed to be substantially involved in budget decisions"*.

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<sup>29</sup> The argument does not suggest that the budgets are always imposed; there is some evidence of participation which has been discussed in the thesis, see chapter eight.



It was identified in the empirics how some branch managers were suspicious that regional managers had rough targets in mind at the time of budget finalisation in the budget settlement meetings. This it was argued made the discussion of the budget targets very difficult for the branch managers concerned. This reinforced the branch managers concern that budgets have been imposed on them by the head office. As reported in chapter eight, most branch managers indicated there was less scope for listening to the branch managers by regional managers and the head office when it comes to budget decisions.

Regarding the conduct of settlement meetings that was identified in chapter eight for example, it was revealed that in the majority of cases the branch managers give in to the authority of the regional managers and compromise on the decisions of the budget settlement. This is contrary to the ethos of performance budgeting which proposes that that both parties should have mutual consensus for finalising the branch budgets (Seksena, 1980). So far as the arguments in the budget settlement meetings are concerned, the branch managers try to plead their cases on the basis of the environmental analysis of their branches, but the regional managers advocate their views by stating that they had commitment to the top managements. The case should have been that a proper environmental scanning of the branches should have been the main foundation on which the settlement of the performance budget for the branch should have been made rather than by any other basis (like commitment to top management etc.), which is contrary to the concept of bottom to top approach of performance budget formulation and settlement.

The process of the settlement meeting observed in the study is contrary to the ideal one discussed by Seksena (1980). He argued that in an ideal performance budgeting process settlement meeting would be conducted in an across the table dialogue. This meeting will be conducted in an open, free and frank manner and with a clear awareness and appreciation of the mutuality of overall goals. The evidence therefore suggests that such an ideal situation (Seksena, 1980; Drury, 1999) may not be achieved in practice, especially in a developing country context like Nigeria where research has suggested that

formal controls do not often work in practice (Uddin and Hopper, 2001; Tsamenyi et al., 2002; Hopper et al., 2003).

The procedure adopted in the banks for measuring and reporting on performance has also created conflicts between the head office, regional managers and branch managers. The budgets are formulated by the head office and implemented at the branches through the regional managers. In effect, the regional managers act as the liaison between the head office and the branches. The regional managers also play a monitoring role of branch activities on behalf of the head office. It was identified in chapter eight that the branch managers were generally of the opinion that when it comes to performance measurement it is only the controlling authority that does evaluation. There were minimal inputs from the branch managers. The quotation provided by manager 6 of EB (Branch office) reported in chapter eight that the performance measurement process is like an examination situation in which the branch is the examined and the controlling authority the examiner, the assessor and valuer is just one of the examples to attest to the argument that the entire process is fraught with head office coercion. Similar views were expressed by other managers (see chapter eight). Similar findings relating to head office coercion of decision making subsidiaries have been reported elsewhere (see for example, Hopper and Major, 2007). The analysis of the process of the performance budgeting identified above is consistent with arguments in NIS that suggested that interest and agency is important in analysing and understanding the impacts of institutionalised organisational processes (for example: Oliver, 1991; Kostova and Kendall, 2002; Goodrick and Salancik, 1996).

Previous institutional studies have discussed resistance by organisational actors to impose structures and processes (Burns and Scapens, 2000; Collier, 2001; Tsamenyi et al., 2006). In the present study minimal resistance by bank employees to the imposed MCS was found. Previous studies (Modell, 2002; Covalevski and Dirsmith, 1988a, 1988b; Greenwood and Hinnings, 1996; Collier 2001; Tsamenyi, et al., 2006; Hopper and Major, 2007) have suggested that the ability to resist the implementation of a new practice



depends on whether the organisational actors can mobilise sufficient amount of power to resist the practice or not.

The fact that the CBN and the government have used the World Bank reforms and the Basle requirements to legitimise the regulatory changes made it difficult for employees to oppose them. The head offices of the banks usually implement these controls arguing that they are all government requirements backed by either military decree or act of National assembly. This made it difficult for employees to question the legitimacy of such imposed institutionalised practices. Greenwood et al (2002) had also provided evidence to support the argument that institutionalisation required theorisation and legitimisation. Theorisation requires identification of failure of existing systems and the justification for a new innovation (Tolbert and Zucker, 1996). In the case of the banks, the failures of the Nigerian economy in general and the banking sector in particular were used as the basis for the regulatory changes.

#### **9.4 Market Forces and MCS**

In chapter four we identified competitive isomorphism or market forces as a likely driver of organisational practices. This section discusses how MCS in the four studied banks were shaped by pressures from the competitive environment of the banks. It will be argued later in the section that competition has introduced a new ethos which embodied profitability, cost awareness and shareholder value creation. This is a marked shift from the past, when the success of banks was measured by the size of their assets. The change in emphasis also affected control systems in the banks.

It was argued in chapter two that competition was introduced into the Nigerian banking sector through opening up of the industry as a result of deregulation by the government in the late 1980s. The deregulation removed barriers to competition in the Nigerian financial services industry and significantly increased the level of competition. The deregulation increased competition for the personal customer account and hence reduced the profit margins that could be achieved on these accounts. It was also identified how the liberalisation of the banking sector led to an influx of banks from foreign countries



including the US, the UK, South Africa and Ghana. Under such a competitive environment, banks are under pressure to compete for deposits, resources, and become world renowned. In addition, the competitive environment is allowing the banking industry to continue to develop and expand, and the domestic job market is becoming more and more competitive, leading to concerns over the low quality and short fall of qualified and experienced staff. Manager 4 at EB (Regional office) noted that: *“We have to train and retrain our staff because of the highly competitive nature of the environment in order to be able to compete”*.

Manager 10 of SB (Branch office) equally believed that the most powerful catalyst for the changes in the banking industry was the deregulation of the economy, the effect being, for the first time, to expose some of the banks’ core activities – such as across-the-counter personal services – to competitive pressure from new entrants. Deregulation and the 1990-1993 recessions have led to structural overcapacity in the financial services industry. This has led banks into programs of rationalisation, for example, the pursuit of efficiency gains. The deregulation has encouraged banks to diversify their operations. Inevitably marketing has been given a higher organisational priority, reflecting the intense competition in all segments of the market. Segmentation and branding of products were recognised as being applicable to banking and banks had felt it necessary to carry a whole range of products.

As identified above, the banks now face more competition from foreign and new generation banks. These foreign and new generation banks have a greater capacity to diversify into the banking services than the existing banks in Nigeria. The effect of the increased competition and declining profits meant that cost measurement and cost reduction have taken on great importance. The deregulated financial markets and the ensuing increase in competition have put pressure on cost structures which evolved during decades when competitive pressures were less intense. Additionally cost reduction is one component of attempts to raise operating profits to compensate for lending losses in the 1980s.

As was discussed in chapter eight, these changes in the banking environment have introduced an awareness of rationalisation, efficiency and cost control which in the past were not so important. Hussain and Hoque (2002, p.178) summarised the importance of competition in the banking sector as follows: "If competition was not significant in the financial industry, banks would perhaps not be aware of the need to improve their services to satisfy customers". Evidence was also presented in chapter eight to show that the resurgence and recognition of control systems in the studied banks is partly a response to the need to embrace these concepts and performance budgeting in particular is one control system which has gained great prominence in financial services. As discussed in chapter eight, the awareness of performance budgeting in financial institutions came from the financial/management accounting press, from management consultants and from government decree. Manager 3 from NB (Head office) commented that: *"Yes the CBN brought the concept of performance budgeting. But it was also promoted by various bodies including our own associations and the press"*. Additionally these developments in performance measurement and cost management systems in the retail financial services sector have lagged many years behind the development of similar techniques in manufacturing. Manager 9 from EB (Branch office) noted that: *"Before coming to the banking industry I have worked in manufacturing sector and I can tell you that they have a better cost management system than the banking sector"*.

All of the banks in this study were affected by competition and they have all experienced significant change in their cost structure as a result of competition (Cooper, 1995). The banks now have a high proportion of overheads as a result of investments in IT. Moreover, they have experienced increasing pressure to improve the quality of services they offer (Mok and Lee, 2001). Designing appropriate MCS is therefore necessary for the banks to be able to compete (Fisher, 1995; Brancato, 1995). In other words, strong competition motivates an organisation to consider its existing system to increase the organisation's ability to face competitive pressure (see also D'Aunno et al; 2000). Sherer and Lee (2002) argued that competitive pressures drive organisations to be different and without competitive forces, there is no reason for an organisation to change.



According to manager 10 from IB (Branch office), competition is an acknowledged central force in Nigerian banking institutions. He noted that: *“Competition is one of the ways to attain high quality service, quality service delivery and a high commitment is one of the components for improvements in management and or improving quality. Due to competition, the banks will have more to offer in developing the financial sector of the economy”*. Mia and Clarke (1999) argued that an organisation needs to adapt quickly to face threats and opportunities in the competitive environment and that they design appropriate control systems for this purpose. If an organisation faces increasing competition in its market yet fails to adopt and implement appropriate strategies to deal with such competition, its performance will decrease. This was acknowledged in our study as the four banks in the study recognised the need to change their MCS to respond to the competition.

The increasing competition has also compelled branch managers to take keen interest in collecting relevant data of their branch environment and translating that into their budgets (see chapter eight for example). Branch managers were identified as making extensive use of information generated from various sources like social contacts in the branch area; personal survey of the area, the development of social contacts in the area; and special reports and documents published by government agencies like Central Bank to understand and manage the environment.

Several interviewees perceived customers' needs and aspirations as very important in formulating budgets. This it was argued was because of the competition that banks now face. These banks now have to focus on new marketing techniques in order to target customers. Evidence provided in chapter eight suggested that customer satisfaction was not considered an important factor prior to the deregulation of the banking sector, because banks at that time believed in the producers' market due to the minimal competition they faced. The increasing competition it was identified created the impetus for change hence the shift in focus on customers and the strategies of competitors.



### ***9.5 Loose Coupling and MCS in the Banks***

One argument in institutional theory is loose coupling (Powell and DiMaggio, 1983; Collier, 2001). The concept of organisations as loosely coupled systems is widely used and diversely understood (Orton and Weick, 1990, p. 203). For instance, Beekun and Glick (2001) emphasised the dynamic nature of loose coupling; arguing that loosely coupled elements can, over time, become more or less coupled and, therefore, controls may be coupled both loosely and tightly at the same time. The authors noted that “Coupling is usually defined as the relationship among elements or variables, while loose coupling refers to a general characteristic of these relationships, the degree to which the relationships are loose rather than tight”. To Beekun and Glick (2001, p.229), coupling can be conceptualised as “the relationship between any “A” and any “B”, and varies in strength along a continuum from loose to tight” (Weick, 1982).

Coupling can therefore be perceived to be loose between elements when they are either weakly related to one another or preserve their separate identity (Glassman, 1973; Weick, 1976). This argument is consistent with Beekun and Glick (2001) who suggest that “loose coupling implies a tension between coupling and looseness, namely, weakly related and fairly independent elements in a variety of areas for example, management control”.

According to Weick, loose coupling is evident when elements affect each other “suddenly (rather than continuously), occasionally (rather than constantly), negligibly (rather than significantly), indirectly (rather than directly), and eventually (rather than immediately)” (Weick, 1982a, p. 380).

Different studies have concluded that organisations can be loosely coupled and at the same time be tightly coupled, (Daft & Weick, 1984; Beekun and Glick, 2001). Lukka (2007, p.80), suggested that “loose coupling means and posits that an organisation can have both rational and indeterminate elements simultaneously”. The author identified limited coordination as characteristic of loosely coupled MCS. In the case of the four banks studied in Nigeria, some aspects of the performance budgeting are tight but others are loose, however, the argument presented here is that the loose coupling was caused by

the design of MCS that failed to perform coordination role. The performance budgeting system discussed in chapter eight was loosely coupled with the day-to-day decision making of the banks. Beekun and Glick (2001, p.232) provided an example of organisational participants being loosely coupled if they communicate together through different levels of hierarchy rather than directly.

For a long time the commercial banks in general paid almost no attention to the development of measurement and control of costs. This is evidenced by interviews with bank managers who stated that at the beginning of the 1980s cost control had not even entered the decision-makers conception. There was no emphasis on cost or cost awareness. The simple reason was that they did not have to bother: competitions as well as the banks' possibilities of doing business were very restricted. This was because of the oligopoly arising from the commercial banks' control of payment systems. In the 1980s however, the Nigerian banking industry found itself facing problems associated with increasing competition from foreign and new generation banks. Many activities previously conducted by local banks could now be undertaken by others and it is not evident that banks have any permanent competitive advantage in these areas.

It was discussed in chapter eight that some of the managers interviewed regard the performance budget as useful as it enables them to plan the business, analyse their performance in relation to budgeting levels, take corrective measures, and effectively control the organisational activities. There is therefore some evidence to suggest that performance budgets are sometimes coupled with organisational decision making. However the evidence also suggests some loose coupling (Powell and DiMaggio, 1983; Collier, 2001; Tsamenyi et al., 2006). However, at the same time the performance budget failed to perform its coordinating role hence the loose coupling. The loose coupling in the banks occurred because the performance budgets were sometimes ignored at the branch level. This was because even though theoretically performance budgets were to be developed by the branches, in practice these budgets tended to be imposed by the head office. As a result of the loose coupling some branch managers tended to rely on personal



experience and personal connections to make decisions rather than relying on the performance budgeting system.

Another reason for this loose coupling is that the uncertainties in the Nigerian business environment make it difficult for managers to rely on information generated from the formal MCS. As a result managers tend to ignore formal MCS information and instead rely on personal experiences and information from the other sources identified above. It was pointed out in the empirical results that managers identified that the unpredictability of inflation, interest rates, and government policies makes it unwise to rely on budgets.

The loose coupling reported here is contrary to arguments developed in the literature that uncertainties increase managers' needs for an effective use of organisational systems such as management control systems (see Gordon and Narayanan, 1984; Govindarajan and Gupta, 1985; Miles and Snow, 1978; Modell, 1996). The literature in this area suggests that organisations facing a high level of economic uncertainty are likely to use effective management control systems to a greater extent (Lynch and Cross, 1991; Kaplan and Norton, 1996). Further, Brignall (1997) suggests that management needs to focus on measures that reflect the more uncertain environment. The argument of this thesis is that loose coupling is likely to occur where managers cannot trust information generated from the formal control system as reported in the thesis. This is consistent with studies reported in other developing countries (Enthoven, 1977; Ouibrahim and Scapens, 1989; Peasenell, 1993; Belkaoui, 1994; Hoque and Hopper, 1997; Uddin and Hopper, 2001; Hopper *et al.*, 2003) that suggest minimal reliance on formal accounting information. These studies have suggested that minimal reliance is placed on accounting information in these environments because information is very often imperfect due to the deficiencies in accounting systems.

Loose coupling also occurred because as it was reported in chapter eight a wide gap exists between the formulating of operational plans at the branch and their implementations. It was identified that the formulations of plans was based on branch and corporate objectives. But these objectives were determined by the head office with



minimal participation by branches. It was argued in chapter eight that this created a gap between the boss and subordinates and reduced motivation and thus affected commitment to work. But commitment and initiative have been considered by the interviewees as important factors for ensuring the success of the budget. Evidence was provided in chapter eight to suggest that some branch managers perceived their budgets as unsuccessful because of the lack of commitment which has resulted in some activities being abandoned. As suggested by Seksena (1980) if performance budgets are imposed budgeting will only be target setting and not performance budgeting. The imposition of the budgets on the branches therefore led to the questioning of the relevance of the budget by the employees.

There was also loose coupling because the performance measurement process discussed in chapter eight has been perceived by several managers as absorbing significant amount of time, the loose coupling reported here can be argued as a weakly related and fairly independent element (Beekun and Glick, 2001). This is exacerbated by the poor infrastructure and the uncertainty surrounding the economy. It was also noted how branch managers suggested that the extent of the reporting requirements required placed an unnecessary burden on them. More specifically, some regional and branch managers suggested that the monthly performance review, as a measure of performance does not benefit their full job requirements. In particular, it was suggested that performance review privileges profit and deposit mobilisation at the expense of other activities of the branch. As a result formal budgetary planning and control has become a tool that managers are compelled to follow.

It was reported in chapter eight how interviewees argue that their information system is under developed to support their operations. The information system prevalent in all four is more or less traditional as reported in the empirics. This under developed information system led to the questioning of the relevance of information generated from the formal MCS hence the loose coupling from formal decision making and operations at the branches. These banks mostly rely on manual Management Information System (MIS) prepared by managers at various levels and very little on electronic methods through

computers. Several managers have suggested during the interview that manual information systems have tended to produce delayed and inadequate information which did not enhance their decision-making and action-taking capabilities. Manager 2 of NB (Regional office), noted that: *"Our ability to make decisions is hindered by the type of MIS we have. It is difficult to obtain accurate and timely information which is needed in such a competitive environment"*. Studies in other developing countries have consistently identified that information is very often imperfect due to the deficiencies in accounting systems in these environments (Enthoven, 1977; Ouibrahim and Scapens, 1989; Peasenell, 1993; Belkaoui, 1994; Hoque and Hopper, 1997; Uddin and Hopper, 2001; Uddin and Tsamenyi, 2005; Hopper *et al.*, 2009). It was therefore not surprising to make a similar observation in the present study.

## **9. 6 Chapter Summary**

In chapter eight the management control practices of three Nigerian banks were discussed. The three banks studied are North Bank (NB), East Bank (EB), and South Bank (SB). A fourth bank, the International Bank (IB) was used as a pilot study and reported in chapter six. All four banks provide acceptance of deposits, payments mechanism and provision of credit. Their role has, however, changed over the last two decades as a result of the deregulation of the Nigerian financial services sector. They have now become more proactive and community focused (see chapter 8 for a discussion of these changes). This chapter has discussed the results in line with the new institutional theory framework which underpins the study. This section will provide a chapter summary. The overall findings of the chapter are summarised in figure 9.2 below.

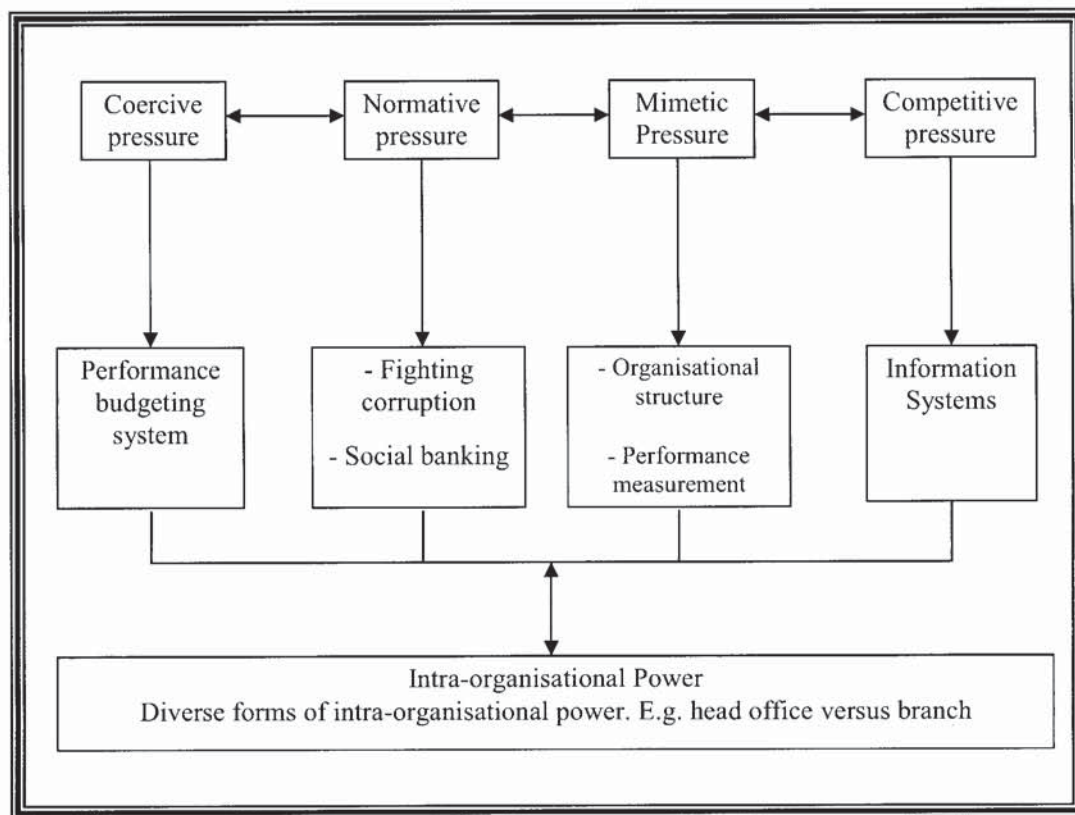


Fig 9.2: The interplay between institutional forces, market forces and intra-organisational power

Research has suggested that economic uncertainties affect the way organisations use MCS (see Gordon and Narayanan, 1984; Govindarajan and Gupta, 1985; Miles and Snow, 1978; Modell, 1996). Under periods of high economic uncertainty, it has been suggested that organisations will increase reliance on formal MCS (Lynch and Cross, 1991; Kaplan and Norton, 1996). Further, Brignall (1997) suggests that management needs to focus on measures that reflect the more uncertain environment. The uncertain economic climate in Nigeria seemingly created pressures on management in the banks to improve their control systems. It was argued in the thesis that the pressures exerted by these external factors forced the banks to adopt new structures and processes, including MCS.



The major change in the banks' MCS was the introduction of performance budgeting system. It has been argued that regulatory changes were behind the introduction of this system. Taking a new institutional theory perspective it can be argued that the new structures and processes adopted by the banks were not only for economic or technical reasons but also to comply with external pressures (Powell and DiMaggio, 1983). Thus, the survival of an organisation depends not only on achieving production efficiency but also on its conformity to societal norms and behaviours (Meyer and Rowan 1977, Meyer, 1986; Covaleski, et. al., 1996). The changes observed in the MCS did not necessarily signify efficiency, but rather were necessary to conform to institutionalised rules and hence appear legitimate in the eyes of external agents (Mouritsen, 1994). In the present case study the external agents constitute the government, the CBN and the society.

There was minimal resistance by the organisational actors to the implementation of the performance budgeting system. It has been suggested that organisational change is more likely to occur if it is supported by senior management who have the authority and power to make substantial changes in an organisation's template (Fligstein, 1996; D'Aunno, et. al. 2000) In the case of the banks, senior management accepted the performance budgeting system proposed by the central bank. The initiation of change in the banks was therefore made at the senior management level. The senior managers were able to use their power to redefine the attitudes and perceptions of staff. As a result, lower level employees were unable to resist its implementation. This finding is also consistent with the view that organisational change can occur where there is political support for the change (Hardy, 1991).

The theoretical framework used to analyse the results is based on the assumption that institutional forces interact with market forces and intra-organisational power relations to influence the design and uses of MCS (Fligstein, 1996; Tsamenyi, et al., 2006; Hopper and Major, 2007). It can be concluded that the reforms in the Nigerian financial sector have been driven by several factors including, the economic crises in Nigeria, pressures from foreign donors such as the World Bank and the IMF, and pressures from the public, who expect the country's major banks to play a greater role in the strengthening of the

economy and reducing corruption. The reforms apart from introducing regulatory changes (*coercive isomorphism*) also introduced competition in the banking sector (*competitive isomorphism*). The coercive isomorphism led to the introduction of the performance budgeting system (see Figure 9.2 above). There was also normative isomorphism in terms of pressure from professional groups and pressure to obtain cultural support. This isomorphism affected the performance measurement system as discussed in the chapter. The uncertainties created in the environment led to the tendency to copy or imitate practices. Two main practices were identified in the study as being copied. These are the organisational structure and the introduction of information systems. The introduction of the information system can also be partly attributed to competitive pressures. The effect of these isomorphic changes is that the banks have to design new MCS to cope with the environment. The design of these new MCS was however affected by power and agency (*intra-organisational power relations*). There is therefore evidence that there is interplay between institutional forces, market forces and intra-organisational power in shaping the design and use of MCS in organisations.

This chapter has discussed the results of the study in line with the new institutional sociology theory proposed in chapter four. The next chapter provides summary and conclusions to the study.

## **CHAPTER TEN**

### **Summary and Conclusion**

#### **10.0 Introduction**

This study was designed to explore how management controls operate in four commercial banks in Nigeria. The study was motivated by the dearth of literature on management accounting practices in developing countries in general and in Nigeria in particular. In addition the majority of management accounting studies have focused on manufacturing organisations with limited emphasis on service organisations, especially financial institutions. The purpose of this chapter is to provide summary and conclusions to the study.

The remainder of the chapter is divided into five sections. The next section reflects on the research methodology adopted in the study. After this a summary of the major findings of the study is provided. This is followed by the discussions of the main contributions of the study to knowledge. The final two sections discuss the limitations of the study and areas for future research respectively.

#### **10.1 Reflection on the Research Methods**

The particular approach a researcher adopts in conducting research is influenced by the assumptions he or she holds about ontology, epistemology, methodology, and human nature (Hopper and Powell 1985, Chua 1986a, Laughlin and Lowe 1990). This study is based on the assumption that MCS is emergent and subjectively created through the continuous interaction of human agents (Burchell, et al., 1980; Hopper and Powell, 1985). As a result the best way to understand how MCS operate in organisations is through the subjective interpretations of actors. This approach is contrary to the traditional positivistic methodology which perceives accounting systems as scientific phenomena and uses quantitative techniques to collect data (Burchell et al., 1980). Positivistic approach provides the researcher with limited opportunity to explore how the MCS operate over time and how the MCS is shaped by the actions of individual organisational participants.



Based on the argument above that accounting systems are socially constructed, this study adopted a research approach that would allow the investigator to interact with the research participants. As a result, a case study approach was adopted to study how MCS operates in the banks. The choice of research approach is thus driven by the epistemological and ontological beliefs of the investigator as well as the nature of the research questions being investigated. The key research question explored in this study is how management accounting practices are shaped by diverse institutional and market forces and intra-organisational power relations. The qualitative case research approach adopted in the study enabled the investigator to illuminate the ways in which accounting systems permeate social and political relations in the organisations studied (Covaleski and Dirsmith 1983, 1986, 1988; Hoque and Hopper 1994).

The case study allowed the investigator to obtain rich empirical evidence on how control systems operate in the four banks. Participants were selected from diverse backgrounds and levels. Such an approach provided the opportunity to analyse MCS from different perspectives. For example, it enabled the investigator to tease out any differences in the perceptions of managers at the head office and those at the branches. As was reported in the study the managers at the head office had a much more favourable perception of the budgetary control system than those at the branches. This difference would not have been observed had participants not been selected from diverse levels.

In reflecting on the research methodology, the case study approach allowed the MCS to be studied in their organisational context (Burchell, et al., 1980). Researchers in developing countries are increasingly calling for the use of case studies to study MCS especially given the prevalence of social and political factors in these environments (see for instance Hoque and Hopper, 1994; Uddin and Hopper 2003; Uddin and Tsamenyi, 2005).

Since no evidence exists on MCS practices in banks in Nigeria, the case study approach was appropriate as the study was both exploratory and explanatory (see for instance Yin 1989). The study is therefore an attempt to explore MCS practices in these organisations.

Moreover, explanations are sought for observed MCS practices in the organisations. A survey approach would not have permitted such explorations and explanations to be made.

The major problem encountered in conducting the case study was the difficulties in defining the boundaries of the study (Ryan, Scapens and Theobald, 1992). In particular, it was difficult to define the institutional field and then to locate the MCS within this. The institutional field could be at the individual organisational level (see Burns and Scapens, 2000) or at the macro level (see DiMaggio and Powell, 1983). The macro level could be the Nigerian environment or even the global environment. In this study the institutional field was both the Nigerian banking environment and the individual organisational context. Another problem encountered relates to the timing of the MCS (Yin, 1989). It was difficult initially to determine how far back the historical analysis of the control systems should go. This problem was however resolved after conducting the pilot study and the analysis of the Nigerian banking sector. Both the pilot study and the analysis of the Nigerian banking sector provided an indication of the changes that occurred in the banking sector which was used as a frame of reference to study the changes in the MCS in the banks.

The final challenge faced in conducting the study relates to the analysis of the data. The multiple sources of data used (interviews and documents) generated volumes of data. This has been identified as a major problem with case studies (Yin, 1989; Ryan, Scapens and Theobald, 1992). This problem was however addressed by identifying themes and using these themes to organise the case analysis. The key themes identified included performance budgeting, performance measurement, power, competition, and government/CBN regulations.

## **10.2 Summary of Major Findings of the Study**

*This section summarises the salient findings from the study. The initial idea was to examine the entire MCS of the banks. However during the process of study it was determined the only formalised and used MCS in the banks are the budgetary control and*



*performance measurement systems. The study draws on NIS to explain how and why the banks adopted the budgetary and performance measurement systems. NIS has however been criticised for paying minimal attention to issues of power (Collier, 2001) and competitive forces (Powell 1991; Oliver 1992; Greenwood and Hinings, 1996; D'Aunno et al. 2000; Tsamenyi, et al., 2006). In terms of competitive forces, Oliver (1992, p.21) observed that, "...economic considerations should be incorporated into institutional explanations of organisational activities in order to specify more precisely the particular situations or conditions within which institutionalised activities are most likely to persist or endure".*

To overcome the above limitations of NIS, the study integrates institutional isomorphism with intra-organisational power relations and market forces. The overall finding of the study suggests that the way MCS operated in the banks is shaped by the institutional forces, intra-organisational power relations and competitive forces. In other words, the reforms in the Nigerian banking sector introduced regulatory changes which induced changes in the MCS of the banks (*institutional isomorphism*). The regulatory changes also introduced competition in the banking sector which again affected the design of MCS in the banks (*competitive isomorphism*). The design of the MCS was affected by power and agency (*intra-organisational power relations*). These findings are briefly summarised below.

***Institutional forces:*** The study found that several institutional factors induced changes in the MCS of the banks. Drawing on institutional theory the study argued that the changes introduced in the MCS of the banks were not only for the purposes of efficiency, but rather were necessary to conform to institutionalised rules and hence appear legitimate in the eyes of external agents (Mouritsen, 1994). The three main institutional isomorphic pressures identified as driving change in organisations are coercive, mimetic and normative isomorphism (Powell and DiMaggio, 1991; Oliver 1992).

In terms of the ***coercive isomorphism*** the study found that the deregulation of the Nigeria banking sector constituted the most influential force that induced changes in the banking



industry and hence the banks studied. The Nigerian banking sector was reformed in order to make it more diversified, strong and reliable, which will ensure the safety of depositors money, play active developmental roles in the Nigerian Economy and become competent and competitive player both in the African and global financial systems. To implement the necessary changes the Nigerian government introduced several regulations. The changes in the regulatory environment produced coercive isomorphism (Powell and DiMaggio, 1991) that resulted in new management control practices being adopted by the banks. The main MCS introduced as a result of the regulatory changes was the performance budgeting system. The study has thus provided evidence to support the argument that organisations are likely to introduce new control systems as a result of coercive isomorphism (Powell and DiMaggio, 1991; Hussain and Hoque, 2002; Hopper and Major 2007). These systems were basically imposed on the banks by the CBN and the government. The study also identified other sources of coercive isomorphism as the role of the World Bank and other international financial institutions and the Basle agreement. All these forces created changes in the banking environment which led to changes in the MCS of the banks studied.

*Normative isomorphism* was identified as emanating from professional groups and the influence of culture (Powell and DiMaggio, 1991). The study found minimal support for professionalisation in the design and use of MCS in the banks. Evidence provided in the thesis suggests that there was consensus among the different professional groups in terms of the design and use of the MCS. Even though the management of the four banks is dominated by professional bankers, when it comes to decisions about MCS, there was no evidence to suggest that these banking professionals imposed their views or promoted their professional interests at the expense of other professions. This finding is inconsistent with that reported in other studies that identified that professional groups were able to promote their interests at the organisational level (Greenwood *et al.*, 2002; Carpenter and Feroz, 2001; Tsamenyi *et al.*, 2006). It can therefore be concluded that while professionalisation has been identified as a major source of normative isomorphism in other studies mentioned above, in the case of the four banks studied in Nigeria, this was not a dominant factor in explaining how control systems operated. Instead the study

found that when it comes to normative isomorphism the major issue was the need to obtain cultural support from the environment.

For the purpose of obtaining this cultural support, the study found that there was a strong emphasis on corporate social responsibility with what was termed 'social banking' becoming very important among the banks. In addition, the study found that the banks in the study have been trying to produce an external image to show that they are fighting corruption. The construction of this image was perceived as important given the high corruption level in Nigeria discussed in the thesis. The social banking ethos and the commitments to fighting corruption have all been reflected in the mission and visions as well as the structures of the banks. The need to fight corruption in particular has increased the importance of controls. For example, it has led to an increase in monitoring and reporting in the banks, especially from branches to the head office. The performance measurement process has therefore been intensified as a result of the pressure to maintain this external societal support. This study argued that the social banking and the need to fight corruption are becoming important in these banks so that they can be perceived as legitimate (DiMaggio and Powell, 1983).

The third institutional force discussed was *mimetic isomorphism* which occurred because of attempts by an organisation to copy or imitate structures and practise of more successful organisations. The literature suggests that mimetic isomorphism usually occurs in the event of crisis (Powell and DiMaggio, 1991). The findings of this study suggest that while there was some evidence of mimetic pressures for change the similarities in the structures and practices among the banks can largely be attributed to coercive pressures. The study is not discounting mimetic pressures all together as evidence provided in the thesis suggested that the managers perceived imitation as important in the competitive environment they operate in. The findings suggest that the mimetic pressure was minimal compared with the coercive pressure.

Similarities were found in terms of the diversification strategies of the banks. It was found that as a result of the uncertainties created by the deregulation of the Nigerian



banking sector most banks have started diversifying their activities and introducing new products and services. The successful banks in Nigeria (such as First Bank (Barclays), Standard Chartered, and Citi Bank) have been perceived as the pioneers of this strategy. Because this strategy has been successful other banks have started to copy them. This study found that the four banks studied have been implementing such a diversification strategy as well. The main explanations provided during the study for the adoption of this strategy was that this was the trend in the banking industry in Nigeria and hence every successful bank has to follow this strategy. Hussain and Hoque (2002) made similar observation in the Japanese banks they studied. In this study, the authors found that the banks imitated each other in order to cope with the competitive pressure in the Japanese banking sector.

Apart from the diversification strategy the study also found some similarities in the performance measurement process. All the banks in the study have been following a similar performance measurement approach in terms of how variance reports are prepared and reported. While the performance budgeting explained earlier was attributed to coercive pressures, the use of variance reports can be attributed to imitations. There were no regulatory requirements to use variance reports. But all the banks have been following similar processes in reporting their variances. The finding showed that this similarity was because the successful banks (First bank (Barclays), Standard Chartered, and Citi Bank) have been perceived as following a similar approach.

The general finding relating to mimetic isomorphism is that it is not as influential as the coercive pressures in driving change in the MCS of the banks. Thus mimetic isomorphism while present has a minimal influence in the design of structures and processes because of the strong regulatory environment of the banking sector. Other previous studies have found minimal influence of mimetic isomorphism in their analysis. In a study of MCS change in the Spanish electricity sector, Tsamenyi, et al., (2006) found that the most important institutional isomorphism was the coercion from the regulatory environment (coercive isomorphism). The authors found minimal influence from mimetic isomorphism. DiMaggio and Powell (1983) suggested that because the various



isomorphisms are likely to be interrelated it may be difficult in practice to isolate them. In a study on the Fortune 200 companies in the USA using NIS, Mezas (1990) argued that in practice the distinction between the three isomorphisms may not be clear cut. The minimal influence of mimetic isomorphism in this study is therefore not different from findings reported in the studies identified above.

In terms of *intra-organisational power relations*, the study found that there was power play between various managers when it comes to the design of MCS. The most significant power relations were observed between the head office, regional offices and branches. As a result, MCS designed at the head office were often negatively perceived at the branch level. The problem revolves around the ownership of the controls. The branch managers perceived them as being imposed by the head office and as a result the branch managers tend to use these MCS to support their survival and continued operation instead of for rational decision making. Collier (2001) reported a similar finding in a UK police force whereby organisational actors follow practices merely to maintain support and survival. Similarly, Uddin and Tsamenyi observed in Ghana that managers used controls mainly for legitimisation purposes. In the current study this has resulted in the loose coupling (Powell and DiMaggion, 1983; Collier, 2001) of the MCS as performance budgets were sometimes ignored at the branch level. As a result of the loose coupling some branch managers tended to rely on personal experience and personal connections to make decisions rather than relying on the formal performance budgeting system.

In terms of *competitive isomorphism* it was found that competition was introduced into the Nigerian banking sector through opening up of the industry as a result of the deregulation by the government in the 1980s. The increased competition resulted in increased awareness of rationalization, efficiency and cost control. The banks have been diversifying their activities to respond to the competition. One significant change introduced as a result of the increased competition was strategic planning and control. Strategic planning and control enabled the banks to study the environment and evaluate their performance on some performance parameters. In effect, the study argues that market forces exert some pressure for change on the banks' MCS.

It is evident from the study that the banks designed structures and systems to cope with pressures from both the institutional and market environments. Some studies have suggested that institutional and market forces may be in conflict and may therefore require different approaches (Hoque and Hopper, 1997). But the analysis provided in the thesis suggests that institutional and market forces may in fact require complementary approaches. This finding is consistent with those reported by Tsamenyi et al., (2006) on the Spanish electricity sector. The authors found that the introduction of the accounting system was both to facilitate coordination and decision-making, and at the same time to comply with the requirements of the new structure demanded by the institutional environment. Powell (1991) made a similar argument that institutional and market forces should not be viewed as two dichotomous forces.

### **10.3 Contributions of the Study to Knowledge**

This section identifies the potential contributions of the study to knowledge. Four main contributions are highlighted. These are contribution to practice/policy, theoretical contribution, contribution to the literature and methodological contribution.

**Contribution to practice/policy:** Nigeria is the most populous country in Africa with over 140 million people. The banking sector contributes substantially to national revenue. This sector is among the few in Nigeria where the state and the private sector both operate on commercial basis. Banks play major roles in the economy of Nigeria by serving as financial intermediaries and at the same time providing employment to a significant number of Nigerians. The banking sector is one of the vibrant sectors of the Nigerian economy and is central to the government's economic liberalisation and poverty alleviation programs. Despite their importance, there is limited empirical evidence on how the banks are operated and managed. The banking sector has suffered over the years as a result of bad loans and inappropriate decisions which have led to the closure of some banks. Given the importance of banks to the economy of Nigeria, there is the need to understand their management processes, including their management control systems. Understanding these practices will enable appropriate structures and policies to be designed to enhance the contribution of the banking sector.



This study will make a practical contribution in that it will provide policy makers in Nigeria and the management teams of these banks with an understanding of how management controls are designed and used. By exploring the various institutional factors that shape the design and use of control systems in these banks managers and policy makers will have better understanding of how and when to design specific types of control systems. For example the study has demonstrated that sometimes controls are ignored at the branch levels because they are perceived as being imposed by the head office. This is because the branches do not see themselves as owning these controls due to the top-down approach adopted in budgeting. Based on this evidence the banks can make controls more acceptable at the branch level by allowing the branches to initiate the budget.

The study also identified that controls are ignored at the branch levels because of the uncertainties in the Nigerian business environment (such as the unpredictability of inflation, interest rates, and government policies). This made it difficult for the managers to rely on formal MCS such as budgets. Instead managers tend to rely on personal experiences and information from other informal sources. This is an important contribution as it broadens our understanding of how MCS operate in these banks. Senior management should in particular pay attention to these informal sources of information and try to accommodate them in the design of formal control systems.

***Theoretical contribution:*** Theoretically, the study draws on new institutional sociology theory (Powell and DiMaggio, 1991) to investigate how MCS operates in four Nigerian banks. NIS researchers believe that the institutional environment of the organisation shapes the design and operation of practices such as MCS. Institutional theory provides explanations beyond the rational decision making frameworks proposed in mainstream theories such as agency and contingency theories. This study has contributed to the increasing use of NIS to explain MCS (Collier, 2001; Hussain and Hoque, 2002; Brignall and Modell 2000; Tsamenyi et al., 2006; Hopper and Major, 2007).

The discussions provided in chapter nine of the thesis showed that NIS is methodologically and empirically sound and is a suitable framework for explaining MCS practices of the banks. NIS enabled the MCS to be understood from both technical and social perspectives. The integration of institutional, competitive and intra-organisational power factors is a major contribution of the thesis to NIS. As identified in chapter four, the earlier formulation of NIS has been criticised for ignoring market forces and intra-organisational power. This limitation is being addressed in recent studies on NIS (see for instance Collier, 2001; Tsamenyi, et al., 2006; Major and Hopper, 2007) and this study makes a contribution to this emerging literature on NIS and MCS research.

***Contribution to the literature:*** The area of management accounting research in developing countries has received minimal attention from researchers until relatively recently. There is now the increasing attention to understanding how MCS operates in developing countries (see for instance, Hoque and Hopper 1997; Uddin and Hopper 2003; Hopper et al., 2003; Uddin and Tsamenyi, 2005). However the majority of these studies have focused on former state-owned enterprises. There is limited studies on private sector organisations and especially banking or financial institutions. Moreover there is virtually no management accounting study on Nigeria. The accounting studies on Nigeria are mainly on financial reporting and government accounting. The current study adds to the emerging literature on MCS in developing countries. The findings reported in the study therefore contribute to our understanding of how MCS operates in developing countries and how these systems are shaped by local institutional factors.

***Methodological contribution:*** Traditional management accounting research has been dominated by large scale surveys. It was not until the 1980s that there was the recognition for the use of case studies to understand how management accounting operates in actual organisational contexts (Burchell et al., 1980; Hopper and Powell, 1985). Since then a significant number of management accounting studies have been conducted using case studies. From a developing country perspective it has been suggested that case studies are more appropriate to study MCS practices because of the prevalence of social and political factors (Hopper et al., 2003; Uddin and Hopper 2001; Uddin and Tsamenyi, 2005). In the



present study the use of case studies enabled the social and political issues to be uncovered, (for example issues on corruption). Methodologically therefore, the study has contributed to case study research methodology in management accounting research. Such an approach has been emphasised in the management accounting literature as it provides an opportunity for the researcher to interact with the research environment (Burchell et al., 1980; Hopper and Powell, 1985).

#### **10.4 Limitations of the Study**

This section discusses the main limitations of the study. These limitations must be taken into account when interpreting the findings of the study. The first limitation is that, because the research focused on only four banks, the result might not be generalisable to other banks in Nigeria. It must however be stated that the aim of the research is not to provide a generalisation but instead to provide broad understanding of how control systems operate in the four banks. To generalise the study would have to adopt large scale survey approach which would have defeated the objective of understanding how MCS operate in actual organisational context and how these systems change over time.

A second limitation of the study is that while attempts have been made to obtain views of diverse participants, it was not possible to obtain views of the regulators at the Central Bank of Nigeria (CBN). Interviewing officials from the CBN would have provided additional source of information to have a better understanding of the regulatory environment and how this shaped the operations of the banks. However several attempts to arrange such an interview failed as the CBN officials were not available to be interviewed. This limitation has however been minimised by relying on documentary evidence from the CBN. A third limitation of the study is that, while the findings presented in this thesis are an actual representation of events in the banks, the real names of these banks have not been disclosed for reasons of confidentiality. As a result people using the findings of the study may not be able to associate the results with the actual banks studied.

### **10.5 Areas of Future Research**

In order to be able to generalise the results to other banks in Nigeria more case studies on other banks are needed. Alternatively future research could adopt a survey approach where a much larger sample will be studied. The key findings obtained from the present study can be tested in such a survey research. Such a study can also include non-bank institutions in the financial services sector, such as insurance companies. Comparative research can also be conducted in banks across Africa to determine whether common themes can be observed.

The banking industry is one of the most highly regulated sectors in any country. Regulators therefore play an important role in how the banking sector operates. To fully understand the impacts of regulatory changes on the banks it may be necessary for future research to engage the regulators. This will allow the views of these regulators to be incorporated into any future analysis of management control practices of the banks.

Religion is a very important factor in Nigeria. There is a clear divide between the Christians in the south and the Moslems in the north. While this religious difference permeates social and political structures in Nigeria it may be worth examining in a future research if this affects organisational practices, especially MCS practices. This analysis will enhance our understanding of the social dimensions of MCS in organisations.



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## APPENDIX

**Letter of introduction.....**



**To Whom It May Concern**

29 January, 2004

**Re: Research in Management Accounting and Control Systems**

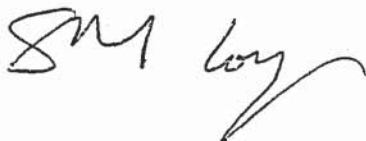
Dear Sir / Madam,

I am currently supervising Ahmed Mohammed's doctoral research, which is a study of management accounting and control systems in Nigeria. Ahmed intends to visit a total of four organisations and he has identified your organisation as one that will provide a valuable insight into these practices. Therefore we request your assistance in this matter. Your support would enable Ahmed to undertake research, which is innovative and has received insufficient attention to date.

Your company would benefit from receiving useful feedback, as you will be provided with an executive report highlighting the key findings of the project. We would also like to stress that all information received would be treated in the strictest confidence.

Please find attached some further details about Aston Business School and Ahmed's research project. I sincerely hope that you feel able to grant Ahmed access to your organisation.

Yours sincerely,



Dr. Stuart Cooper, BA, ACA  
Lecturer in Finance and Accounting

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Yours sincerely,



Dr. Stuart Cooper, BA, ACA  
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**Letter to organisations.....**



## A STUDY OF MANAGEMENT ACCOUNTING AND CONTROL SYSTEMS IN NIGERIA

I am a research student at Aston Business School and am presently undertaking PhD research into the Study of Management Accounting and Control Systems in Nigeria. I am contacting you to invite your organisation's participation and enlist your support in our research activities.

The focus of this research is on the procedures and processes of control as they operate in organisations in a Developing Country (DC). Despite several attempts to report empirical procedures, academic understanding of the practical use of control mechanisms, however, is still limited in scope as well as in depth. As Otley et al (1996) reported there is "very little research addressing the problems of control in ... international organisations, in either the private or the public sectors" (p.16). Similarly, although previous studies have investigated different aspects of control relating to developed economies, the understanding of the patterns of management control systems in DCs is very limited and remains unclear.

This study will contribute to the knowledge of management accounting by exploring the state of the design and operation of control systems across different sub-units of the organisations and through different hierarchical levels of the organizations.

The research will:

- a) Explore the type of controls used in the Nigerian company;
- b) Explore how and why these particular patterns of control are used by the managers;
- c) Explore problems associated with the use of the management



controls to the company;

- d) Investigate the benefits of the management controls to the company;
- e) Investigate what external and internal factors influence the use of management controls in the company.

I would be most grateful if you or the persons in your organisation could find the time for an interview lasting about one hour, in which I could discuss the following research questions:

- The roles which managers held within the company.
- The general nature of managerial interrelationships.
- Managers' use of the various in/formal control processes
- Managers' attitude towards these various in / formal control mechanisms.
- How managers monitored and evaluated subordinate performance.
- How they themselves were evaluated, and how they felt about this.
- Any alterations / modifications which managers made to their use of and / or attitude towards the various control processes.

Your assistance in this matter is greatly appreciated.

Ahmed Musa Mohammed

PhD Student.

Interview protocol.....



### INTERVIEW PROTOCOL

- To explore the types of management control systems used in the organisations
- To interview managers from different departments both accounting and non-accounting- HRM, Operations, IT, Marketing, Accounts and cash departments.

Interview managers at different levels – senior, middle and lower levels managers

Types of controls

Discrepancies between controls in theory and in practice

Perception towards the controls i.e. positive/negative attitudes?

Get documentary evidence of how controls are used

Compare that with the views of managers to determine any discrepancies

The attitudes managers have towards the controls i.e. positive/negative attitudes

Control formulations e.g. Performance reports? How are budgets set? Who set budgets?

Who engineers the controls top or bottom? Participation, empowerment, beaurocratic? Or any?

The different types of MCS used in the banks

The design and uses of the MCS in the banks be explained by the various institutional forces within which the banks operate

The design and uses of the MCS in the banks be explained by the economic environment of the banks

The design and uses of the MCS in the banks be explained by intra-organisational power relations in the banks

**Interview questions.....**



## MANAGEMENT CONTROL SYSTEMS

This interview consists of a series of questions to gather information on planning and control systems, structures, and processes that managers use to influence other members of the organization to implement the organization's strategies.

### **Background information**

Department

Gender

Position

Educational background

Have you had training in accounting/budgeting?

How long have you worked in this organisation?

How long have you worked in your present position?

How many people do you supervise?

The purpose of management control is to ensure that strategies are carried out to achieve the organization's objectives.

What types of management controls are used in the day-to-day decision making in the organisation? How are they used?

What other forms of controls are used? How are they used?

How are controls formulated?

How do you perceive the management controls used in your organisation?

Budgeting is the process of expressing in monetary quantitative terms an organization's plan of activities for a specified period of time, usually one year.

How are budgets formulated in the organisation?

Who initiates budget figures? How are these initiated?

Is it top down or bottom up?

Who are the members of budget committee?

Is zero based or incremental budgeting approach used?

Are budgets usually attained? I.e. managers setting easily attainable targets? And how are they attained?

If yes, what actions have been taken to address the issue?

Are budget performance reports prepared? How are the report prepared?

If yes, how often are budget performance reports prepared?

How detailed are budget performance reports? (If possible can I have a look at a sample?)

Are these reports used by managers? How are they used?

What are your personal views of budget performance reports?

Do you consider them relevant? How relevant are these reports?

Have you observed any changes in budgets over the years?

If you have worked in another organisation, before, did you observe any difference in budget and performance reports between your former organisation and this organisation?

What non-financial measures are used? (Such as customer satisfaction, etc) and how are they used?

What informal controls are used? And how are these controls used?

How often is feedback provided to managers?

What form does feedback take? (E.g. Formal or informal? verbal or written?)

How flexible are budget performance reports?

Are managers trained to carry out budgetary assignment?

Are personal supervisions undertaken? How?

Are rules set and strictly followed in different operational departments? How?

How are people expected to follow job descriptions?

What standard operating procedures are followed in your department?

How are reward targets determined? (E.g. based on performance?)

What different types of rewards are used? (E.g. Financial – bonuses, share options and non-financial – promotion, holidays, etc.) how?

In your opinion what are the main benefits/advantages of budgets, performance and associated reports?

What difficulties/problems are encountered in the use of budgets, performance and other associated reports?

What internal organisational factors influence the way controls are designed and used? (I.e. structure – decentralisation/centralisation, education, personality of managers, etc.) How?

What environmental factors influence the way management controls are designed and used? (E.g. Economic- inflation, devaluation of Naira; competition; technology; political; corruption; culture; ethnicity, etc.) How?

How are strategies formulated?

Who formulates new strategies for your company? How?

Who decides on how to implement new strategies in your company? How?

As a manager of the department what mechanisms do you use in implementing your company's strategies? (E.g. Organisational structure, Culture, Human resource management etc.) How?



**Coding and the identification of themes.....**

## Appendix C5c

### Coding and the identification of themes

	<i>Theme 1 – motivations and evolution of control systems</i>	<i>Theme 2 – The use of corporate strategic plan</i>	<i>Theme 3 – participation in budgeting</i>	<i>Theme 4 –control of the budget</i>	<i>Theme 5 – Relevance of the budget</i>	<i>Theme 6 – Institutional factors</i>	<i>Theme 7 – performance measurement</i>
NB	<ul style="list-style-type: none"> <li>Main control system – performance budgeting imposed by the CBN</li> </ul>	<ul style="list-style-type: none"> <li>Link strategic controls to performance measurement</li> </ul>	<ul style="list-style-type: none"> <li>Some level of participation by branches in formulating budgeting</li> </ul>	<ul style="list-style-type: none"> <li>Tight head office control of branches in the form of both direct and indirect</li> </ul>	<ul style="list-style-type: none"> <li>Mixed views on the relevance of performance budgets – both positive and negative</li> <li>Differences in views between head office and branches</li> </ul>	<ul style="list-style-type: none"> <li>Both external and internal factors recognised as influencing budgeting and performance measurement decisions</li> </ul>	<ul style="list-style-type: none"> <li>The performance of managers is regularly monitored via both accounting and non-accounting indicators</li> <li>Performance measurement has behavioural consequences</li> </ul>
SB	<ul style="list-style-type: none"> <li>Main control system – performance budgeting imposed by</li> </ul>	<ul style="list-style-type: none"> <li>Strategic control is concentrated at the top with some</li> </ul>	<ul style="list-style-type: none"> <li>Budgets imposed mainly from the head office with some</li> </ul>	<ul style="list-style-type: none"> <li>Head office exerts significant direct and indirect control over</li> </ul>	<ul style="list-style-type: none"> <li>Performance budgets perceived mainly as positive though few</li> </ul>	<ul style="list-style-type: none"> <li>Both external and internal factors recognised as influencing budgeting</li> </ul>	<ul style="list-style-type: none"> <li>The performance of managers is regularly monitored via both accounting and non-</li> </ul>

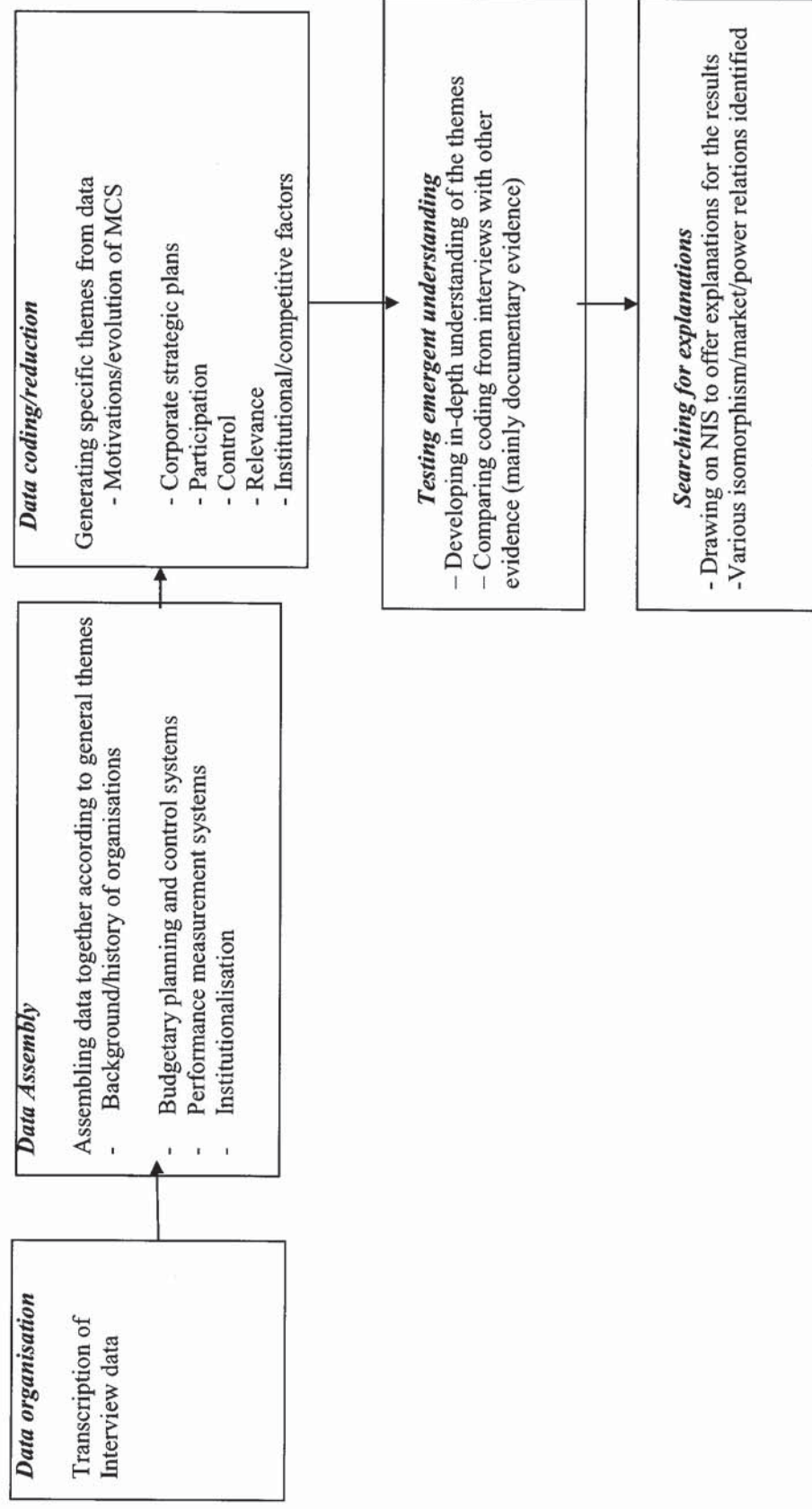
	the CBN	inputs about the environment from lower managers	limited inputs from branches	branches but allows some flexibility	negative views	and performance measurement decisions	accounting indicators
EB	<ul style="list-style-type: none"> <li>Main control system – performance budgeting imposed by the CBN</li> </ul>	<ul style="list-style-type: none"> <li>There is some use of strategic plan but this is not well formalised and not appropriately integrated into other processes</li> </ul>	<ul style="list-style-type: none"> <li>Branch managers collect environmental data and feed this to the head office for the development of budgets.</li> <li>Branch managers perceived some amount of participation</li> </ul>	<ul style="list-style-type: none"> <li>Head office controls branches tightly but also recognises the need for some autonomy</li> </ul>	<ul style="list-style-type: none"> <li>Mixed views on the relevance of performance budgets – both positive and negative</li> <li>Differences in views between head office and branches</li> </ul>	<ul style="list-style-type: none"> <li>Both external and internal factors recognised as influencing budgeting and performance measurement decisions</li> </ul>	<ul style="list-style-type: none"> <li>The performance of managers is regularly monitored via both accounting and non-accounting indicators</li> <li>Performance measurement has behavioural consequences</li> </ul>



**Process of data analysis.....**

## Appendix C5d

### Process of data analysis



**Summary of interviews.....**



South bank (SB).....

Interviewees number	Bank	Years of experience	Position	Location
1	South bank (SB)	10	Senior manager	Kano Branch
2	„	17	Assistant General manager (AGM)	Central office, Lagos
3	„	14	Senior manager	Murtala Mohammed way, Kano
4	„	15	Chief manager	Regional office, Kano
5	„	8	Senior manager	Sokoto
6	„	15	AGM	Regional office, Abuja
7	„	21	AGM	Central office, Lagos
8	„	7	Senior manager	Ahmadu Bello way, Sokoto
9	„	6	Senior manager	Murtala Mohammed way, Kaduna
10	„	9	Manager	Wuse branch, Abuja

North bank (NB).....

<b>Interviewees number</b>	<b>Bank</b>	<b>Years of experience</b>	<b>Position</b>	<b>Location</b>
<b>1</b>	<b>North Bank (NB)</b>	13	Senior manager	Branch, Zone 2
<b>2</b>	„	16	Senior manager	Regional Office
<b>3</b>	„	15	AGM	Head Office
<b>4</b>	„	20	Principal Manager	Head Office
<b>5</b>	„	11	Senior manager	Regional Office
<b>6</b>	„	9	Senior manager	Ahmadu Bello Way
<b>7</b>	„	8	Senior manager	Sokoto Main
<b>8</b>	„	12	Senior manager	Ali Akilu, Road
<b>9</b>	„	9	Manager	Kaduna South
<b>10</b>	„	10	Senior manager	Zaria Main

East bank (EB).....

<b>Interviewees number</b>	<b>Bank</b>	<b>Years of experience</b>	<b>Position</b>	<b>Location</b>
<b>1</b>	<b>East Bank (EB)</b>	25	Principal manager	Head Office
<b>2</b>	„	14	Senior manager	Branch, Area 8, Garki
<b>3</b>	„	17	AGM	Regional Office
<b>4</b>	„	13	Senior manager	Murtala Mohammed, way
<b>5</b>	„	18	Principal Manager	Regional Office
<b>6</b>	„	5	Manager	Branch, Bank Road
<b>7</b>	„	2	Manager 1	Branch, Kantin Kware
<b>8</b>	„	4	Senior manager	Branch-Asokoro
<b>9</b>	„	7	Senior manager	Branch, Gusau Main
<b>10</b>	„	19	AGM	Head Office



**Contact summary form.....**

South bank (SB).....

<b>Person interviewed</b>	<b>Level</b>	<b>Place interviewed</b>	<b>Main views of interviewee</b>
Manager 1	Branch	Branch office	Sometimes very cautious in challenging regional/head office decisions
Manager 2	Corporate	Head office Lagos	Understand the budgeting process but believes in finance playing the leading role in budgeting decisions
Manager 3	Branch	Branch office	Very influential in branch budget decisions
Manager 4	Regional	Regional office	Visits branches regularly and active in budget decisions
Manager 5	Branch	Branch office	Very influential in branch budget decisions
Manager 6	Regional	Regional office	Has good understanding of budgeting decisions
Manager 7	Corporate	Head office Lagos	Very influential and commands a great deal of power in the bank
Manager 8	Branch	Branch office	Good understanding of budgeting at the branch level but not at region or head office
Manager 9	Branch	Branch office	Good working relationship with the regional manager.
Manager 10	Branch	Branch office	Influential in branch decision making

North bank (NB).....

<b>Person interviewed</b>	<b>Level</b>	<b>Place interviewed</b>	<b>Main views of interviewee</b>
Manager 1	Branch	Branch office	High influence over branch budget
Manager 2	Regional	Regional office - North	Good understanding of how the regions and branches operate
Manager 3	Corporate	Head office Lagos	Knowledgeable of the control systems of bank
Manager 4	Corporate	Head office Lagos	Powerful person in the bank and influences major decisions of the bank
Manager 5	Regional	Regional office - South	Tries to maintain good relationship with the head office
Manager 6	Branch	Branch office	Relies on branch accountant for most budget activities
Manager 7	Branch	Branch office	Good understanding of the branch's operations
Manager 8	Branch	Branch office	Has a very wide background and understanding of the bank's activities
Manager 9	Branch	Branch office	Sees the need for the branches to be more autonomous
Manager 10	Branch	Branch office	Believes in the delegation of decisions to branches



East bank (EB).....

Person interviewed	Position/Organisation	Place interviewed	Main views of interviewee
Manager 1	Corporate/PM	Head office Lagos	Believes it is vital that the head office exerts much control over the regions and branches
Manager 2	Branch	Branch office	See budgeting as too much of a time-wasting activity
Manager 3	Regional	Regional office	Believes in the autonomy of the regions and branches in decision making and budgeting
Manager 4	Branch	Branch office	Believes in allowing branch managers to participate in setting their own budget targets
Manager 5	Regional	Regional office	Sees the need for less head office control
Manager 6	Branch	Branch office	Recognises the importance of incorporating external environmental factors into budget decisions
Manager 7	Branch	Branch office	Sees management controls as playing key roles in the day-day-management of his branch
Manager 8	Branch	Branch office	Believes in the delegation of budgeting decisions to branches
Manager 9	Branch	Branch office	Shares the views that branch managers should have a significant influence in how the branches are run
Manager 10	Corporate	Head office Lagos	Believes budgeting is difficult in the branches because of the lack of skills and other uncertainties

**Analysis of documentary evidence.....**

<b>Type of document</b>	<b>Organisation</b>	<b>Evidence obtained</b>
Annual report	NB, SB, EB, IB	Information on financial performance and strategic overview of the bank. Also contain information on the competitive environment of the banks.
Budget manual (confidential and not allowed out of the premises)	NB, SB, EB, IB	Process of developing and controlling the budget. Also shows responsibilities of various managers in budget decisions.
Actual budget document (confidential and not allowed out of the premises)	NB, EB, EB, IB	Actual budget figures were examined. Document also contained variance performance reports
Internal bulletin	NB, SB, IB	Information about staff appointments and promotion
Organisation chart	NB, SB, EB, IB	Organisation chart detailing the structure of authority and responsibilities in the banks. It also detailed the relationship between the branches and the head office
Internal performance report (confidential and not allowed out of the premises)	NB, SB, EB, IB	Details of the performance of branches and individual products.

**Performance report.....**



Dear Mr.

RE: PERFORMANCE OF RELATIONSHIP MANAGEMENT EXECUTIVE  
(LAGOS)

In line with budgetary expectations, we have carried out a Performance Review of branches under your jurisdiction in areas of deposit mobilization and profit realized from January to August 2003, the outcome of which is presented hereunder: -

## DEPOSITS

[illegible]

Activity report.....

[illegible][illegible]





**Quotable quotes from interview transcript.....**

**NORTH BANK (NB)**

	QUOTES
Chairman Annual Report	<i>"The bank recorded this performance amidst of the challenges of heightened competition, and increased risks, which the changing environment of the banks in the country brought"</i>
Chairman Annual Report	<i>"We are doing this as part of our objective aimed at promoting the culture of banking in the rural areas. We are also doing this in order to address the banking need of our small customers"</i>
Bank's website	<i>"Our Board of Directors consists of accomplished professionals who have brought their complementary skills to bear on the future direction of the Bank"</i>
Manager 3 Head office	<i>"Budgeting is a very important strategic issue. It requires top management attention all the time. We feel it will better serve the whole organisation if the budget is coordinated by the strategic planning department. They have experienced staff who can manage the budget".</i>
Manager 3 Head office	<i>"In performance budgeting system the budgets are prepared from branches to head office, but branches can hardly prepare meaningful budgets unless they have some understanding of the top management's thinking, regarding the future thrust and direction of the banks activities. Thus branches need some guidelines from their respective head office for preparing their performance budgets hence the importance of the budget guidelines".</i>
Manager 5 Regional office	<i>"The idea is that we both must agree on the basis of the objectivity of the figures so this process is very important. Though in practice I must admit that, it is sometimes very difficult to agree on the figures".</i>
Manager 4 Head office	<i>"Ideally, the branch manager should not feel that the divisional manager has imposed on him some unreal and imaginary figure which is beyond the possibility and competence of the branch. Similarly, the regional manager should not grumble that the budget figures are un-challenging and that the environment offers much more potential. But I do agree that sometimes</i>

	<i>differences are not easily resolved. Sometimes we at the head office have to get involved”.</i>
Manager Branch office	<i>“Some of us have heard of performance budgeting in the past but we were not using it. I will say that it became important only in the 1990s when we started looking for more efficient ways of doing things”.</i>
Manager 6 Branch office	<i>“Budgeting is good as it helps us plan. But sometimes we need more than budgeting. You cannot make decisions only on the basis of some financial projections as these can be wrong sometimes”.</i>
Manager 7 Branch office	<i>“In our bank the head office is very strict in terms of budgeting decisions. They control the process so I will say that we the branches have only minimal ownership”.</i>
Manager 2 Regional office	<i>“Performance budgeting has attained the acceptance at the grass root level and the apex level as far as planning the business and manpower requirements are concerned, which is in-fact, the most essential ingredient of the system. Because of this the budget is directly owned and accepted by the branches”.</i>
Manager 3 Head office	<i>“To reduce the possibility of the misunderstanding between branch managers and divisional managers, a branch manager must be fully aware of his branches strengths, weaknesses, opportunity and threats by making a comprehensive environmental scanning of his branch for making his branch budget, so that he will be able to convince his superior about the veracity of his target/ claims. On the other hand, the regional manager must be fully aware about the capacity of his branch manager and repose trust in him so that he is convinced that the branch manager has done his homework well and has incorporated all the environmental factors into his plans, he will not find any necessity for revising the branch budget during settlement process”.</i>
Manager 9 Branch office	<i>“Some regional managers fixed the targets and did not permit branch managers to comment, raise questions, or offer any suggestions”.</i>
Manager 4 Head office	<i>“The budget has to be made as comprehensive and meaningful as possible so as to win the commitment of operating units (branches). To achieve this requires allowing the branches to develop their own budget but at the same time requires the head office to exercise some control”.</i>



Manager 5 Regional office	<i>"The reason for the high importance attached to government guidelines is that since the liberalisation the government has been active in regulating the banking sector. New guidelines mainly from the CBN are issued frequently that it is important for managers to be aware of these guidelines".</i>
Manager 4 Head office	<i>"The problem is that sometimes we invest a lot of money in technology which cannot be used by all the branches. When this happens the investment is underutilised".</i>
Manager 10 Branch office	<i>"I believe the accounts of the existing customers should be analysed every year as this gives us the indication as to which customers are active and which ones are not".</i>
Manager 3 Head office	<i>"Linking with factors causing variances from targets and analysis of variances with references to their character, class and content are essential preparatory steps for initiating corrective action by centres of incidence or responsibility".</i>
Manager 3 Head office	<i>"Whatever the causes of variances, it is universally admitted in the banks that variance analysis assists management in setting the ongoing budget targets for the year higher or lower inconsonance with the experience gained during a shorter span of the budget, acting as a form of monitoring for enhancing the predictability of performance. All this helps us to delineate the conclusion that every bank should analyse the variances for taking corrective measures".</i>
Manager 5 Regional office	<i>"It is no exaggeration of the facts that, the variance analysis system is incomplete unless actions are taken by the authorities on the variances found and are duly communicated to the organisational levels where they are to be implemented".</i>
Manager 2 Regional office	<i>"It is necessary that we analyse the underlying causes of the variances to determine whether they are of a temporary nature or indicative of trends; caused by untrained and inadequate staff and infrastructural facilities; and controllable or un-controllable by the branch".</i>
Manager 5 Regional office	<i>"the performance measurement process takes the shape of comparing the performance achieved with the figures of the settled branch budget and finds out the deviations, if any, for which corrective actions may be initiated or if the deviations are due to change in environmental factors,</i>

	<i>the targets themselves may be revised depending upon the merits of the each case. Feedback is then provided to the managers on the basis of this”.</i>
Manager 4 Head office	<i>“We are still working on the non financial performance measures. We are far behind on this. But we hope in the next few years we should be able to have a formalised system to measure performance using non-financial information”.</i>
Manager 10 Branch office	<i>“Regional managers ought to educate the branch managers that performance budget is a tool in their hands for monitoring the performance of their branches rather than a form-filling exercise. However, if performance review of branches takes place in an unsatisfactory way as we sometimes have, the branches will not be expected to take adequate interest in budget implementation and monitoring of their performance”.</i>
Manager 1 Branch office	<i>“There seems to be an increase in reporting, a lot of requirements contribute to record keeping and so forth, and the responsibility falls mainly on the manager. For example, this week I got information request to provide some reports that I have already sent to the regional office by the central office. We have to provide the reports and other information, which I would have thought would normally have been sent to them by the regional office”.</i>
Manager 3 Head office	<i>“The aspect of MIS needs to be pondered over, as in the age of information technology; we should have computerised all our operations so that the information required would have been provided timely and adequately”.</i>
Manager 6 Branch office	<i>“We have seen a lot changes in recent years. The CBN is behind most of these changes. We have stricter regulations and we are now more aware of what we do”.</i>
Manager 9 Branch office	<i>“If we have a choice we would not have been using this system. But it is a requirement so we have to use it. But since we have started using it we have seen its benefits”.</i>
Manager 7 Branch office	<i>“The performance budgeting was part of an overall CBN policy guideline to the banking sector. These policy guidelines arose because of the way the Nigerian banking sector was poorly run in the past”.</i>



Manager 9 Branch office	<i>"Of course, there is value in learning from the experience and success of others. It is natural for the business community to recognise the innovative solutions or services an organisation comes up with to untangle a problem or create a market opportunity. Many organisations are saddled with similar challenges, so copying may seem like the ultimate shortcut to salvation".</i>
Manager 5 Regional office	<i>"All the local banks wait to see what information systems are being used by the big foreign banks such as Standard Chartered and Citibank. These IT systems are then copied by most of the local banks regardless of whether they need them or not. We all want to be seen as innovative".</i>
Manager 1 Branch office	<i>"Nigeria is a country where the average public sector minimum wage is just US \$100 per month. It is not surprising therefore that a culture of bribe-taking has become entrenched at all levels of the society. Corruption festers in an environment in which economic crimes are very rarely punished, and the ones who should do the punishing are part of the bribe-taking environment".</i>
Manager 8 Branch office	<i>"Standard products are offered across Nigeria, and the interest rate and margins linked to those products are centrally controlled, with little scope for local deviation. Centralized personnel and premises functions mean that a large proportion of annual expenditure may be outside a branch managers' control. Risk control can restrict what a manger sees as potentially profitable business being taken on if those higher up the discretionary ladder disagree".</i>
Manager 2 Regional office	<i>"Our ability to make decisions is hindered by the type of MIS we have. It is difficult to obtain accurate and timely information which is needed in such a competitive environment".</i>
Manager 7 Branch office	<i>"I am aware of these values so are the staff of my branch. I believe this applies to the other branches as well. I think we are good when it comes to communication so I believe these values are communicated to managers and employees of different levels".</i>



Manager 4 Head office	<i>"We are one of the innovative banks in the country. To keep up with this innovation we have always made commitments to investment in IT. We want to be ahead of the game. Of course this is not the same standard you see in the developed countries. But by Nigerian standard, we are definitely on top of IT".</i>
Manager 2 Regional office	<i>"The bank has been under constant pressure in recent years to improve profits and enhance non-fund income as the spread between interests earned on loans and interest paid to depositors has been falling in Nigeria due to the increasing competition and government regulation".</i>
Manager 3 Head office	<i>"Strategic control implies, monitoring and reviewing the performance of the organisation as a whole as envisaged in the strategic plan".</i>
Manager Branch office	<i>"In our bank the head office is very strict in terms of budgeting decisions. They control the process so I will say that we the branches have only minimal ownership".</i>
Manager 3 Head office	<i>"The entire process of acquiring this system took nearly one year as we have to undertake rigorous evaluation of various options. We were not only looking at cost but also we have to look at the technology itself".</i>
Manager 4 Head office	<i>"If we don't have a reward system linked to performance, managers will underperform. It is important that they understand this fact. In my view, even though some of them may have negative views, the reward systems are good".</i>
Manager 3 Head office	<i>"Yes the CBN brought the concept of performance budgeting. But it was also promoted by various bodies including our own associations and the press".</i>
Manager 6 Branch office	<i>"...the process should be streamlined to become more efficient and make more effective use of time in order to have more time for marketing and other branch responsibilities than duplicating reports".</i>

## SOUTH BANK (SB)

Manager 2 Head office	<i>"In essence, we are working to build a stronger and deeper base of trust by returning to the basics of bank management and putting ourselves in the customer's place by responding flexibly and aggressively to the environment".</i>
Manager 2 Head office	<i>"We have always maintained a strong presence in the community. Many of our state offices make donations regularly to charities and participate in community volunteer programs".</i>
Manager 7 Head office	<i>"The social work is considered to be a tool to create awareness of the bank's corporate name in a given population. At the same time, it is an achievement of the vision of the bank. Community perception has changed over the years and the bank has been developed with this in mind".</i>
Manager 5 Branch office	<i>"All organisations need to plan. We would have undertaken budgeting even in the absence of the CBN requirement. But I must admit that the performance budgeting we are currently using is because of CBN requirement. CBN has obviously made banks attach more importance to the budget".</i>
Manager 7 Head office	<i>"The strategic control exercise is carried out by the top management of the bank. For this exercise, information reports are compiled by the corporate planning cell. While some of the reports focus on performance on organisational parameters – for example, growth, share of market, return on capital employed and economic value added. Others focus on environmental developments including political, economic, social, technological changes and the developments in the industry".</i>
Manager 8 Branch office	<i>"As part of the budget preparation we as branch managers are requested to collect data relating to our business and general environments for our respective regions. We would examine our inputs both hardware and software to tap business potentiality in our area".</i>
Manager 10 Branch office	<i>"The reviews of the performance of branches are made in the review meeting between the branch managers and the regional managers".</i>



Manager 2 Head office	<i>"Our board is very strict. As a result budgeting is taken very seriously. We have to make sure we get everything right before it goes to the board".</i>
Manager 10 Branch office	<i>"This analysis is important as it determines how input budgets such as manpower requirements, expenditure budget, and output budgets such as advances, deposits, and ancillary services are prepared".</i>
Manager 3 Branch office	<i>"The advantage of having the divisional manager involved is that he has wider experience, broader data base and deeper perceptions of the bank's operations".</i>
Manager 4 Regional office	<i>"In addition, any changed directives received from the C.B.N since the issue of head office policy guidelines to regions are also taken into consideration during this meeting".</i>
Manager 6 Regional office	<i>"Sometimes, it may so happen that the plan itself may have to be revised in view of the changed external and internal factors".</i>
Manager 1 Branch office	<i>"We segment the market on the basis of income, profession and the status of the customers. In the case of the metropolitan branches they use income of the customers as a basis of market segmentation and the profession of the customers as a foundation for market segmentation".</i>
Manager 4 Regional office	<i>"We do not want to surprise our branch managers so we tend to pre-arrange all our meetings. These managers have to get the necessary documentation ready before we go hence the importance of informing them in advance".</i>
Manager 5 Branch office	<i>"Based on these input and output budgets we can prepare an operational profit budget for the branch".</i>
Manager 9 Branch office	<i>"The spirit of performance budgeting is clearly understood by the branch managers who are working at the lowest ebb in the organisational hierarchy. Performance budgeting requires ownership and participation by subordinates and I believe we have this".</i>
Manager 2 Head office	<i>"Experience is important and you can't discount that. But in a banking environment you need proper planning and control and the budget helps to achieve that".</i>
Manager 8 Branch office	<i>"Because branch strategies are dictated to us from the head office, the branch employees sometimes feel left out of the decision making process. This affects their attitude to budgets and decision making in general".</i>



Manager 4 Regional office	<i>"Of course settlement meetings are meant to provide opportunities for regional and branch managers to resolve issues around the budget. This enables the branch budgets to be discussed and amendments made as agreed upon between the two parties, i.e. controlling officer and branch manager. In order to make these amendments/ revisions, each party gives his justification for his point of view regarding revision. The justification may be based upon the potentials of the branch environment, past performance of the branch, regional managers' commitments to higher authorities and a promise for additional facilities".</i>
Manager 10 Branch office	<i>"Though we get support from the regional manager I think this is not enough. There is limited information in terms of feed-back information and involvement of the controlling offices in the development of the branch business and budget".</i>
Manager 8 Branch office	<i>"Customer satisfaction is now a must if we want to compete because of the competition unleashed by the foreign and new generation banks".</i>
Manager 2 Head office	<i>"I clearly remember that before the banking industry was liberalised we did not care about what other banks were doing. There were only few banks and enough customers for each bank so there was less competition. In fact we were turning customers away".</i>
Manager 3 Branch office	<i>"Training and experience of the branch employees with a belief that after all it is the staff who have to satisfy the customer on the counter. If the staff is well trained and experienced, the demands of the customer can be met without any problem, while as untrained and in experienced personnel would not allow the bank branch to plunge into new activities and increase the tempo of the existing operations as well".</i>
Manager 7 Head office	<i>"Accounting for performance evaluation/variance in the banks is an essential part of the exercises in budgetary control underlining budget preparation, targeting, accumulation of information on actual and sifting the grain from the chaff, orientation of the accounting systems towards fulfilling budget target and norms of operations and exercise of control are done through analysis and assessment of variances with reference to circumstances and corrective action by way of either removal of snags or revision of targets".</i>
Manager 2 Head office	<i>"I think performance review in the bank is critical. We take it very seriously, it enable you know where you are, what problems do you have and how do you fix it".</i>

Manager 10 Branch office	<i>"In the actual operating situation these changes may occur due to the following reasons; Environmental factors do not always move in the anticipated way and forecasts do go wrong; The outcomes of strategies are uncertain; The priorities of the operating people are subjected to occasional stress; and The provision of the resources support is often inadequate and or delayed."</i>
Manager 7 Head office	<i>"The interface between physical and qualitative aspects, and between these two and the financial aspects is underlined in this context with particular emphasis on the measurement problem. Considering the typical features for banking functions and the diffused nature of operations, variance analysis demands a lot of attention (on the part of executives). The reasons, therefore, are several, some of which are common place while some others are not".</i>
Manager 2 Head office	<i>"So far as the periodicity of submission of performance reports to head office is concerned monthly, half-yearly and yearly reports are required by the head office. We then provide feedback to regional and branch managers on the basis of this".</i>
Manager 7 Head office	<i>"In the process, the controlling office selects branches that require constant attention, and enters into a dialogue, irrespective of their negative or positive performance, with a view to initiating corrective measures needed for improving their performance".</i>
Manager 4 Regional office	<i>"Unfortunately we have not yet developed our performance in terms of qualitative information such as customer satisfaction, employee motivation, etc. We know the importance of this and hope to do something about it in order to formalise it".</i>
Manager 6 Regional office	<i>"We know that too much concentration on standards may induce undue caution among managers at the time of budget preparation and may motivate them to act in ways not in the larger interest of the bank. We take all these into consideration in designing our reward system".</i>
Manager 10 Branch office	<i>"Because we are under pressure to deliver immediate profit, this does not encourage us to be flexible and try new things unless we can determine whether this is going to bring immediate profit".</i>



Manager 10 Branch office	<i>"While using the performance budgeting in the performance evaluation, in my opinion, sufficient care is not taken by the superior managers you know, as they try to relate a technical instrument with human behaviour, and in return this give rise to various dysfunctional issues which has proved to be counter-productive for the organizations".</i>
Manager 2 Head office	<i>"If we fail to conform to these regulations, we risk losing the support of the CBN and the government".</i>
Manager 9 Branch office	<i>"We have been forced to change our ways of doing things. We now have to be more proactive and plan properly. The CBN is very particular about how banks are managed these days".</i>
Manager 4 Regional office	<i>"It is unfair that the banks are not allowed to adopt their own budgeting system. The performance budgeting system we are using is completely a CBN imposition".</i>
Manager 2 Head office	<i>"As we are a profit making organisation we know we have to create value for our shareholders. This is not a problem. But since the passing of the capital adequacy decree we have been under constant pressure to create more value for shareholders. The emphasis now is more shareholder value creation. This requires us to be proactive and innovative in our operations".</i>
Manager 10 Branch office	<i>"Politics is very important in Nigeria. You can therefore not make any business decisions without thinking about the political consequences. Yes it is true that we are here to make profit but we also have to be seen by those in authority as being a modern and innovative bank".</i>
Manager 3 Branch office	<i>"In the end, best practices can produce very big benefits when adopted internally to grow people and their performance. Even bad practices can be taken as a reference in order to strengthen good ones and learn. Most of all, on the other side, by teaching, though not always being aware of it, people get stronger in their abilities, are more satisfied and rewarded and happier and more productive, and so on and so forth".</i>
Manager 6 Regional office	<i>"We do not have any regulations as to how to measure or report on our performance. But as you know it has become a standard thing for all banks to do the same thing. We get to know about what the other banks are doing through former employees, friends or even through reports submitted to the CBN".</i>



Manager 7 Head office	<i>"To the best of my knowledge we were among the first banks in the country to have implemented BPR. Our approach at the time was to reengineer all our processes. This approach was so successful that it later became a practice in the banking sector in Nigeria".</i>
Manager 2 Head office	<i>"The management of the bank and the consultants found BPR to be very successful. Its promise of improvement was realised by the bank and this increased the bank's commitment to it. The consultants then sold the concept to other banks in the country".</i>
Manager 1 Branch office	<i>"BPR was considered as a strategic decision and therefore it was purely a top management decision. The branches were considered 'too small' to have a say in this".</i>
Manager 2 Head office	<i>"Work commenced immediately on the implementation of the plan, and teams were formed to handle the different projects".</i>
Manager 4 Regional office	<i>"In 1999 on the status of the restructuring exercise, much of the original contents in the strategic plan had been either dropped or modified".</i>
Manager 7 Head office	<i>"The bank spent the whole of 1996 in negotiations with the union about the impending rationalisation of staff, and appeasing staff complaints about the pace of change taking place".</i>
Manager 7 Head office	<i>In 1995, we started off with grand design to change every area of the bank. However, in reality the implementation proved difficult; we realised we could not change everything all at once. We cannot change things overnight because people have limited ability to absorb change and also because we are short of people to lead the change. Even the ones who are leading the change now have a limited ability to control things; there are only 24 hours in a day and 7 days in a week.</i>
Manager 2 Head office	<i>Although it is desirable for the bank to have all its branches connected and to be able to access and to determine the financial situation or balance of every branch at a go and at the beginning of every day, but there are constraints. Do you install expensive systems in marginal branches, or do you first concentrate on key branches and then expand the scope for the others?</i>
Manager 2 Head office	<i>"Following CBN directives, the professional banking association of Nigeria also promoted the performance budgeting system. There are regular seminars where bank managers attend to listen to presentations on performance budgeting".</i>

Manager 10 Branch office	<i>the most powerful catalyst for the changes in the banking industry was the deregulation of the economy,</i>
Manager 1 Branch office	<i>"For instance, one can budget for canvassing 10 deposit accounts of professionals (M/s A, B, C-J) and they may give a deposit of Nigerian naira. This is based upon the knowledge of the branch manager about the area".</i>

## EAST BANK (EB)

Manager 1 Head office	<i>"In performance budgeting, the budget is supposed to be developed and owned by the people who use it. I mean the different departments. This is intended to make them appreciate and respect the budget".</i>
Manager 7 Branch office	<i>"Generally the environmental data are collected by the branch managers according to the worksheets provided by the central office and then this information is translated into the branch budget".</i>
Manager 4 Regional office	<i>"The branch managers after collecting and analysing the environmental data of the branches design certain strategies towards the mobilisation of deposits and increasing the potential of credit seekers. In this respect they use the eagle's eye to identify those who have extra money with them and want to lend and those who want to be lent. For this purpose they resort to segmentation of the market into various groups /classes, and design strategies as per each segment of the market. For the segmentation of the market they use the multiple criteria like income, status profession geography, age, sex, etc".</i>
Manager 6 Branch office	<i>"In Nigeria things are not stable. I mean inflation, interest rates, government policies, etc. This makes it unwise to rely on budgets all the time. Experience, personal knowledge and connections are very important in Nigeria".</i>
Manager 7 Branch office	<i>"It is difficult to claim ownership of a budget which is controlled from the head office. Yes we do develop the budget but the directives and control comes from the head office".</i>
Manager 1 Head office	<i>"Budgeting is very important to us no matter what branch managers think. We invest a lot of money and time in it. It is the main tool for planning and control in the bank".</i>
Manager 7 Branch office	<i>"There is minimal support regarding the contribution made by regional managers in the development of the business of the branch. There is the need for this to be improved".</i>



Manager 10 Head office	<i>"These policy guidelines are critical for giving a direction to the budget formulation effort. This requires that these guidelines are prepared very carefully, by giving due recognition to the changes that take place in various macro-economic factors which have a strong bearing upon the success and failure of the banks so far as its planning and control aspects are concerned".</i>
Manager 3 Regional office	<i>"Customers are becoming very important in Nigeria. This is because of the deregulation of the banking sector. There is now competition as a result of the several new banks (both foreign and local) that have entered the industry in recent years".</i>
Manager 9 Branch office	<i>"The various internal factors that need a critical analysis include training and experience of the branch employees, commitment and initiative of employees, infrastructure of the branch, and the attitude of the manager".</i>
Manager 10 Head office	<i>"The lack of commitment can lead to an activity being abandoned even though this activity may have high potentials".</i>
Manager 1 Head office	<i>"Under performance evaluation and review, it is necessary not only taking corrective steps for eliminating weak spots but also for ensuring that the budgets are scientifically reviewed and reframed, as performance review and variance analysis sharpens the budget target through the mechanism of feedback by identifying the causes for each of the variances through a joint discussion between the controlling authority and the performing units".</i>
Manager 8 Branch office	<i>"Our performance evaluation system which is undertaken every month starts with the periodical performance reports compiled and submitted by the branch managers, to their regional managers, in which the actual performance is compared with the budgeted level".</i>
Manager 10 Head office	<i>"If these variances and action suggested is not communicated to the action points quickly and regularly, they may not serve the purpose and on the contrary, may create an undue pressure affecting motivation".</i>
Manager 3 Regional office	<i>"We have relied on variances to make some important decisions such as changing deposit mobilization strategies and changing our credit policies due to adverse variances".</i>
Manager 5 Regional	<i>"By making inter-branch comparison and inter-region/division comparisons, the executive who has attained the targets is applauded by</i>

office	<i>the management which motivates other executives for furthering their efforts towards working for better performance”.</i>
Manager 3 Regional office	<i>“The regional office consolidates the branch performance reports and compiles a performance report for the region indicating the actual achievement against the budgets level for the region as a whole. The regional performance reports are submitted to the head office. The head office reviews the performance of each region and functional departments to identify the discrepancies and to analyse the underlying causes for positive as well as negative performance and also to provide suitable feedback to the regional manager for undertaking corrective action wherever needed”.</i>
Manager 1 Head office	<i>“We require all the branches and the regions to report on a wide array of performance information including deposit mobilisation reports, priority sector lending report and budget performance review report”.</i>
Manager 9 Branch office	<i>“I have seen it before. A manager was fired few years ago for not meeting targets. So we take performance targets seriously”.</i>
Manager 8 Branch office	<i>“While administering rewards and punishments, it should be borne in mind that the budget standards are based on certain anticipations which may not be realised”.</i>
Manager 6 Branch office	<i>“It becomes as it were, an examination situation in which the branch is the examined and the controlling authority the examiner, the assessor and valuer. Thus the budget of the branch, an instrument to be handled by the branch, remains a target for the branch only rather than a tool in their hands to monitor the progress and performance as is expected under the performance budgeting system”.</i>
Manager 2 Branch office	<i>“The performance process can take a lot of time, especially as the infrastructure is very poor and the uncertainty surrounding the economy is massive and clarity of methods for achieving the objectives is not there”.</i>
Manager 7 Branch office	<i>“At the moment the performance measurement system is skewed to profit and deposit mobilization and that kind of thing. And so it gives the impression that there would be some managers in the bank that take the</i>



	<i>view, why should I care so much about other activities in the branch. If that is the case I might as well go for deposit mobilization and make profit. If I do that, I can get promoted”.</i>
Manager 9 Branch office	<i>“The superior managers failed to understand that they are dealing with complex human beings and sometimes the budget variances can be confusing and misleading and cannot be a true measure of one's performance”.</i>
Manager 1 Head office	<i>“The government has realised that there is the need to be proactive and to strategically place Nigerian Banks to be active players and not spectators in the emerging world economy”.</i>
Manager 1 Head office	<i>“Before the performance budgeting system, we were doing our own thing. What the CBN has done now is to force everybody to use this system”.</i>
Manager 10 Head office	<i>“I am very sure that even in the developed countries that introduced the performance budgeting system, companies are no longer using the system. Even if they are using it, they have modified it. But because the CBN wanted us to use it we cannot change this”.</i>
Manager 3 Regional office	<i>“In the 1970s and the 1980s the Nigerian banking sector was characterised by weak management and corruption. As a result the CBN has to step in to correct the system”.</i>
Manager 1 Head office	<i>“We did restructuring recently and while we believe this was necessary to improve decision making I believe that the decision to restructure was motivated largely by the desire of the bank to show how innovative we are. The government and the central bank are encouraging banks to be innovative so we have to restructure to show this”.</i>
Manager 3 Regional office	<i>“Well I am not surprised that you have indicated that our performance report is similar to that of the other banks you are studying. As you know we are in the same market and compete for the same customers so we have to learn from the better banks and try to catch up and hope that one day we will overtake them”.</i>



Manager 5 Regional office	<i>"Unfortunately you cannot talk about Nigeria without mentioning corruption. If we are going to survive as a bank, we need people to have confidence and trust in us. We are doing everything to achieve this. We have educated our employees and even our customers. We have also designed systems as checks to detect and minimise corruption".</i>
Manager 3 Regional office	<i>"To be able to compete, the Nigerian banks need to train and retrain their staff because of the highly competitive nature of the environment".</i>
Manager 3 Regional office	<i>"Clearly these values are contained in official documents and are consistently mentioned during staff meetings. I can say that to a high degree employees are aware of them. Of course it is difficult to measure the extent to which these values have been attained in practice".</i>
Manager 1 Head office	<i>"The first time we heard of BPR being used in the banking sector was in the 1990s. We were approached by some consultants who managed to convince us of its value. They informed us that other banks in Nigeria have already adopted it and it was working for them hence our decision to embrace it as well".</i>
Manager 7 Branch office	<i>"We were not consulted about all these decisions. These are strategic decisions which are taken at the headquarters".</i>
Manager 1 Head office	<i>"We are very good when it comes to IT in Nigeria. I believe our IT facilities are as equally good as that of the other top banks in Nigeria. We have invested heavily in it".</i>
Manager 10 Head office	<i>".....all these factors require long-term corporate vision alongside a retailer attitude, effective treasury and risk management, and internal controls and decision-making".</i>
Manager 1 Head office	<i>"Our budget is based on our corporate strategic plan. Before we develop the budget we take a broader look at our strategic plan".</i>
Manager 1 Head office	<i>"Budgeting is very important to us no matter what branch managers think. We invest a lot of money and time in it. It is the main tool for planning and control in the bank".</i>

Manager 7 Branch office	<i>"People have their own agenda and they will rely on the performance budgeting system to achieve this".</i>
Manager 9 Branch office	<i>"Before coming to the banking industry I have worked in manufacturing sector and I can tell you that they have a better cost management system than the banking sector".</i>
Manager 10 Branch office	<i>"At each level, the reports submitting party is expected to explain the reasons for the deviations, and the corrective measures that could be taken are identified at the review meeting".</i>
Manager 4 Regional office	<i>"We have to train and retrain our staff because of the highly competitive nature of the environment in order to be able to compete".</i>

## INTERNATIONAL BANK (IB)

Annual Report Head office	<i>"Our mission is to deliver to the customer high value, at all times, in a broad range of universal banking products and services, at competitive price in order to provide the best financial services possible. To our shareholders, we promise good return on investment while maintaining a positive work environment in which every employee of the bank counts. Our aspiration is to remain within the top 10 banks in the Nigerian Financial System -a strong brand that is equated with quality and integrity such that our growth is sustainable".</i>
Annual Report Head office	<i>"Our thrust into investment banking and consumer finance products opens a new vista of opportunity for growth in service offerings"</i>
Manager 1 Regional office	<i>"In IB we believe that our people constitute the most valuable asset of the bank. The bank prides itself on the high ethical standards and professionalism of its staff".</i>
Manager 2 Head office	<i>"The banking environment has changed tremendously in recent years. There is government regulation and there is competition. Planning and control has therefore become extremely important for us".</i>
	<i>"Strategic control implies, monitoring and reviewing the performance of the organisation as a whole as envisaged in the strategic plan".</i>
Manager 6 Regional office	<i>"Regional and branch managers make a business potential assessment of their respective areas of operations. The business assessment note prepared by the branch manager will be reviewed by the regional manager and firmed up after incorporating the changes found necessary by the latter".</i>
Manager 4 Regional office	<i>"The regional budget is formulated by each regional manager after consolidating the branch budgets incorporating administration and other information of the regional office. It is, therefore, more than just the aggregation of the branch budgets. The draft of the regional budget is finalised through an in depth discussion in a performance settlement meeting conducted by the zonal manager. After incorporating the changes suggested at this stage, the respective regional managers finalise the budget and send the same to the central office managers concerned, lamented by the regional office manager".</i>



Manager 6 Regional office	<i>"The respective zonal managers prepare the budget for the zone after consolidating the budgets for the regions within their zone along with the administration expenditure and other information concerning the zone. The draft budget for each zone is sent to the general manager in charge of planning at the head office. The zonal budget is also finalised through discussion and analysis in a budget settlement conference of the chairman, full time directors, departmental heads and zonal managers. After incorporating the changes suggested, the budget for each zone is revised and sent to the planning department at the head office. The budgets for each of the departments at the head office are also discussed and finalised at this conference".</i>
Manager 3 Head office	<i>"The budget for the bank is formulated by consolidating the budgets for each of the zones as well as the departments at the head office. It is then presented to the board of directors. The process for formulation of the budget for the bank usually takes two and a half months. This process is a top to bottom and bottom to top exercise wherein, at each stage the coordinating manager and the performing executive jointly participate and discuss/divide up the responsibility for attainment".</i>
Manager 8 Regional office	<i>"At each level, the reports submitting party is expected to explain the reasons for the deviations, and the corrective measures that could be taken are identified at the review meeting".</i>
Manager 7 Head office	<i>"Recently, a system of 'concurrent audit' has also been introduced in the bank. Here, the functioning of selected large branches is observed by identified 'auditors' on a daily basis and reports sent to the controlling office/head office periodically".</i>
Manager 3 Head office	<i>"Before the liberalisation we believed that every product or service which is offered will be sold. This is different from the post liberalisation era which has now created consumers market where products are offered as per the dictations of the customers".</i>
Manager 5 Branch office	<i>"The basic questions as to why a particular customer is dormant in his accounts, or why certain number of customers have shifted to other branches or what is the further potential with the existing customers which</i>

	<i>needs to be explored through certain marketing techniques can be answered by the analysis of the accounts of the existing customers”.</i>
Manager 2 Head office	<i>“When performance is monitored the bank can formulate improvement decisions. Performance is arrived at through a joint discussion between coordinating manager and the performing executives. Further, self-monitoring by performing executives and suggesting actions for performance improvement is to enhance a sound practice”.</i>
Manager 9 Head office	<i>“In a typical commercial bank, the variance analysis is designed on the basis of tracking down factors that cause variations from the set targets”.</i>
Manager 4 Regional office	<i>“The performance reviews affect the entire bank. They are part of our operational processes”.</i>
Manager 10 Branch office	<i>“The superiors are showing more concern towards the short term target achievement rather than long term effectiveness of the system”.</i>
Manager 2 Head office	<i>“Every control system to be functional needs an information system that would act, in such a way as a nervous system act in the human body- to give direction and receive feedback” Sometimes I think our information system is under developed to support our operations”.</i>
Manager 5 Branch office	<i>“It took a long time for the Nigerian authorities to come to the realisation that the banking sector needs to be reformed”.</i>
Manager 2 Head office	<i>“The change required that all banks analyse the cost and benefits of their activities for example unearned income from non-performing/delinquent accounts and report these to the central bank”.</i>



Manager 5 Branch office	<i>"I know there are other budgeting systems that are superior to the performance budgeting system. But we cannot change the performance budgeting system because this is what the CBN want us to use".</i>
Manager 10 Branch office	<i>"This is a case where the head office controls the entire budgeting process. The branches have limited involvement and for that matter minimal influence. I think branch managers should be allowed to be substantially involved in budget decisions".</i>
Manager 10 Branch office	<i>"Competition is one of the ways to attain high quality service, quality service delivery and a high commitment is one of the components for improvements in management and or improving quality. Due to competition, the banks will have more to offer in developing the financial sector of the economy".</i>
Manager 2 Head office	<i>"While over the years IB was not among the highest paying banks in the industry, this was compensated for by the bank's stable human resource policies".</i>
Manager 1 Regional office	<i>"A prevalent issue then was the poor quality of service and consequently a poor bank - customer relationship, as staff did not see any need to foster a closer relationship with customers except for personal gains".</i>
Manager 5 Branch office	<i>"A side effect of this practice is the lack of orderliness and the absence of the habit of queuing up in bank branches".</i>
Manager 8 Regional office	<i>When the new banks came in and people started seeing things being done differently, they realised that the world is rather different. Also, a lot of people that travelled out of the country came back with their own experiences and expectations of what banking should look like. When they saw what the new generation banks were offering, words started going round that a new dawn has arrived for branch banking in Nigeria. As a result, old generation banks were forced to sit up in order not to be left behind.</i>
Manager 4 Regional office	<i>One of the important tenets of BPR here was the desire to eradicate the practice known in local parlance as "man know man" and the idea that with reengineering, "everybody gets treated equally"</i>



Manager 10 Branch office	<i>Given the type of our branch and the type of customers we have, we still try to accommodate some set of people, like for instance, the chairman of the local government council or the traditional head of this community. If such a person comes in to the bank we cannot ask him to queue. What we do is to send him up to the bulk room away from the main banking hall and from the glare of other customers; here he can get service quicker.</i>
CEO Head office	<i>"Although, we aim to invest in technology, we are not specifically aiming to lead the industry . . . We will be pragmatic as to the choice of technology and the extent of automation."</i>