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ASSESSEMENT OF BUDGET AND BUDGETARY CONTROL PRACTICE IN
SELECTED PRIVATE BANKING IN ETHIOPIA

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AND FINANCE

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STATEMENT OF CERTIFICATION

This is to certify that Fathiya Abdi Halane carried out her thesis on the topic entitled
“Assessment of Budget and Budgetary Control practice in selected private banking in Ethiopia”

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Declaration

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ABSTRACT

This study aimed to investigate the assessment of budget and budgetary control practices in selected private banking in Ethiopia. Descriptive research design was used in this study. Purposive sampling method was implemented to collect data from 146 respondents through questionnaire using statements based on specific objectives of the study and secondary data was collected from banks annual report. Validity of the questionnaire was established based on pilot study. The target population the researcher wants to generalize is two private banks (Dashen & Awash bank). Analysis of the data was conducted using descriptive statistics including percentage, frequency, mean, standard deviation techniques were used. In general, most participants had experienced budgeting control system has an impact on the growth of banks performance and the budgeting process has a different feature that supports the achievement of the overall objectives of the bank. The researcher put some implication on the fact that the private banks should develop a sound budget and budgetary controlling system that includes objective that helps the growth of banks performance and grand strategy objectives of the banks.

KEY WORDS: BUDGET, BUDGETARY CONTROL, BANKING

CHAPTER ONE

INTRODUCTION

1.1. BACKGROUND OF THE STUDY

Budget is a plan quantified in monetary terms, prepared and approved before a defined period of time (Marynchak, 2019) The budget of a division, business, or corporation is a financial forecast for the near-term future, aggregating the expected revenues and expenses of the various departments' operations, and a key element in integrated business planning, with measurable targets correspondingly devolved to departmental managers (Jensen 2020).

Big organizations have many departments from where resources are available and to which the resources are used. These need complex and sophisticated systems to prepare budgets. Their budget systems serve as a means of integrating numerous divisions in addition to being planning and control tools. Budgets in organizations serve multiple roles of planning, evaluation, coordination, communication, and decision-making. (Premchand, 2004)

Budgetary control is actually a means of control in which the actual results are compared with the budgeted results so that appropriate action may be taken with regard to any deviations between the two. The objective of such a comparison is to find out the deviation between the 2 and provide the base for taking corrective action. Finally, taking the appropriate corrective action on the basis of the comparison between the budgeted and actual results is the essence of budgeting (Preetabh 2010).

Budgetary control is a management tool used by both public and private entities to effectively manage their limited financial resources. The success of banks performance in any organization depends on assessment ive budget control, a process which calls for continuous administration (Daniel 2014). According to Kenneth and Ambrose (2013) budgetary controls in government entities entail financial planning, controlling, financial evaluation and performance of budgets in order to efficiently achieve the public finance management goal, on proper allocation as per proposed budgets.

According to the National Bank of Ethiopia annual report (2021/22), the Ethiopian financial sector remained robust and played a significant role in facilitating socio-economic growth through its financial intermediation function. Accordingly, in 2021/22, new banks, including

interest-free banking, entered into the banking industry thereby raising the number of overall bank branches to 8,944 from 7,344 a year ago. They also accelerated deposit mobilization (25.7 percent), loan collection (48.6 percent) and loan disbursement (29.9 percent).

Their nonperforming loan ratio was within the required ceiling of 5 percent and all other financial indicators revealed the safety and soundness of the sector. Banks, insurance companies, and micro - finance institutions are the major financial institutions operating in Ethiopia. At the end of June 2021/22, the number of banks reached 30, and as a result, the population to bank branch ratio reached 12 thousand people per branch. About 32.7 percent of the total bank branches were located in Addis Ababa. At the same time, the total capital of the banking industry showed a 31.7 percent annual growth to reach Birr 199 billion (NBE Annual bulletin, volume 14, No. 5)

1.2. STATEMENT OF THE PROBLEM

A budget plays a significant role in estimating future income, expenses, and related risks in any company organization. A budget is a financial plan used to direct attention towards an organization's finances and general operations. It requires business management to improve your predicting. Budgets also give management of a firm a way to compare actual performance to planned targets. The budget also ensures that all working units of the company have a shared knowledge of the goals to be achieved (Horngren et al., 2012).

The researcher has made an effort to evaluate many studies that have been conducted locally and internationally. As a result, many investigations on the relevant subject were carried out. These studies concentrated on the practices, instruments, and techniques of budgeting and control. They did not fully demonstrate the influence of budgeting and control on other aspects which have crucial function for effective and sustainable organization performance. Additionally, the majority of the researches were carried out in other nations, whose strategies can differ from those of Ethiopia. For instance, Adongo and Jogongo (2013) studied the financial performance and budgetary restrictions of Kenyan state businesses. A research on the effect of budgeting on performances in the context of Nigerian financial institutions was also carried out by LambelIsaac (2014).

The majority of investigations conducted on this topic were conducted in industries other than

banking. There are few studies conducted that are specific to the financial industry. To mention a few of these studies, Daniel Mahinda Mwangi (2012) conducted a study on budgeting and its assessment s. Impact on the financial performance of Kenyan banks, Locally, Bedilu Assefa (2015) has examined the budgeting practices of the Development Bank of Ethiopia. This study evaluates budgeting, budget performance, and critical budgeting operations issues. And Fenta and Abebe (2012), critical challenges facing banks in relation to budget utilization is the lack of adequate institutional and managerial capacity to support its implementation, variation in understanding the concept of differentiating objectives from targets, lack of harmony and uniformity on terms and definitions and difficulties in making the structures of the organizations.

The past research studies done Bedilu Assefa (2015) , Fenta and Abebe (2012), have concentrated on budget preparation, transparency and accountability, budget implementation in the public sectors and budgetary control systems for measuring the variances in different areas but no specific research was conducted to assess budgetary control systems being practice in selected private banking in Ethiopia.

However, the present study is conducted with a distinct scope, that of private institutions, and with more specific goals. The objective of this study is to fill the research gap in the prevailing budget and budgetary control systems practiced in selected private Banking in Ethiopia.

1.3. OBJECTIVES OF THE STUDY

1.3.1. GENERAL OBJECTIVES

The general objective of this research is the assessment of budget and budgetary control practices in selected private banking in Ethiopia and to propose suggestion based on results of the study.

1.3.2. SPECIFIC OBJECTIVES

In assuring that the above general objectives can be achieved, there are few specific objectives that need to be accomplished the assessment of budget and budgetary control practices in selected private banking in Ethiopia

1. To examine factors affecting the budgeting process of Ethiopian private banking.
2. To examine the features of budgetary control in Ethiopian private banking.
3. To assess the assessment of budgetary control systems on private banking of Ethiopia.

1.4. RESEARCH QUESTION

To do the intended purpose and the research problem stated above. The researcher designed the following research question

1. What are the factors affecting the budgeting procedure at the private commercial bank in Ethiopia?
2. How do the features of budgetary control benefit private banking in Ethiopia?
3. What impact do the budgets and budgetary management mechanism of Ethiopian private banks have?

1.5. SIGNIFICANCE OF THE STUDY

Most banks budget control was identical and complicated; they can only differentiate themselves on the basis of control method. Therefore, the paper possibly tried to look whether an enhancement in quality of budget control mechanisms that every bank can use to gain a strategic advantage. Budget control performance plays a significant role in the achievement of organizational objectives; preliminary analysis of customer needs helps the organization in designing strategic planning.

The study would be analyzing the theoretical perspective and developed ways to improve budgetary control and increases the performance and effectively implemented in the banking industry accordingly, this paper examined the impact of some relevant concepts that manipulate budget control performance. Moreover, it can benefit all private banking industry because it draws attention where corrective action is necessary to the finding of the study will help the managers of the banks to ensure efficient and effective utilization of available budget by adopting proper measures of budget control, also appreciate the assessment of budgetary control on the banks. The study helps the government in translating government policy into implementation. Lack of previous research in this topic it helps as the reference for further research by other researchers.

1.6. DELIMITATION/SCOPE OF THE STUDY

The study concerned with the assessment of budget and budgetary control practice in selected private banking in Ethiopia. All of the banks prepare their own budget, and they do have budget control. In Ethiopia 28 private banks are operating up to date so considering similarities like number of branches and year of operating the Researcher selected for this study 2 private banks in Ethiopia (Dashen and Awash bank). The two private banks prepare and control the

budget centrally. Due to this, the study was scoped to the office of strategy and finance department of the banks. The Office of Strategy of the banks is where the overall budget of the bank prepared and evaluating the performance. On the other hand, finance departments focus on accounting and analysis banks performance of the banks takes place. It also includes line managers as part of performance measurement. The study also delimited from annual report 2021 to 2022.

1.7. LIMITATION OF THE STUDY

One of the study's biggest drawbacks was that banking industry data is classified and unavailable to unauthorized outsiders. Thus, obtaining all necessary data via surveys proved difficult. The researcher obtained permission from the necessary authorities to formalize the institution introduction procedure. The researcher advised respondents to seek a copy of the findings and assured them that the research was for scholarly purposes. This added security and privacy.

1.8. ORGANIZATION OF THE STUDY

This research paper is arranged in five chapters. Chapter one Introduction of background Study, chapter two Literature review, chapter three Research Design and Methodology, Chapter four about Data Analysis, discussion Results and finally chapter five Conclusions and recommendations of the findings.

CHAPTER TWO

LITERATURE REVIEW

The chapter concerns the theoretical framework that support budget, budgetary control. It also concerned the concept of budget and budgetary control. Final state summaries of review literature and identifying the gap why need this study.

2.2. THEORETICAL LITERATURE REVIEW

This sub section of the paper comprises the most important points that were reviewed from concepts and interrelationship between budgeting and budgetary control are going to be discussed.

2.2.1. DEFINITION OF BUDGET

As to the Chartered Institute of Management Accountants (CMA), budget is defined as “a plan quantified in monetary terms, developed prior to a defined period typically presenting the planned income to be generated and expenditure to be incurred during that period and the capital to be engaged for attaining a give objective.” A budget is a numerical expression of a proposed plan of action which includes both financial and nonfinancial aspects of the plan, and it serves as an outline to follow in an upcoming period (Horngren et al, 2012).

On the other way round, Lucey (2003) defines budget as a qualitative statement, for a definite period of time, which may include intended revenue, expenses, assets, liabilities and cash-flows. Thus, it is important for an organization to have a budget to know how much money it needs to carry out its activities and also forces it to be rigorous in thinking through the implications of its activity planning.

2.2.2. PURPOSE OF BUDGET

Agalega (2014) pointed out the following purposes that budget may be prepared to achieve.

These are:-

Planning: Budget development needs complete information of earlier performance, determination of the existing position and forecasting of the upcoming time. Planning gives data about the structure and behavior of expenditure, sources and trends in revenue and demands of various functions. There is therefore the need for constant monitoring of activities and programs

to ensure that actual performance conforms to plans and corrective actions are taken on deviations from plans. Managers are forced by forward planning to formally reflect possible future courses of action, properly evaluate them and select the most appropriate option.

Coordination: For any organization to fulfill its vision, it is essential to coordinate its several activities and ensure that they are on the way to achieve those goals. The budgeting system is a good platform to create this coordination.

Communication: The budgeting system allows communication within an organization, both vertically and horizontally. There is communication at all stages of the budgetary control process, particularly during budget preparation and control.

Control: performance of the organization compared with the budget point out the proper management action to be taken to direct its operations to achieve its objectives. Here, a budget review is an important tool to make sure that the execution process stays on the right track.

Motivation: Budgeting system can influence the conduct of managers and employees, and it may motivate them to increase their performance. An inappropriate target can possibly be demotivating effect. In this aspect there should be a level of cooperation in the budgeting process as participation can have a positive motivational effect.

Performance Evaluation: performance of managers is frequently evaluated by the budget targets. Rewards, for example, bonuses or performance -related pay can be associated with the achievement of budgetary targets. Managers can also use the budget to assess their own performance and explain that they are so near to meeting the agreed performance targets. This way, budgeting acts as a performance evaluation tool.

Forecasting and setting targets: Budgeting represents management projections of the future and may act as the forecast of event in the real world. *Decision making:* A budgetary review assists and encourages decision making, choices, urgencies, scheduling, resource and spending. It helps managers to find comprehensive and better understanding of how to formulate plans and achieve objectives.

2.2.3. TYPES OF BUDGET

There are different types of budgets that have been developed for different purposes. Some of the most important classifications of the budgets are discussed in this sub section; Pushpender Pal

(2020) identified four major types of classification of budget. These are: On the Basis of Time, On the Basis of Function, On the Basis of Flexibility, and On the Basis of Nature of Business Activity.

Based on time that budgets will cover, they could be classified as long-term, short-term, and current budgets. Long-term Budgets are budgets prepared with the long term plan or based on the long term forecasts of the organization. This is budget is usually developed for a period of five to ten years. Short-term Budgets are budgets which have to be prepared based on short term forecasts for a period of one or five years. While, Current Budgets are budgets that are prepared for a very short period like from one month to one year. Budgets that are prepared for specific period may also be classified according to the basic functions that are being carried on in the business concerns. Therefor budgets can be grouped in to two major categories based on the basis of functions. Those are master budget and functional budget.

Master Budget is a summary budget of the functional budgets. Master budget is the blueprint showing the proposed activity and the anticipated financial results during the coming year. It usually takes the form of budgeted profit and loss account and balance sheet items. It consolidates the overall plans of an organization for a shorter duration of time that is usually prepared on an annual basis. Generally, Master Budget is a summary budget incorporating all financial budgets. From this point of view, Master Budget is a picture that shows the overall (total) plans of the budget period, and it includes figures relating to sales, production, costs, profit and profit planning etc. For instance, the following diagram shows the Master Budget for a non-manufacturing business concern

2.2.4. Budgeting Techniques

Institute of Chartered Accountants of Nigeria (2006) identifies the following budgeting techniques:

1. Flexible Budgeting Technique: A flexible budget includes fixed and variable costs which vary in relation to the level of activity accomplished in a period.
2. Zero Based Budgeting Technique: Zero-based budgeting technique requires each cost element to be specifically justified, as though, the budget related were being undertaken for the first time; without approval, the budget allowance is zero.

3. Incremental Budgeting: in this technique budgets is prepared using prior period's budget or actual result as a basis and add certain amounts to develop the new budget. The change typically comes in percentage term and could either be an increase or a reduction depending on many factors, primarily the organization's needs and situation.
4. Activity Based Budgeting Technique: This is a budgeting technique that is established on an activity framework and utilizing cost driver data.
5. Planning, Programming, Budgeting Technique: Here the preparation of a long-standing corporate plan that creates the objectives of organizations.
6. Continuous/Rolling Budgeting Technique: This budgeting technique involves continuously updating budgets by reviewing the actual results of the period in the budget and determining a budget.

2.2.5. BUDGETARY PROCESS AND PROBLEMS

2.2.5.1. STEPS IN THE BUDGETING PROCESS

The budgetary process should be standardized by using budget manuals, forms, and procedures. The timetable for the budget must be kept. The budget process should also be consistent with organizational structure and consider human resources of the company. The budgeting process should consider a careful analysis of the current status as well as its past experience together with a change in relation to the external environment.

There should be a budget committee that review budget estimates, revised and recommend the budget. The budgeting process to be successful, there should be strong cooperation of all stake holders in the organization. The participants of budgeting process should be properly trained and guided and there must be sufficient supervision (Jae K. Shim and Joel G. Siegel, 2005).According to this source, there are six steps in the budgeting process. These are: Setting objectives; Analyzing available resources; Negotiating to estimate budget components; Coordinating and reviewing components; obtaining final approval; and Distributing the approved budget

2.3. THE CONCEPT OF BUDGET AND BUDGETARY CONTROL

2.3.1. BUDGET

Extant literature on budget in general is abundant and varied, defining budget and other aspects

of budgetary practices from different angles and perspectives. Drury (2012) define the budget as the implementation of the long-term plan for the year ahead. Because of the shorter planning horizon, budgets are more precise and detailed. Budgets are a clear indication of what is expected to be achieved during the budget period, whereas long-term plans represent the broad directions that top management intend to follow. Horngren et al (2012) refer to a budget as the quantitative expression of a proposed plan of action by management for a specified period and an aid to coordinate what needs to be done to implement that plan. It includes both financial and non-financial aspects of the plan and serves as a blueprint for the company to follow in an upcoming period.

A financial budget quantifies management's expectations regarding income, budget concerns units manufactured or sold, number of employees, and number of new products being introduced to the marketplace. Kinney (2010) outlines that a budget can be an effective device to communicate objectives, constraints, and expectations to all organizational personnel, Such communication promotes understanding of what is to be accomplished, how those accomplishments are to be achieved, and the manner in which resources are to be allocated. Determination of resource allocations is made in part, from a process of obtaining information, justifying requests, and negotiating compromises.

2.3.2. BUDGETARY CONTROL

According to Drury (2012), control is the function that makes sure that actual work is done to fulfill the original intention, and controls are used to provide information to assist in determining the control action to be taken. Controls encompass all the methods and procedures that direct employees towards achieving the organization objectives. From the definition of the control to exist, there must be the defined objectives and actual activities and comparing these activities with the predetermined objectives to make corrective action if there is variance.

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

According to Preetabh (2010), budgetary control helps as profit maximization; a budgetary control aims at maximization of profits or an organization through, proper planning and coordination of different functions, proper control over various capital and revenue expenditures and putting resources into best use. In addition, Drury (2001), a budgetary monitoring and control process assumes that expenditures must agree with budgeted plans and maintains information about expenditure. It helps expenditures be kept within planned limits thus, assisting managers to track the flow of resources accurately and consistently. Also, budgetary control helps in the coordination of effort.

2.4. FEATURES OF BUDGETARY CONTROL IN A BANKING INSTITUTION

Budgeting is a set of procedures by which organizations use their scarce financial resources for the accomplishment of organizational goals. Within this context, the budget can be used for 3 purposes: as an instrument of economic policy, as a tool for economic management; and as an instrument for accountability. Budget is an allocation mechanism that attempts to maximize the wealth of the owners. This can be achieved by ensuring that the budget process successfully allocates scarce resources so that the marginal unit of expenditure achieves the same marginal benefit in each category of expenditure. (Adongo and Jagongo, 2013)

The budget process considers the allocation of scarce resources for the achievement of predetermined goals of the organization. The task of budget preparation is often seen as an accounting activity that concentrates on the annual recurrent budget, while planning is seen as a medium-term activity. In this approach, the annual budget ensures control over aggregate expenditure and generates detailed financial statements on resource utilization but is not concerned with broad strategic development over the medium-term (Preetabh, 2010).

As economic terms, a budget is a plan quantified in monetary terms prepared and approved prior to a defined period of time usually showing planned income to be generated expenditure to be incurred during that period and the capital to be employed to attain a given objective. It is an attempt at the beginning of an accounting period to plan for the profit and loss account for the year and aim for a definite balance sheet. It is a plan of the dominant individuals expressed in monetary terms and subject to the constraints imposed by other participants and the environment indicating how the available resources may be utilized to achieve whatever the dominant individual agrees to be the priorities (Segun & Ebipanipre 2013).

2.5. HUMAN FACTOR IN BUDGETARY CONTROL

Human factors within budgetary control involve the action of top management commitment and its subordinates towards the budgeting process and controlling the attainment of goals set. Human factors within budgetary control may revolve around the degree to which a top management accepts the budget program as the It can also be viewed in the context within which organizational management uses budgeted data. If a budgetary control program is to be successful, it must have complete acceptance and support from persons who occupy key management positions.

Monitoring and evaluation are a key determinant of the effectiveness of budgetary control through an evaluation plan, the firm can clarify the direction the evaluation should take based on priorities, resources, time and skills needed to accomplish the evaluation. To enhance effectiveness and transparency, the management team should be actively involved in the process of monitoring and evaluating budgetary control processes and procedures. The process of developing an evaluation plan in cooperation with an evaluation workgroup of stakeholders will foster collaboration and a sense of shared purpose (Siyabola, 2013).

According to Walther and Skousen (2009), top management may initiate the budget process with general budget guideline, but it is lower-level units that drive the development of budget for their units. These individual budgets are then grouped and regrouped into divisional budgets with middle level executives adding their input along the way. As a result, it improves employee morale and job satisfaction. Furthermore, the budget is prepared by those who know their own specific areas of operation. This should allow for a more accurate budget.

2.6. CHALLENGES AFFECTING BUDGETARY CONTROL IN BANKS

Existing literature has evidently revealed that budget controls have myriad of challenges that can at times be a hindrance towards achieving the overall assessment s of budgetary control. According to the Institute of Banking Studies, budgetary control has the following challenges; budgetary control is a subject to human judgment, interpretation and evaluation. The system necessitates forecasting with the risks of future uncertainties. It requires good and adequate standards, and in some cases, these are hard to develop at the same time, it requires skills, experience, and expenditure of time, money, and effort to make this system to work successfully, also noted that the problems experienced by organizations attempting to manage their budgetary

control procedures have been laid at the door of the budget, presenting a fixed (Preset and unchanging target).

In a dynamic and uncertain world, the budget can become outdated during the budget year or even before it begins, thus rendering little or no value to its intended purpose. The present-day economic environment demands that organization adapt new practices. Given the new competitive realities, there is a need for management to embrace flexible and adaptable budgetary planning and control system which has the ability to quickly respond to environmental changes and complexities (Adongo and Jagongo, 2013).

A good budgetary planning and control system must involve not only an analysis of capital allocation requests, but also an analysis of all the capital needed to generate information such as market research prior to implementing budgeted activities. Christopher and Paul (2001) carried out a study on the weaknesses of budgetary controls. The study was primarily based on a review of empirical literature from similar studies. Also, they found main control systems which pose a challenge in the use of the systems.

These weaknesses included; restraining of responsiveness and acting as barriers to change, budget are rarely strategically focused and often contradictory , they add little value especially given the time required to prepare them, they concentrate on cost reduction and not value addition, they strengthen vertical command and control, they do not reflect emerging network structure that organizations are adopting, they encourage gaming and perverse behaviors, they reinforce departmental barriers rather than encourage knowledge sharing , and make people feel undervalued. Budgeting for planning and control purposes has some problems. First, a lot of focusing is involved in the budgeting process the uncertainties in business environment may provide a challenge in bringing out reliable and accurate predictions and could bring meaningful effect to an organization.

A study on challenges facing budgetary control systems in developed countries by OCED, (2007) showed that budgets fail due to reasons such as budgets used as pressure tool, central decision-making process, lack of job security and managers' lack of noted that public institutions in Kenya are faced with problems related to efficiency in financial transfers from districts to the facility and this affects the execution of the budget goals. However, indicate the overall effect of interfered budget execution process on financial performance.

2.7. REVIEW OF EMPERICAL STUDIES

James N. Wainaina (2010) conducted a study on factors that lead to supplementary budgets in Kenyan banking institutions. This study applied a descriptive research design and both the primary and secondary data were collected from forty four private banking by using a census method. The data analysis was done by the application of SPSS version 17. The study shown that majority of Kenyan private banking are working based on a planned budgets. It also indicated that in case of the majority of the survived banks managers did not have the authority to change or to reallocate funds after the budget has been approved by the concerned organs. As to this research a supplementary budget for the bank comprises risks but it is necessary action to set the bank on the road to recovery after a difficult recession period. The study shows that there were about two supplementary budgets that had been submitted in each of the survived private banking in the previous two years and these were found to moderately significant in improving the bank operations.

The other study was done by Marcormick and Hardcastle (2011) on the title of budgetary control and performance in case of financial institutions in Europe. About 40 institutions were sampled for the purpose of assessing the role of budgetary control on performance and the data were collected for 10 years' time. Data analysis used a regression model and at the end of the study results prove a positive relationship between budgetary control and performance.

Nickson and Mears (2012) conducted there study which evaluate the role of budgetary control to improve financial performance of banks in Boston Massachusetts. They sampled five banks and collect secondary data in a period of 10 years and applied a regression model for data analysis. The results revealed that budgetary control play a significant role to enhance performance of the banks. Moreover, they did a survey on practices of budget in institutions where it was found that the committee responsible for budget and different departments were the less budgetary tools used. And budgetary participation was the big challenge in the budgetary process.

According to the study of Silva & Jayamaha (2012) an evaluation of the impact of budgetary process on organization performance was made and sees if there is a significant impact on performance in the industry. Based on the collected data from the financial statements, and using the correlation coefficients and analysis subjected that budgetary process have a positive association with organization performance in the industry. This proves that financial companies

maintains all the procedures to control their budgets so as to ensure higher levels of performance and this brings a positive relationship between budgetary process and organization performance.

Furthermore, Adongo and Jogongo (2013) conducted their academic research that examined the relationship between budgetary control and financial performance in public sector in particular to the case of state corporations in Kenya. They used a descriptive research design where about fourteen corporations were selected from the total population of 138. Moreover, a purposive sampling was applied to select respondents from the chosen organizations. A structured questionnaire was utilized to collect the required data for the study. This study has confirmed the existence of a positive relationship between budgetary control system and financial performance of organizations. It underlined that the budgetary control system contributed positively for their financial performance mainly through financial objectives, proper allocation of funds and effectiveness of investment projects implemented by the organizations.

Bedilu Assefa (2015), made his study in regards to Budgeting and performance in the Development Bank of Ethiopia. This study tried to evaluate budgeting and budget performance and the key problems in the budgeting process. Primary data was collected from staffs by survey method and interview was made with planning department officials. Moreover, he used secondary data collected from documentary analysis. The results of the study disclose that the bank has well defined budget planning, review, implementations and performance evaluation approach. All units are involved in the budgeting process that is the bank applies a combination of bottom up and top down budgeting approach. The bank follows an Activity Based Budgeting technique. The study confirmed that better performances could be achieved in through budget implementation, budget review and amendments. The study point out also that there are gaps between plan and actual performance which shows the presence of problems in their budgetary processes.

Moreover, Yesuf Ahmed (2015) also made his research on the practice of budgeting and budget monitoring in case of Non-Government Organizations in Ethiopia. He has applied a descriptive research design. The result of this research boldly indicates that an assessment ive budgeting system will greatly contributes to the accomplishment of goals and objectives set by the companies.

Furthermore, Geletaw (2017) has also done his research on the determinants of budget control in

public organizations in case of Benishangul Gumzu Regional State. A descriptive research design was applied by him. The study found that about 78 percent variance for the budget control in the public sector is due to the combined measure of information and communication cost reduction, availability of capable internal audit staff, management support, budget monitoring and evaluation, organizational commitment, and budget planning processes. The study has also determined that the existence of an effective budgetary control process is very significant in terms of internal control management system, improves organizational effectiveness and efficiency, reduces information asymmetry during decision making, and ensures internal reliability of financial reporting process.

Tracy Foster (2017) stated that the primary cause for most business failures is poor planning and budgets are a primary means of planning. This correlational study examined budget planning, budget control, business age, and banks performance

in small businesses in United States Midwest. Its objective was to examine the extent to which budget planning, budget control, and the age of the business significantly predict banks performance in small businesses. The target population consisted of small business leaders in the Midwest and 86 small business managers in U.S. Midwest identified through survey monkeys. Data was collected from 77 small business managers using an online survey.

The study used a standard multiple linear regression method and determined the extent to which budget planning, budget control, and age of the business predicted the value of financial performance. The regression result showed the model as a whole was able to significantly predict financial performance. Budget planning significantly predicted financial performance even when budget control and business age were kept constant. Finally, the researcher concludes that better planning using budgets may help leaders improve the financial health of their small businesses, potentially reducing business failures and job losses. Financially strong and healthy small businesses can create jobs and improve the economic health of local communities.

2.8. SUMMARIES OF LITERATURE REVIEWS

Budgeting is one of the decision-making processes in an organization. During budget formulation and implementation management decide on amount to spend for each unit of the organization. Budget establishes banks performance goals for each unit in terms of cost, revenue, and/or production. This is the importance of the budgeting function in most of the organization.

Budgets are used in different degrees for different purposes in different industries. Some use budget as expenditure control, whereas others use budget as a tool for planning, a means of communication, or as a goal to measure performance

Many researches have been conducted on the effect of budget and budgetary control on banks performance for past decade of years. Some of them are accepting the effect and some of them are rejecting. This is an inconsistent finding on the effect of budget and budgetary control on financial performance. This research will focus on finding out the effect of budget and budgetary control on banks performance of banking industry in Ethiopia.

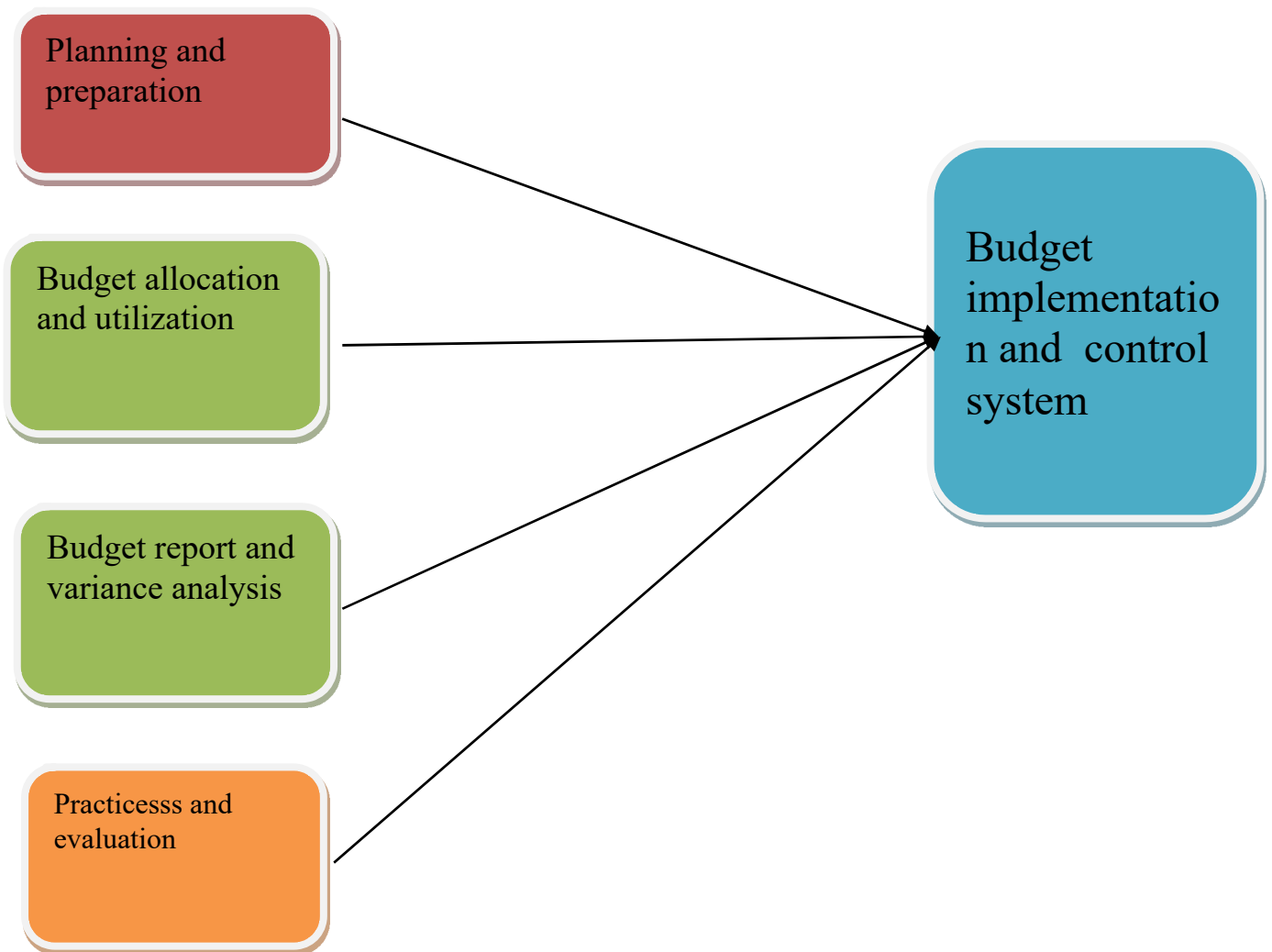
Budgetary controls in the banking sector do not study in Ethiopia and regarding its features, its budget process, and some of the challenges faced in implementing budgetary control. It has also been noted that most studies have used financial information as a measure of performance measurement. Using this method is not strategic and future oriented. Banks performance measurement uses an integrated measurement system to determine the future of the organization. This study intends to plug the above said gaps.

2.9. CONCEPTUAL FRAMEWORK

Mohsin (2015), Budget and budgetary control framework comprises of four modules, namely: Budget figures, control and take action, actual figures and monitor and compare. Budget figure refers the annual budget life cycle that includes figures and documents. This phase provides detailed information on the annual budget life cycle. In the phase of Actual figure, it shows the differences between budget assumptions and actual outcome.

The Budget vs. actual figure (realization) report lists the Income and Expense account balances and budget figures. In the monitor and compare phase a monitoring technique is being used whereby actual results are compared with budgets. Any differences (variances) are made the responsibility of individuals who can either exercise monitoring action or revise the original budgets. Control and take action phase is to take sure the budget includes all the key indicators a company wish to control. It gives responsibility for budget items only to individuals with the authority to control the outcome, schedule regular reviews of budget performance. It also reviews budgeted figures to identify cash flow or other problems which can be anticipated and tackled in advance and it also compare margins, working capital and other key ratios with historical figures to identify how performance is expected to improve or deteriorate.

A conceptual framework is a logical tool with many variations and contexts. It was used to make conceptual distinctions and organize ideas by using diagrams or charts and the like. Hence, the Researcher tries to see the relationship between variables (plan and preparation, utilization, monitoring and reporting, evaluation) and implementation and control below.



CHAPTER THREE

RESEARCH DESIGN AND METHODS

This chapter discusses the approaches and techniques used by researchers when collecting data. It presents the research design, target population, sample size and technique, research instrument, data collection methods, techniques of data analysis, reliability and validity of research instruments, and Ethical considerations.

1.9. RESEARCH DESIGN

An appropriate research design is important to any research as it will guide the process from collecting the desired data to the analysis data. This study used descriptive research design. The descriptive research design helps to describe the practice and the role of budget and budgetary control in private banks. The researcher used survey method in which it attempt to collect primary data from the members of a target population and describes exiting phenomena based on their Reponses about the issues raised based on the research objectives.

3.2. TARGET POPULATION

According to Shewhart (2017), the target population as the population in which the researcher wants to generalize the study results. The population of the study is two private banking in Ethiopia with total staff member of 146 that are working a various positions in department of finance, planning and strategy.

The two private Banking in Ethiopia that the study was conducted are the Dashen Bank and Awash bank. And the reason to choose those two banks based on the following criterial.

- 1) Number of Years of operating in the banking industry
- 2) Number of branches
- 3) Similarity of organizational structure and operation
- 4) Similarity of budgeting process system.

3.3. SAMPLING DESIGN

The research adopted a Purposive or judgmental sampling was applied as it is believed to enable us to get reach information and answer our research questions properly. According to Kothari,

(2004), purposive sampling is more essential to obtain a typical and representative of the whole universe. This is why the researcher decided to apply a purposive sampling method. Hence, the criteria that the researcher used to select the departments were their participation in budget preparation and more responsible for its implementation and control. Therefore, the research considers two private banking in Ethiopia (Dashen Bank and Awash bank) and their departments. Due to this the study addresses finance managers, accountant and office of strategy (budget office).

3.5. RESEARCH INSTRUMENT

The researcher used a questionnaire for gathering data and according to Rajae (2022), a questionnaire is a research instrument that consists of a set of questions (or other types of prompts) for the purpose of gathering information from respondents through a survey or statistical study.

The questionnaire was prepared in closed ended formats. The close-ended questions mainly regarding the practice, impacts and problems of budget and budgetary control systems was designed with Likert scale questions. Mostly the Likert scale questions have 5 degrees namely Strongly Agree, Agree, Neutral, Disagree, and Strongly Disagree, which are combined in to a single composite score/variable during the data analysis process (Kothari, 2004). The researcher applied this Likert scale method in 5 level indicating scores like as follows: (5) strongly Agree, (4) Agree, (3) Neutral, (2) Disagree and (1) strongly Disagree. The number indicated in the question provided to feed ordinary scale measurement and to generate data suitable for quantitative analysis.

3.6. DATA COLLECTION METHOD

The data were collected by surveying Dashen and awash banks head office staff using a well-structured questionnaire that was personally administered. The data were collected from 146 staff. Hence, hard copies of the developed questionnaire were delivered by the researcher itself to the staff selected with purposive sampling method and collect back on the other day which was fixed in discussion with the respondents.

3.7. DATA ANALYSIS

The gathered primary data were analyzed and discussed using a descriptive analysis method.

Descriptive statistics such as frequency distribution tables, standard deviation, means, and percentages were used for the data analysis. Data were analyzed using SPSS version 26 because it is best suited for establishing quantitative association between variables.

Data collected. In Likert scale questions, that have 5 degrees, the mean response greater than 3 are considered as an agreement with the statement of the questionnaires and whereas the mean response less than 3 are considered as a disagreement with the statement of the questionnaires (Boone Jr., 2012). Moreover, the standard deviation results of less than 1.00 indicate that the respondent's perception close to one another and the standard deviation greater than 1.00 indicated that the respondent's perceptions vary (Shewhart, 2004). The results were interpreted comparing with the prior expectations and try to show how they agree or disagree with earlier research works and available literature. Finally, the analyzed and interpreted data were presented through text and tables.

3.8. PILOT TESTING

The study conducted a pilot study of 20% of respondents (29 respondents) from the sample population of 146 Finance Staff. Mugenda (2017), observe that the purpose of pilot study is to assess the clarity of the instruments and the validity and reliability of each item in the instrument. From the pilot study, the researcher was able to detect questions which were ambiguous and needed editing and incorporation of items on demographic information. The pilot testing helped in honing the researcher skills before conducting the main research study. Pilot testing too ensured questions were understood by the respondents and there were no problems with the wording or measurement.

3.9. VALIDITY OF INSTRUMENT

According to Mugenda (2017), validity is the accuracy and meaningfulness of inferences, which are based on the research results. It is the degree to which results obtained from analysis of data actually represent variables of the study. Content validity showed whether the questions and statements fully represented every element of the research questions and objectives of the proposed study. Construct validity on the other hand ensured that the questions and statements were correctly and clearly stated. To ensure validity, the researcher shared details and structure of the proposed research instruments with the supervisor and experts in the field for analysis to crosscheck and affirm that indeed the research instrument would capture the full concept of the

proposed study. Thereafter, the researcher made necessary changes as applicable a long side the results obtained from pilot study.

3.10. ETHICAL CONSIDERATION

Research ethics constitute beliefs about what is right or wrong, proper or improper, good or bad in conducting studies (McMillan & Schumacher, 2001). The research treated information from respondents with utmost confidence without disclosing the respondents' identity and the respondents were given assurance that their responses would be used solely for the study. Consent was sought from the participants after being informed of the rationale and nature of the study to ensure voluntary participation.

CHAPTER FOUR

DATA ANALYSIS

To meet the objectives of the study primary data was collected and analyzed using different techniques. Thus, this chapter deals about findings and data analysis. The results were analyzed and discussed by using descriptive statistical methods. The data analysis, interpretation and discussion of the result were presented in order of the specific objectives of the study.

4.1. DEMOGRAPHIC CHARACTERISTICS OF PARTICIPANTS

The study targeted 146 respondents from two groups, the (Dashen Bank 73 staffs) and from (Awash bank 73 staffs) in collecting data with regard on the assessment of budget and budgetary control practiced in selected private banking in Ethiopia. The social and demographic variables like age, sex, education level, position and experience of the respondents were asked and their responses are summarized and discussed below.

Table 1 characteristic of participant

Respondent Demographics characteristics		Dashen bank		Awash bank		Total	
		N	%	N	%	N	%
Gender	Male	34	46.6	46	63	80	54.8
	Female	39	53.4	27	37	66	45.2
Age	25-35	32	43.8	28	38.4	60	41.1
	36-50	23	31.5	35	47.9	58	39.7
	50-60	18	24.7	10	13.7	28	19.2
Education level	First Degree	38	52.1	45	61.6	83	56.8
	MA	23	31.5	18	24.7	41	28.1
	PHD	12	16.4	10	13.7	22	15.1
Year of Experience	1-5 years	42	57.5	35	47.9	77	52.7
	6-10 years	12	16.4	21	28.8	33	22.6
	>10 Years	19	26.0	17	23.3	36	24.7
Job position	Finance manager	8	11.0	5	6.8	13	8.9
	Accountant	12	16.4	15	20.5	27	18.5
	Budget officer	10	13.7	12	16.4	22	15.1
	other line manager	32	43.8	28	38.4	60	41.1
	customer officers	11	15.1	13	17.8	24	16.4

Based on the above table information the gender distribution of staffs in the Dashen bank the numbers of female staff are higher 53.4% while in the Awash bank the number of male staff have more number 63% of share. And over all from the number of total participants 54.8% are male and 45.2% are female. And when we look at the age distribution majority of Participants 41.1% found within the age of 25 to 35. On the other hand, educational level of the participants indicates that 47.9% of participants in the Dashen bank have above first degree (has master's degree and PHD). While in the Awash bank only 38.4 % of the participants have above first degree.

The job position and year of experience the data indicated that from the total participants 8.9% of respondent found to be in Finance manager position, 18.5% of participants were Accountant, 15.1% of participants budget officer. 41.1% of participants line manager and 16.4% of participant were customer officer. And the level of year of experience data indicated that majority of the participant 52.7% has served the bank between 1 to 5 years and the rest 48.3% of the participants served more than 5 years.

4.2. ASSESSMENT OF BUDGER AND BUDGETATRY CONTROL IN PRACTICEED SELECTED PRIVATE BANKING IN ETHIOPIA

The results section is organized by the primary domains that were covered in the Research question. What are factors affecting the budgeting process of Ethiopian privet commercial bank, what are the features of budgetary control in Ethiopian privet commercial banks, what is the assessment of budget and budgetary control systems on banks practiced in selected private baking Ethiopian .

4.2.1. FACTOR AFFCETING BUDGETING PROCESS OF PRIVATE BANKING IN ETHIOPIA

Budgeting is a set of procedures by which the organizations use their scarce financial resources for the accomplishment of organizational goals. Within this context, the budget can be used for 3 purposes: as an instrument of economic policy; as a tool for economic management; and as an instrument for accountability (Adongo and Jagongo, 2013). This study examines the factor affecting on the budgeting process in which those 2 banks use table 1 below.

Table 2 factor affecting budgeting process

question	Group Type	Stat	5	4	3	2	1	Mean	SD
			Strongly Agree	Agree	Neutral	Disagree	strongly Disagree		
Budgets are time consuming and costly	Dashen group	N	5	10	10	23	25	2.27	1.25
		%	6.8%	13.7%	13.7%	31.5%	34.2%		
	Awash bank	N	17	28	12	10	6	3.55	1.22
		%	23.3%	38.4%	16.4%	13.7%	8.2%		
Budget is prepared using different methods each year.	Dashen group	N	9	17	13	28	6	2.93	1.20
		%	12.3%	23.3%	17.8%	38.4%	8.2%		
	Awash bank	N	13	22	6	27	5	3.15	1.28
		%	17.8%	30.1%	8.2%	37.0%	6.8%		
Budgets are usually developed based on unsupported assumptions and guesswork	Dashen bank	N		3	7	37	26	1.82	0.76
		%		4.1%	9.6%	50.7%	35.6%		
	Awash bank	N		11	1	42	19	2.05	0.93
		%		15.1%	1.4%	57.5%	26.0%		
Budgets concentrate on cost reduction and not value creation	Dashen bank	N	15	20	8	21	11	3.18	1.41
		%	20.5%	27.4%	11.0%	28.8%	15.1%		
	Awash bank	N	32	11	13	9	8	3.68	1.41
		%	43.8%	15.1%	17.8%	12.3%	11.0%		
Budgets lack integration with the overall strategy	Dashen bank	N	23	26	5	12	7	3.63	1.33
		%	31.5%	35.6%	6.8%	16.4%	9.6%		
	Awash bank	N	29	34	1	6	3	4.10	1.05
		%	39.7%	46.6%	1.4%	8.2%	4.1%		
Weak communication between those involved in budgeting and operating personnel.	Dashen bank	N	21	16	10	17	11	3.34	1.47
		%	28.8%	21.9%	13.7%	23.3%	15.1%		
	Awash bank	N	32	29	3	8	1	4.14	1.01
		%	43.8%	39.7%	4.1%	11.0%	1.4%		
Budgets are seen as a pressure	Dashen bank	N	14	16	21	19	3	3.26	1.16
		%	19.2%	21.9%	28.8%	26.0%	4.1%		

tool	Awash bank	N	13	23	18	12	7	3.32	1.21
		%	17.8%	31.5%	24.7%	16.4%	9.6%		
Inadequate management support and commitment, and indecisiveness problem.	Dashen bank	N		8	16	39	10	2.30	0.84
		%		11.0%	21.9%	53.4%	13.7%		
	Awash bank	N	11	27	4	21	10	3.11	1.34
		%	15.1%	37.0%	5.5%	28.8%	13.7%		
Budgets tend to create departmental conflicts over resource allocation and blaming when targets are not met	Dashen bank	N	16	27	2	20	8	3.32	1.36
		%	21.9%	37.0%	2.7%	27.4%	11.0%		
	Awash bank	N	21	36	12	4		4.01	0.82
		%	28.8%	49.3%	16.4%	5.5%	0.0%		
Budget variances arise due to poor forecasting	Dashen bank	N	6	13	15	29	10	2.67	1.16
		%	8.2%	17.8%	20.5%	39.7%	13.7%		
	Awash bank	N	17	29	10	12	5	3.56	1.20
		%	23.3%	39.7%	13.7%	16.4%	6.8%		
Budgets are reviewed and updated too infrequently	Dashen bank	N	9	11	11	29	4	2.52	1.16
		%	12.3%	15.1%	15.1%	39.7%	5.5%		
	Awash bank	N	19	27	12	14	1	3.67	1.10
		%	26.0%	37.0%	16.4%	19.2%	1.4%		

Source researcher 2023

The above table shows the agreement of respondents on the features of Factors on the budgeting process. According to the finding the mean response rate of the participants indicates that the Dashen bank seem to disagree with factor such as Budgets are time consuming and costly, Budget is prepared using different methods each year, Inadequate management support and commitment, and indecisiveness problem. And Budgets are reviewed and updated too infrequently having a score mean value of less than 3, however on the contrary the Awash bank mean response rate indicating more than 3 which shows the Awash bank participants mostly aggress with those factors. Standard deviation value more than 1 indicates that the response of

the participants far apart with each other and on the other hand standard deviation less than 1 one shows responses that has majority of the answers were closer to each other. Thus, based on response given by the participants the Awash banks budgeting process has been affected by many factors which decreases the effectiveness of the budgeting process to archives organizational practice’s goal set by the bank.

4.2.2. FEATURES OF BUDGETARY CONTROL IN PRIVATE BANKING

As shown below, about 13 possible impacts of an effective budgeting and budgetary controls were presented to the respondents so as to put their level of agreement, According to the findings displayed in the table below alternative statements had a mean response rate of greater than three. This indicates that respondent agreed that future events can be predicted through budget and budgetary control system. Interestingly, majority of the respondents indicated that budget and budgetary control system leads to better planning and implementation which have a major role to improve an organizational efficiency. They have indicated that maximization of profitability is an important role of effective budget and budgetary control system. Moreover, the respondents believed that budget and budgetary control system would help for better Proper Recording System and a Sound Accounting, sets budgets that are Reasonable and Achievable, allocates Enough Financial Resources that are required to execute the planned activities, budgets are being administered efficiently by responsible executives and an adequate Top Management Support, All the variables listed here are important components of budget and budgetary control systems which are believed ultimately leads to improved organizational financial practices.

Table 3 budgetary control process feature

Dashen bank		5	4	3	2	1		
Features of budget and budgetary control process	statistics	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	SD
There is a Sound Forecasting system to make precise and accurate budget estimate.	N	15	20	8	21	11	2.93	1.16
	%	20.5%	27.4%	11.0%	28.8%	15.1%		
The Budget and budgetary control is directly flow from objectives of the bank	N	14	16	21	19	3	1.82	2.67
	%	19.2%	21.9%	28.8%	26.0%	4.1%		
There is a Proper Recording	N	32	11	13	9	8	3.18	1.22

System and a Sound Accounting	%	43.8%	15.1%	17.8%	12.3%	11.0%		
The bank sets budgets that are Reasonable and Achievable	N	23	26	5	12	7	4.10	1.28
	%	31.5%	35.6%	6.8%	16.4%	9.6%		
The bank allocates Enough Financial Resources that are required to execute the planned activities.	N	21	16	10	17	11	3.26	0.93
	%	28.8%	21.9%	13.7%	23.3%	15.1%		
There is an Efficient Organizational Structure like fixed responsibility centers, budget committee, budget calendar, budget manual and budget controller	N	13	23	18	12	7	3.11	1.41
	%	17.8%	31.5%	24.7%	16.4%	9.6%		
There is a Proper Coordination in the budget planning and preparation process.	N	19	27	12	14	1	2.67	1.05
	%	26.0%	37.0%	16.4%	19.2%	1.4%		
There is Sound Budget Administration that is budgets are being administered efficiently by responsible executives.	N	17	29	10	12	5	3.67	1.01
	%	23.3%	39.7%	13.7%	16.4%	6.8%		
There is a constant Practicesss Monitoring and analysis of costs and revenues and forwarding of feedback for budget holders.	N	11	27	4	21	10	3.34	1.21
	%	15.1%	37.0%	5.5%	28.8%	13.7%		
There is an adequate Top Management Support and commitment for budgeting and budgetary control system.	N	17	28	12	10	6	4.14	1.34
	%	23.3%	38.4%	16.4%	13.7%	8.2%		
Budgets are Flexible based on the actual business conditions.	N	9	17	13	28	6	3.32	0.82
	%	12.3%	23.3%	17.8%	38.4%	8.2%		
Budget Revision is conducted where adjustments are needed	N	32	11	13	9	8	2.30	1.20
	%	43.8%	15.1%	17.8%	12.3%	11.0%		
Generally, there is an	N	17	34	10	6	6	3.32	1.10

assessment iver Budgeting and Budgetary Control system in your Bank.	%	23.3%	46.6%	13.7%	8.2%	8.2%
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Source researcher 2023

As to the descriptive statics presented on the above table, the standard deviation of all question except Q5 and Q11 in this section is greater than one this implies that the respondent perception on these questions were far one another. While the standard deviation of the respondents on Q5 and Q11 was less than 1. This indicates that the respondent perception on the bank allocates Enough Financial Resources that are required to execute the planned activities, and Budgets are Flexible based on the actual business conditions were cloth together.

4.2.3. ASSESSMENT OF BUDGET AND BUDGETARY CONTROL SYSTEM ON BANKS PRACTICESSIN ETHIOPIAN COMMEERCIAL BANKS

Table 4 Assessment of budgetary control on private banking in Ethiopia

Dashen bank	statistics	5	4	3	2	1	Mean	SD
		Strongly agree	Agree	Neutral	Disagree	Strongly Disagree		
Budgetary control has led to cost effective procurement, thus surplus revenue.	N	31	35	7			4.07	0.93
	%	42.5%	47.9%	9.6%				
Fitness of budgetary control to bank's situation saves cost.	N	52	10	2	5	4	3.32	0.82
	%	71.2%	13.7%	2.7%	6.8%	5.5%		
Accurate budget prediction through budgetary control increases net profit margin.	N	21	37	12	3		3.78	0.34
	%	28.8%	50.7%	16.4%	4.1%			
A budgetary control provides cash expenditure tracking and reduces operational cost.	N	26	42		3	2	4.52	0.23
	%	35.6%	57.5%		4.1%	2.7%		
As management tools budget facilitate prediction of financial milestones by the bank.	N	17	26	13	10	7	3.62	1.23
	%	23.3%	35.6%	17.8%	13.7%	9.6%		
The budgetary control influence profit plan of the bank.	N	65	6	2			4.75	0.18
	%	89.0%	8.2%	2.7%				
Management commitment to	N	15	21	23	12	2		
	%							

budgetary controls has increased profitability of our organization.	%	20.5%	28.8%	31.5%	16.4%	2.7%	3.21	1.17
Complete acceptance of budgetary control by management has led to profits.	N	15	23	12	21	2		
	%	20.5%	31.5%	16.4%	28.8%	2.7%	4.21	2.18
Meaningful involvement of employees in budgetary control has ensured increased profitability.	N	69	4					
	%	94.5%	5.5%				4.85	0.12
Use of budgetary control to achieve organizational goals has led to increased profitability	N	70			2	1		
	%	95.9%			2.7%	1.4%	4.91	0.09

Source researcher 2023

As to the descriptive statics presented on the above table, the standard deviation of all question except Q5, Q7 and Q8 in this section is less than one this implies that the respondent perception on these questions were similar one another. While the standard deviation of the respondents on Q5, Q7 and Q8 was greater one than 1. This indicates that the respondent perception on these questions were similar one another were cloth together. In addition to that all question mean is more than 3 and this implies that majority or respondent agrees with on the fact that budget and budgetary control impact on bank's operation.

Table 5 the annual report of the private banking in Ethiopia

Banks performance	Dashen bank		Awash bank		Dashen bank	Awash bank
	2021/22	2020/21	2021/22	2020/21	% change	
Total Income	12,906	10,259	20,643	13,744	25.8%	50.2%
Total Expense	9,102	7,583	13,190	8,921	20.0%	47.9%
Profit before tax	3,804	2,676	7,453	4,823	42.2%	54.5%

Source Dashen bank and Awash banks annual report 2021-22

The data on the above table shows that the total income and expense of Dashen bank and Awash bank along with their profit before tax. Based on the data the Awash bank has greater revenue income and has increased his income in higher margin 50.2%. However, the Dashen bank has a

better cost-effective income generating pattern in which by 20% cost increment from past year can create a 42.2% growth in profit. On the other hand, the Awash bank should increase 47.9% of cost to generate 54.5% growth in profit. Thus, we can say that the budgetary control mechanism had a good impact on reducing cost and increasing profit for the Dashen bank in much better way.

4.3. SUMMARY

The demography of the participants indicates that majority of the respondent were male and also found to be the age above 35. As far as work experience most of them have served the bank between 1-5 years. Majority of respondents were agreed that factors such as Budgets are time consuming and costly, Budgets concentrate on cost reduction and not value creation, weak communication between those involved in budgeting and operating personnel and Budgets tend to create departmental conflicts over resource allocation and blaming when targets are not met were major factor in which that affects the budgeting process.

Moreover, the respondents believed that budget and budgetary control system would help for better Proper Recording System and a Sound Accounting, sets budgets that are Reasonable and Achievable, allocates Enough Financial Resources that are required to execute the planned activities, budgets are being administered efficiently by responsible executives and an adequate Top Management Support, All the variables listed here are important components of budget and budgetary control systems.

Finally, the Dashen bank has a better cost-effective income generating pattern in which by 20% cost increment from past year can create a 42.2% growth in profit. On the other hand, the Awash bank should increase 47.9% of cost to generate 54.5% growth in profit. Thus, we can say that the budgetary control mechanism had a good assessment on reducing cost and increasing profit for the Dashen bank in much better way.

4.4. DISCUSSION OF THE RESULT

4.4. 1 FACTORS AFFECT THE BUDGETING PROCESS IN THE ETHIOPIAN PRIVATE COMMERCIAL BANKS

concerning the budgeting process Majority of Awash bank respondents were agreed that factors such as Budgets are time consuming and costly (61.7% Participants), Budgets concentrate on cost reduction and not value creation (58.9% of participant), weak communication between

those involved in budgeting and operating personnel (83.5 of Participants) and Budgets tend to create departmental conflicts over resource allocation and blaming when targets are not met (78.1% of participants) were major factor in which that affects the budgeting process. The find of the study seems to agree with Kuwait (1986) budgeting process has the following challenges; budgetary control is a subject to human judgment, interpretation and evaluation. The system necessitates forecasting with the risks of future uncertainties. It requires good and adequate standards and, in some cases, these are hard to develop at the same time, it requires skills, experience, and expenditure of time, money and effort to make this system to work successfully.

4.4.2 THE FEATURES OF THE BUDGETARY CONTROL HELP THE ETHIOPIAN PRIVATE COMMERCIAL BANKS.

According to the findings respondent agreed that future events can be predicted through budget and budgetary control system. Interestingly, majority of the respondents indicated that budget and budgetary control system leads to better planning and implementation which have a major role to improve an organizational efficiency. They have indicated that maximization of profitability is an important role of effective budget and budgetary control system. Moreover, the respondents believed that budget and budgetary control system would help for better Proper Recording System and a Sound Accounting, sets budgets that are Reasonable and Achievable, allocates Enough Financial Resources that are required to execute the planned activities, budgets are being administered efficiently by responsible executives and an adequate Top Management Support, All the variables listed here are important components of budget and budgetary control systems which are believed ultimately leads to improved organizational efficiency. And such budgetary control system findings aligned with the statement given according to Adongo and Jagongo (2013).

Budgeting is a set of procedures by which the organizations use their scarce financial resources for the accomplishment of organizational goals. Within this context, the budget can be used for 3 purposes: as an instrument of economic policy; as a tool for economic management; and as an instrument for accountability. Budget is an allocation mechanism that attempts to maximize the wealth of the owners. This can be achieved by ensuring that the budget process successfully allocates scarce resources so that the marginal unit of expenditure achieves the same marginal benefit in each category of expenditure.

4.4.3 THE ASSESSMENT OF BUDGET AND BUDGETARY CONTROL SYSTEM PRACTICED IN SELCTED PRIVATE BANKING IN ETHIOPIA.

Assessment of Budgetary Control in private banking: As far as concerning the assessment of budget and the budgetary control system practiced in selected private banking in Ethiopia, the finding of the study indicates that the total income and expense of Dashen bank and Awash bank along with their profit before tax. Based on the data the Awash bank has greater revenue income and has increased his income in higher margin 50.2%. However, the Dashen bank has a better cost-effective income generating pattern in which by 20% cost increment from past year can create a 42.2% growth in profit. On the other hand, the Awash bank should increase 47.9% of cost to generate 54.5% growth in profit. Thus, we can say that the budgetary control mechanism had a good assessment on reducing cost and increasing profit for the Dashen bank in much better way.

According to Mwangi (2012) the study was examining the impact of budgetary control process in banks performance of banking industry in Kenya. The study found that departments participated in budgetary control process. Budgetary control affects the banks performance of the organizations to a very great extent. The study also found that continuance commitment concerns an individual based on the perceived costs associated with leaving the organization to a very great extent, budgetary participation can be seen as interventions to increase organizational commitment and consequently firm performance. Thus, those 2 findings align or supporting each other regarding the effect of budget and budgetary control system on financial performance.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION OF THE STUDY

5.1. CONCLUSION

the respondents believed that budget and budgetary control system would help for better Proper Recording System and a Sound Accounting, sets budgets that are Reasonable and Achievable, allocates Enough Financial Resources that are required to execute the planned activities, budgets are being administered efficiently by responsible executives and an adequate Top Management Support, All the variables listed here are important components of budget and budgetary control systems.

It can be concluded from the finding that the analysis that the budget and budgetary control of the private banking is directly flow from objectives of the bank, there is a proper recording system and a sound accounting procedure are practiced for proper recording of actual operations; sufficient time is allowed for the budget Programmed to develop and reach near perfection. there is a clear budget calendar, budget committee, budget manual and budget controller; there is a constant budget review in their bank, there is a constant practices monitoring and analysis of costs and revenues and forwarding of feedback for budget holders; and the budgetary control is used as an efficient tool to control and measure practices.

On the contrary, banks who do not use budgetary control system have challenges related with that there is no sound forecasting system to make precise and accurate budget estimate; there is no information system that provides data for managers so that they can make realistic budget predictions; there is no full participation of all stakeholders in the process of preparing a budget; the banks do not set budgets that are reasonable and achievable; the bank did not allocates enough financial resources that are required to execute the planned activities; there is no an adequate top management support and commitment for budgeting and budgetary control system; budgets are not flexible based on the actual business conditions budget revision is conducted where adjustments are needed.

From the findings of the analyzed data, it is possible to conclude that budget and budgetary control process could greatly impact on banks. An effective budgeting and budgetary control system can improve an organizational performance. The future events can be predicted through

budget and budgetary control system; ensure better planning and implementation; maximization of profitability; better coordination and communication; basis for effective decision-making; assist effective control; basis for practices measurement and appraisal; motivate employees to do better; better resource allocation and utilization; and help to smooth the overall running of the businesses. These variables are important role of budget and budgetary control systems which are believed ultimately leads to improved organizational practices.

The study again revealed that there are problems/challenges in implementation of budget and budgetary control system in the private commercial banks. These includes: budgets are time consuming and costly; budgets concentrate on cost reduction and not value creation; budgets lack integration with the overall strategy; weak communication between those involved in budgeting and operating personnel; budgets are seen as a pressure tool; inadequate management support and commitment, and indecisiveness problem; budgets tend to create departmental conflicts over resource allocation and blaming when targets are not met.

5.2. RECOMMENDATION OF THE STUDY

The study has confirmed that an effective budget and budgetary control has influence to improve the performances. Thus, more emphasis must be paid to strengthen budgeting and budgetary control system for robust organizational practices. This study suggested that the banks should implement or improve their budget and budgetary control system in order to be fully benefited from it to improve their overall organizational practices. The need to follow a sound forecasting system to make precise and accurate budget estimate; ensure involvement of all staff and concerned stakeholders in the budget preparation processes; set budgets that are realistic, reasonable and achievable; integrate budgets with the overall strategy and objectives; ensure an adequate top management support and commitment for budgeting and budgetary control system; ensure flexibility in the budget; ensure proper communication and coordination in the budgeting processes so as to meet target and build a strong monitoring and evaluation system, and develop well-functioning accountability framework in their respective banks.

Finally addressing the above points in the budget and budgetary control system will increase the banks performances. Specifically, to meet revenue and profit margin target the budgetary control system plays a role a huge part in saving and proper utilization of cost which help to create an outstanding operational and financial practices, therefore, top management and stakeholders of the banks should give focus and dedication to strengthening the budgetary control system.

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APPENDIX

St Mary's University

Collage of Business and Economics

Department of Accounting and Finance: Post Graduate Program

Questionnaire for Bank Staffs

Dear Sir/Madam

My name is Fathiya Abdi, I am MSC in Accounting and Finance student at St Mary's University and now I am conducting a research study on the "Assessment of budget and budgetary control on financial practicesss: In case of Private Commercial Banking Industry" And this institutions, Awash and Dashen banks, has been chosen as my case study. Thus, I am requesting your voluntary participation in this research study. Your opinions and experience are very important in this study; you need to fill this questionnaire with the accurate information to the best of your understanding. Please feel free to express your viewpoints and opinions when completing the items put forward in the questionnaire.

The information from this questionnaire will be treated with confidentiality and will not be used for any other purpose other than for this research. You are not obligated to write your name on the paper because nobody else, except the researcher, will see your questionnaire once it will be completed.

Thank you very much for your cooperation

Fathiya Abdi

Tel. +251953118443

I. Personal Information of Respondents

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

1. Gender: Male Female .

2. Age: 25-35 36-50 51-60 above 60

3. Year of experience: 1-5 6-10 11-15 16-20 Above 20

4. Job Position: Finance Manager Accountant Budget office Manager

Budget officer other line Manager

5. Bank: Dashen Bank , Awash Bank ,

A) Questions related to the objectives one: What are factors affecting the budgeting process of Ethiopian privet commercial bank,

1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. Strongly agree

Factor affecting budgeting process	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Budgets are time consuming and costly					
Budget is prepared using different methods each year.					
Budgets are usually developed based on unsupported assumptions and guesswork					
Budgets concentrate on cost reduction and not value creation					
Budgets lack integration with the overall strategy					
Weak communication between those involved in budgeting and operating personnel.					
Budgets are seen as a pressure tool					
Inadequate management support and commitment, and indecisiveness problem.					
Budgets tend to create departmental conflicts over resource allocation and blaming when targets are not met					
Budget variances arise due to poor forecasting					
Budgets are reviewed and updated too infrequently					

B) Questions related to the objectives two: what are the features of budgetary control in private banking in Ethiopia,

1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. strongly agree

Features of budget and budgetary control process	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
There is a Sound Forecasting system to make precise and accurate budget estimate.					
The Budget and budgetary control is directly flow from objectives of the bank					
There is a Proper Recording System and a Sound Accounting					
The bank sets budgets that are Reasonable and Achievable					
The bank allocates Enough Financial Resources that are required to execute the planned activities.					
There is an Efficient Organizational Structure like fixed responsibility centers, budget committee, budget calendar, budget manual and budget controller					
There is a Proper Coordination in the budget planning and preparation process.					
There is Sound Budget Administration that is budgets are being administered efficiently by responsible executives.					
There is a constant Practice Monitoring and analysis of costs and revenues and forwarding of feedback for budget holders.					
There is an adequate Top Management Support and commitment for budgeting and budgetary control system.					
Budgets are Flexible based on the actual business conditions.					

Budget Revision is conducted where adjustments are needed					
Generally, there is an effective Budgeting and Budgetary Control system in your Bank.					

C) Questions related to the objectives Three: Assessment of budget and budgetary control systems practiced in selected private banking in Ethiopia.

1. Strongly disagree 2. Disagree 3. Not sure 4. Agree 5. strongly agree

the assessment of budget and budgetary control on banks practices	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Budgetary control has led to cost effective procurement, thus surplus revenue.					
Fitness of budgetary control to bank's situation saves cost.					
Accurate budget prediction through budgetary control increases net profit margin.					
A budgetary control provides cash expenditure tracking and reduces operational cost.					
As management tools budget facilitate prediction of financial milestones by the bank.					
The budgetary control influence profit plan of the bank.					
Management commitment to budgetary controls has increased profitability of our organization.					
Complete acceptance of budgetary control by management has led to profits.					
Meaningful involvement of employees in budgetary control has ensured increased profitability.					
Use of budgetary control to achieve organizational goals has led to increased profitability					

Please respond to the following questions with your choice regarding your bank.

1. Does your bank prepare Budget? If yes,

2. How frequent are budget prepared?

Daily Monthly Yearly

3. How many departments are involved in the preparation of the budget?

One Two Three Four Five

4. Who is responsible for coordinating the budget?

Departmental heads Budgeting committee BOD committee Top

Management I do not know any other (specify).....

5. What kind of budget does the Awash/Dashen prepare?

Cash budget Revenue budgets others

6. To what extent does budgeting affect the private banking in Ethiopia?

To a very extent to a great extent to a moderate extent to a little extent

to no extent