SAINT MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

BUDGETING AND PERFORMANCE EVALUATION
(THE CASE OF THE DEVELOPMENT BANK OF ETHIOPIA)

BY
BEDILU ASSEFA
MBAAF/0218/2006A

December, 2015
Addis Ababa, Ethiopia

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A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION IN ACCOUNTING AND FINANCE

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STATEMENT OF DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dejene Mamo (Ass.Prof.). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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Name Signature

St. Mary's University, Addis Ababa December, 2015

ENDORSEMENT

This thesis has been submitted to St. Mary's university, school of Graduate studies for examination with my approval as a university advisor.

Dejene Mamo (Ass.Prof.)

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Advisor: Signature:

St. Mary's University, Addis Ababa December, 2015

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LIST OF ABBREVIATIONS

AADF'S	Association of Africa Development Financial Institution
BPP-	Budgetary participation and performance
BP-	Budgetary participation
BSC-	Balanced Scorecard
CAGR-	Compounded Annual Growth Rate
DBE_	Development Bank Of Ethiopia
F&D-	Finance and Development
GTP-	Growth and Transformation Plan
NBE-	National Bank of Ethiopia
PFEA-	Public Financial Enterprises Agency
ZBB -	Zero based budgeting

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ABSTRACT

This study evaluates budgeting and budget Performance. (The case of the Development Bank of Ethiopia), and investigates key problems in budget operation regarding the budgeting process techniques used, and the experience and capability of staff resources. The study adopts mixed method approach in order to achieve the research objectives and to answer research questions. Specifically, the techniques used in the study include survey with Bank staff, in-depth interviews with Strategic planning and Development effectiveness process officials and documentary analysis.

With these research methods, the results of the study reveal DBE has well defined approach to budget planning, budget review, budget implementations and performance evaluation. All processes and branches are involved in the entire budgeting process; with participation of their employees (bottom- up and top-down) approach was used. The strategic plan and budget of DBE has supported with Balanced Scorecard (BSC) framework. A close look at the past five year‘s performance (2010/11–2014/15) indicates that the Bank has registered encouraging achievements in its overall credit operation. Moreover, the strategic period performance has registered significant growth in both volume and value of business operations of the Bank. In the end, the study forwards the possible measures to be taken by the Development Bank of Ethiopian to mitigate problems in budgeting and performance evaluation.

CHAPTER 1- INTRODUCTION

This chapter presents introductory concepts and background information about budgeting, statements of the problem, research questions, and objectives, significance of the study, as well as scope and limitation of the study.

Budget is a mathematical expression of management plan. It is away through which one Organization undertakes all its activities. Without budget there is no successful work to be done. Organizations use the budget to plan and coordinate the following:- to motivate employees, allocate resources and coordinate operations within an organization, and have been, the primary purposes of the budget. Budgeting is aimed to facilitate responsibility distribution and is used to evaluate performance (Libby &Lindsay Part1, 2003).

Miller and Earnest(1966) Summarized the need to secure the actualization of the budget through participation by saying that "*participation tends to increase the commitment, commitment tends to heighten motivation, motivation which is job oriented tends to make managers work hard and more productive work by managers tends to enhance the company's property, therefore participation is good"(P.61)*

The decision as to how to distribute limited financial and non-financial resources, in an effective and efficient manner, is an important challenge in all organizations. In most large and complex organizations, this task would be nearly impossible without budgeting .without effective budget analysis and feedback about budgetary problems, many organizations would become bankrupt. Some of the problems arise from inadequate data to formulate and implement a proper budget; and non existence of well defined structure, which leads to overlapping of duties. These deficiencies can therefore be addressed through the use of budgeting technique. Therefore, this study traces the extent by which budgeting can used as a good planning and controlling tool in a company.

Budgeting participation is a process whereby subordinates are given opportunities to get involved in and have influence on the budget setting process (Yuen, 2007). Through participation in budgeting, subordinates develop mental and emotional feelings that provide them with an ownership of budget goals (Owen, 1987).

The act of participation increases a subordinate's trust, sense of control and ego-involvement with the organization, which then jointly cause less resistance to change and more acceptance of, and commitment to, the budget goals(Shields&Shields,1998).Thus, budget participation exerts a motivational effect on the subordinates which enhances their budget goal commitment.

Carpenter (1998) also argues that budget participation Influences employee performance. This is because when subordinates participate in the budgeting process, they are induced in to accepting and committing to budget goals and in the process improving their performance.

However, most authors claim that if budgets are made without participation by the lower management and their supervisors, they become dysfunctional due to the employee's lack of commitment to their goals (Lin&change,2005).

1.1. Background of the study

The Long term vision of our country, Ethiopia, is to extricate from poverty and become part of the middle income countries where democratic rule, good governance and social justice reigns up on the involvement and free will of its people. Moreover, in the economic sector the country's vision is also to build an economy which has a modern and productive agricultural sector with enhanced technology and an industrial sector that plays a leading role in the economy to sustain economic development and secure social justice; and increase the per capital income of citizens so that it reaches at a level of those in middle-income countries.

The prevailing development agenda of the Growth and Transformation plan (GTP) of the country is to sustain rapid and broad-based economic growth anchored on the experiences drawn from implementing development policies and strategies.

To support the development of economic growth in agriculture and industry sectors, the involvement of financial institutions plays a great role for the country. Development Bank of Ethiopia is among such institutions which is established to contribute for the development of the country's economy through the provision of project finance and technical support to viable projects that contributes for the economy in saving/generating foreign currency, improving consumption of local raw materials, creating employment opportunity for the society, generating tax revenue to the government and conveying new technologies &systems to the local economy.

To achieve its core development agenda, the bank has been implementing its strategic plan cascaded from the country's GTP for almost five years. The implementation is based on a strategic management tool named Balanced Scored card, which is described as a carefully selected set of quantifiable measures derived from an organization's strategy.

The measures selected for the Scorecard represent a tool for decision makers to use in communicating the outcomes and performance drivers to employees and external stakeholders by which the organization will achieve its mission and strategic objectives to this end, all operating units of the bank have prepared the Annual Operational plan and Budget using the BSC framework by cascading down to the respective team and individual levels so as to be aligned with the targeted corporate strategy of the bank and eventually meet the bank's vision.

1.2. Statement of the problems

The decision as to how to distribute limited financial and non-financial resources, in an effective and efficient manner, is an important challenge in all organizations. In most large and complex organizations, this task would be nearly impossible without budgeting. Without effective budget analysis and feedback about budgetary problems, many organizations would become bankrupt.

Budgeting is a crucial exercise without which a firm or business cannot achieve much (Yuen, 2007).Through participation in budgeting, subordinates develop mental and emotional feelings that provide them with an ownership of budget goals (Owen,1987).This affects the employees commitment to the budget goals and lack of participation in budgeting is likely to reduce job commitment which may perhaps lead to reduced employee performance.

It is hypothesized (Personal judgment) that the prepared budget is not based on the actual performance level of the bank and did not take in to account the past experience and future expectation and on how to best use the limited resource of an organization.
In so far different studies are conducted in different areas of the bank (personal evaluation of documents studied on the bank through years) such as on Credit Operations, on non performing loans and on employee motivation. But Budgeting and performance evaluation issue is new and not researched subject in the bank.

1.3. Research Questions

In line with these broad objectives, the researcher develops one central question and six specific research questions.

Central question: How is the budgeting process practice in DBE affect the working performance of Employees and its suitability, appropriate budgeting technique used, the frequency or rate of budget performed, Employee participation and the experience and quality of staff resources?

Based on this central question, the following six specific research questions (RQ) are stated:

RQ1. What is the general system of Budgeting practice adopted in DBE?

RQ2. How much the Budgeting process participate the Employee of DBE?

RQ3.How much the budgeting process takes in to consideration the past experience and future expectation?

RQ4.What Looks like any variance between the budget plan and budget performance?

RQ5.How does the problems of budgeting impact the performance of DBE?

RQ6.How do we measure performance in DBE?

1.4. Objective of the study

The intent of this study is to investigate budgeting and performance evaluation by the case of the Development Bank of Ethiopia. Thus, the study will accomplish the following broad objectives in line with the problems state in the preceding section:

- Investigating the level of employee participation in the budgeting process in the Development Bank of Ethiopia, and
- Identifying the main problems of the budgeting process performed that affects performance of Development Bank of Ethiopia?

1.5. Methods adopted

The Study adopted mixed research design in order to achieve the stated research objective and to answer research questions. Specifically, the study used quantitative survey and qualitative in-depth interview and documentary analysis, In addition, documentary analysis was made using annual reports of DBE, Strategic plan and budget of DBE, and other documents that were relevant for the conduct of the study.

1.6. Significance of the Study

The primary use of this research is to the DBE. The authority may be able to its performance of budgeting process activities, performance evaluation methods and learn some lessons and build some corrective measures for the weaknesses based on recommendations to be forward. Further, the study has paramount use for different stakeholders who are interested for such as government agencies and business associations. Finally, the study may have invaluable importance for future researchers who need to conduct a study in this and related fields.

1.7. Scope and Limitations of the Study

This paper addresses budgeting and performance evaluation in Development Bank of Ethiopia at head office excluding regional Office. Branch and Sub branches due to times and resource constrains. The study has examine budgeting practice, and focused on the type of budget performed, the performance evaluation, the budgeting process techniques applied and proficient and experience of employees in particular. Thus, the study is not without limitations.

CHAPTER 2-LITERATURE REVIEW

In the previews chapter, the main problems and Objectives to be addressed in the study have been stated. This chapter presents the review of related literature.

The chapter is organized in reviews theoretical studies on budgeting and performance evaluation and presents the empirical evidence on budgeting and related issues.

This is to see what the conceptual framework in budget preparation is, knowledge gap is the primary problem which exists among individuals in preparing effective budget which is applicable with minimal variance between planned and actual budget. So in this chapter presents theoretical concepts on how to prepare standard budget and different elements of budgeting process, different systems of budgeting with their advantages and budgetary participation and role of employee participation toward increment of budget performance.

2.1. Theoretical studies

A Budget is a detailed and quantitative plan. It shows the information about the acquisition and use of financial and other resources over a specific time period, either a long-Period (two-to ten-year) or a short-term period (one-to two- year, or monthly, or daily- based). Budgets provide rational and tangible data facilitating and enabling decision- making of Organizations.

Instead of expressing a budget as a statically financial plan or blueprint, the term" budgeting" refers to the act of preparing a budget or the activities of predicting and qualifying future requirements for finance(Garisson, etal,2003).

However, if a budget is looked up on in its wider context, it can be defined as a management tool that puts executives in control of the financial health of their company. It is an objective measure of the financial structure of company's operation and a tool that forces management to be accountable in a structured and objective way. Budgets as management tools by themselves are neither good nor bad. How managers administer budgets is the key to their value. When administered wisely, budgets facilitate Planning and resource allocation and help to enumerate, itemize, dissect and examine all of the products and services that a company offers to customers (Seer, 2000). In short and taken at its simplest level, a budget is a mathematical exercise, but in reality it is much, much more than numbers on spreadsheets. In theoretical management accounting literature, some theorists believe that through budgeting in the process of financial decision-making and internal operation of organization, multiple functions regarding budgeting behavior can be achieved. These functions are planning, coordinating, communicating, control and evaluating. If administer wisely, budgeting (a) compels management planning (b) provides definite expectations that are the best framework for judging subsequent performance, and (c) promote effective communication and coordination among various segments of the organization.(Horngren, 1977).

Budgeting may be defined quite simply as the process of compiling budgets and subsequently adhering to them as closely as possible (Maitland, 2000). It is a process that turns managers' perspectives forward. Thereby, looking to the future and planning, managers are able to anticipate and correct potential problems before they arise. This system allows managers to focus on exploiting opportunities instead of, figuratively speaking, and fighting fires. In this way the system provides sustainability to business processes within the company. It is a process of the utmost importance to management. In the words of one observer (Horngren et al, 2000).

The purpose of budgeting is that it gives management an idea of how well a company is meeting their income goals, whether or not expenses are in line with predicted levels, and how well controls are working. Properly used, budgeting can and should increase profits, reduce unnecessary spending, and clearly define how immediate steps can be taken to expand markets (Thomsett, 1988). In order to achieve this, management needs to build a budgeting system, the major objectives of which are to (Viscione, 1984):

1. Set acceptable targets for revenues and expenses.
2. Increase the likelihood that targets will be reached.
3. Provide time and opportunity to formulate and evaluate options should obstacles arise.
4. Since budgeting as a process is very complex, it comes as no surprise that budgets are trying to fulfill numerous functions such as (Harper, 1995, and Churchill, 1984):
   a) **Planning** – a budget establishes a plan of action that enables management to know in advance the amount and timing of the production factors required to meet desired levels of sales.

b) **Controlling**- a budget can be used to help an organization reach its objectives by ensuring that each of the individual steps are taken as planned.

c) **Coordinating**- a budget is where all the financial components of an organization individual units, divisions, and departments are assembled in to a coherent master picture that expresses the organization's overall operational objectives and strategic goals.

d) **Communicating-** by publishing the budget, management explicitly inform its subordinates as to what exactly they must be doing and what other parts of the organization will be doing. A budget is designed to give managers a clear understanding of the company's financial goals, from expected cost savings to targeted revenues.

e) **Instructing**- a Budget is often as much an executive order as an organizational plan since it lays down what must be done. It may, therefore, be regarded by subordinates as a management instruction.

f) **Authorizing**- if a budget is a management instruction then conversely it is an authorization to take budgeted action.

g) **Motivating**- in that a budget sets a target for the different members of the organization so that it can act to motivate them to try and attain their budgeted targets.

h) **Performance measuring-** by providing a benchmark against which actual performance can be measured, a budget clearly plays a crucial role in the important task of performance measurement.

i) **Decision- making-** It should never be assumed that a budget is set in concrete and when changing course a well- designed budget is a very useful tool in evaluating the consequences of a proposed alternative since the effect of any change can be used through the entire organization.

j) **Delegating**- budgets delegate responsibility to the managers who assume authority for a specified set of resources and activities. In this way budgets emphasis even more the existing organizational structure within the company.

k) **Educating**- The educating effect of a budget is perhaps most evident when the process is introduced in a company. Operating managers learn not only the technical aspects of budgeting but also how the company functions and how their business units interact with others.

l) **Better management of subordinates**- a budget enhances the skills of operating managers not only by educating them about how the company functions, but also by giving them the opportunity to manage their subordinates in a more professional manner.

The requirements that all these functions impose up on a budget make it difficult for one system to meet all. It is precisely because these requirements differ, that role conflicts in budgeting system arise. These need to be appropriately dealt with so that dysfunctional behavior like budget padding or other damaging budget games for the company do not appear. Since there are three major roles for any budgeting system, at least three conflicts may arise (Barrett, Fraser, 1977):

a) **Planning versus motivation**

For a budget to be most effective in the planning role, it should be based on a realistic assessment of the company's operating capabilities and on management's judgment about what is most likely to happen in the future. Yet this kind of budget runs the risk of setting targets so low that motivation is adversely affected since to motivate properly, budge objectives should be set higher than those for planning and be difficult yet attainable. On the other hand, these difficult yet attainable objectives lead to an overly optimistic budget and run the risk of falling short and under using company resources.

b) **Motivation versus evaluation**

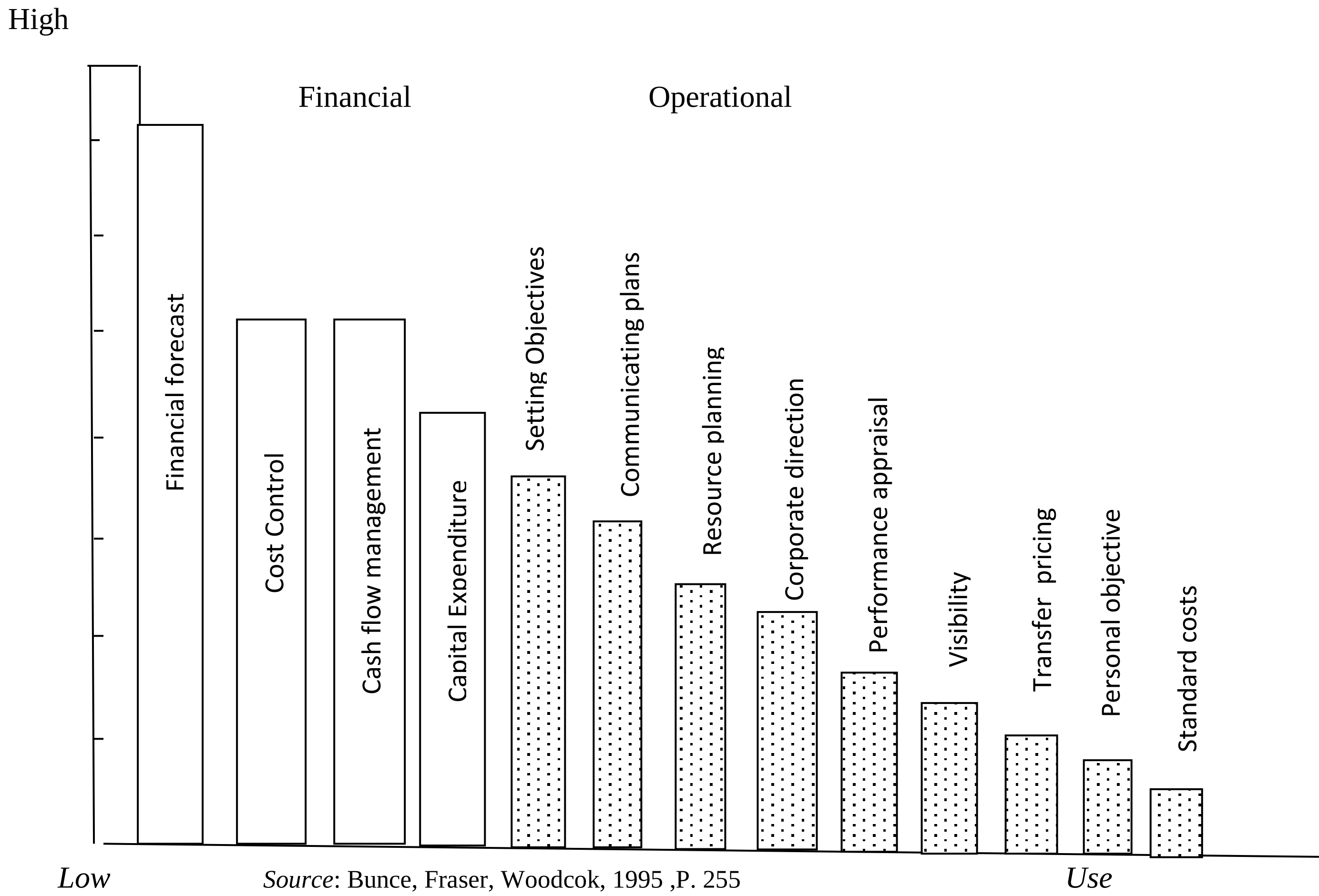
There is a widely held belief that budget objectives should be set as fixed standards against which performance can be judged. Managers are also likely to be more committed to achieving this kind of objective since they know that the performance standards by which they are evaluated are not constantly changing. On the other hand, managers' motivation can be impaired by rigid application of a "fixed standard" philosophy which doesn't consider the impacts of uncontrollable or unforeseeable events and doesn't allow for their removal from budget standards.

c) **Planning versus evaluation**

The planning role's requirement of providing realistic assessment of future prospects can conflict with the need to eliminate the effects of uncontrollable or unforeseeable environmental variables from the budget used for evaluation purposes. Yet, because they are separated in time, the conflict between these requirements is considered a minor one since it can be considerably reduced if appropriate adjustments are done at the end of the budget period.

As can be seen in the previous paragraph, functions that typical budgets what to cover are very wide. It comes then as no surprise that those budgets are being used today in practice for many purposes. Bunce, fraser and Woodcock's (1995) survey showed that general uses of budgets can be divided in to financial and operational type of uses. Figure 1 clearly indicates that, of the various uses of budgeting for management, the most important are those financially oriented like the use of budgets for financial forecast, cost control, cash flow management, and capital expenditure supervision. The need to improve performance is intensifying to the point that it is no longer enough just to control costs, but that companies must also pay attention to things like strategy, communication, and employee evaluation. These are purposes for which budgets have not been used so much in the past.

Figure1: Uses of budgeting for management



Source: Bunce, Fraser, Woodcok, 1995 ,P. 255

As stated in the opening definition, budgets are plans set for a certain period of time, such as a month, quarter, year and so on. This time period is then usually broken in to smaller sub periods. The most frequently used budgets are annual budgets that are subdivided by months for the first quarter and by quarters for the remainder of the year. Of course, actual time periods for which budgets are made depend mostly on their purpose and use, and it is solely the decision of individual companies as to time periods will be utilized for their budgeting process.

Table 1. The Objectives of Budgeting in Business Organization

1. To aid the planning of annual operations.
2. To coordinate the activities of the various parts of the organization and to ensure that the parts are in harmony with each other.
3. To communicate plans to the various responsibility center managers.
4. To motivate mangers to strive to achieve the organizational goals.
5. To control activities
6. To evaluate the performance of managers.

Source: Drury C., 2000

2.1.1 Budgeting Process

The process of budgeting generally involves an iterative cycle with moves between targets desirable performance and estimate of feasible performance until there is hopefully, convergence to a plan which is both feasible and acceptable (Emmanuel et al, 1990).

Alternative, if we look beyond many details and iterations of the usual budgeting process we can see that there is a simple universally applicable budgeting process, the phases of which can be describe in the following manner (Finney, 1994).

1. Budget forms and instructions are distributed to all managers.
2. The budget forms are filled out and submitted.
3. The individual budgets are transformed in to appropriate budgeting/Accounting terms and consolidated in to one overall company budget.
4. The budget is reviewed, modified as necessary, and approved.
5. The final budget is then used throughout the year to control and measure the organization.

Table 2 **Top-Down versus Bottom-Up approach**

	Top-Down	Bottom-Up
Advantages	-Less administration and time needed to complete the budget -Allows managements to incorporate their overall strategic plan in to the budget -Inclusion of corporate inter-dependencies	- Employee involvement and motivation -Encourages communication among and with in the various units/departments -Increased budget accuracy and more relevant variance analyses
Disadvantages	-Employee motivation may become a problem -Unable to access information at the source	- Time consuming -Inaccurate date -Opportunism if used for evaluation purposes
When to be used	-Middle management is new and does not know the operation well. -Middle management is not aware of all the anticipated changes and development that will occur within the company - The company is very small and middle management has little additional information to contribute to the budgeting process -Communication among departments is pure - Lower and Middle management do not have time to create a budget. -The company does not possess the tools that would allow easy consolidation and review of budgets from multiple business units.	-Lower management has the most knowledge about local operation. -Low management can produce relevant and accurate budgets. -Corporate infrastructure support communication among and within business units. -Departments are unlikely to have redundant or omitted data. -Budget input from multiple sources can be easily consolidated.

Source: Rasmussen, Eichorn, 2000, P.20-25.

2.1.2 Types of Budgeting

A budget is not a unitary concept but varies from organization to organization. The basic concept of budgeting involves estimating future performance, comparing actual results with the estimate, and analyzing the differences between them. Factors that are relevant in determining the type or style of an organization's budget and its effects include: the type of organization, the leadership style, personalities of people affected by the budget, the method of preparation, and the desired results of the budgeting process (Cherrington & Cherrington, 1973).

In general, budgets can be classified into two primary categories (Cohen et al, 1994)

Operating budgets

Operating budgets consist of plans for all those activities that make up the normal operations of the firm. The main components of the firm's operating budget include sales, production, inventory, materials, labour, overheads and R & D budgets.

Financial budgets

Financial budgets are used to control the financial aspects of the business. In effect, these budgets reveal the influence of the operating budgets on the firm's financial position and earnings potential. They include a cash budget, capital expenditures budget and balance sheet and income statement**.**

2.1.3 The Role of Participation in the Budgeting Process

From the above discussion we know that budgeting as a plan and a control device has an important impact on firm performance. However, another crucial benefit of the budgeting process, not to be ignored, is the sharing of information between organizational members. (Hopwood, 1976) argue that the value of the budget as a plan of what is to happen and as a standard against which actual performance will be measured, depends largely on whether and how skillfully this negotiation is conducted. When setting a budget, members of the organization are supposed to participate in defining explicit budgetary goals and to be involved in subsequent revisions to these goals with the management (Chalos & Poon, 2000). And when budget variance(s) occurs, participation and discussion among different levels of management facilitate and enable accurately identifying the possible reasons for such variance(s) and also the corresponding corrective actions to be taken.

Therefore, budgetary participation (BP) refers to the involvement of employees in the budgetary process and their influence over the setting of budgetary targets (Subramaniam & Ashkanasy, 2001). It can be regarded as a negotiation channel linking the communication especially between superiors and subordinates (Shields & Shields,1998). Numerous scholars state that through budgetary participation, information sharing can be accomplished. For example, Poon(2001) states that budgetary participation provides a setting in which managers can exchange information and ideas to make budgetary planning and control more effective. Nouri and Parker (1998), similarly, state that participation can facilitate information sharing between subordinate and superior during budget discussions.

It was also found that the information communication between superiors and subordinates in budgetary participation includes both the upward communication from subordinate to superior and the downward communication from superior to subordinate (These two dimensions of communication are also called vertical information sharing by parker in 2006). On the other hand, downward communication is also examined. Several studies(Brownell,1988) suggest that, through budgeting process, subordinates gain additional information from superiors and others including their duties, responsibilities, and expected performance, which increases a subordinate's effectiveness.

2.1.4 Budgetary Participation and Performance (BPP)

Generally, there are two major conceptual models linking budgetary participation with performance in current management accounting literature. Firstly, psychological theories (e.g.,Murray,1990) state that the opportunity given to subordinates through participation (the upward information sharing) in budgeting process can stimulate their motivation and commitment with budget-setting, which in turn improves the subordinates' job satisfaction and performance(Brownell & Melnners, 1986; Chenhall & Brownell, 1988; Kren, 1992). Shields and Shields (1998) also explore budgetary participation and performance relationship from a psychological aspect. They state that participation enhances a subordinate's trust, sense of control, and ego involvement with the organization, which then leads to more acceptance of, and commitment to, the budget decisions, in turn causing improved performance. Secondly, the budgetary participation and performance (BPP) relationship is also explained from a cognitive point of view. It states that, through budget participation (the downward information sharing), subordinates gain information from superiors that helps clarify their organizational roles, including their duties, responsibilities, and expected performance, which in turn enhances their performance (Kren, 1992; Shields & Young, 1993; Chong and Chong, 2002). Therefore, role ambiguity as an important cognitive factor is discussed extensively in existing budgeting literature. Role ambiguity is concerned with the lack of clear information regarding expectations, methods and consequences of the role (Chong & Bateman, 2000). The empirical evidence of 0'Connor(1995) suggests that budgetary participation is useful in reducing the role ambiguity of the subordinate. Jackson and Schuler(1985), Chenhall and Brownell(1988) also find that budgetary participation leads to lower role ambiguity, which, in turn, is associated with higher performance.

They state that budgetary participation can clarify the role in the three areas (i.e. expectation, methods, and consequences). The expectations of the role will become clear when goals or budgets are set. By participating, various methods of achieving role expectation can be examined to consider how the expectation can be achieved. And consequences of performance in the role can be clarified participating in the planning and evaluation stage of budgeting.

With regard to performance measurement, most researchers when exploring the BPP relationship indicate that, with the involvement of different levels of organizational members in budgeting process, budgetary participation will improve the competence of the top managers or unit managers in the areas of eight managerial activities (i.e. planning, investigating, coordinating, evaluating, supervising, staffing, negotiating, and representing). Consequently, these eight dimensions are used to measure the managerial performance of an organization.

2.1.5 Stages in the preparation of a budget

Cherrington et al (1988) and lzhar (1990) share the same opinion on the process of preparing a budget. A number of stages can be identified in the preparation of a budget.

Stage one. Involve identification of the key aims for the coming year and any major external changes likely to affect the business and communicating these to the budgeters so that they know what overriding factors to keep in mind when preparing their budgets. These will be largely gauged from the long-term corporate plan.

Stage Two. Determine the key factors or limiting factors. Every business has some factors which limits its growth. In most cases, it is sales demand. An error in the key factor budget would throw out all the subsidiary budgets. When using the factor in context of budgeting, it is sometimes called principal budget factor.

Stage three. Assume sales eventually in the limiting factor, preparation of the sales budget. Unfortunately, this is the most difficult budget to prepare, because of many external influences which governs its level over which the firm has no control. Before this is attempted, a sales forecast is usually made by product type and geographical area.

Stage four. Is the initiation preparation of the subsidiary budget. This include the preparation of the production budget, direct labour budget, production overhead budget, selling and distribution budget, administration budget, capital expenditure budget and the cash budget**.**

Stage Five. Involves review and co-ordination of the subsidiary budget by the budget officer or budget committee. This function is to check whether there are inconsistencies or conflict between the many subsidiary budgets.

Stage Six. The individual subsidiary budget is consolidated in a single master budget presented in a form of a budgeted income statement and balance sheet.

Stage seven. At this stage, the work is presented to the board of directions for approval. Lzhar stated that although the budget is'' finalized'' on director approval , in one sense the process of budgeting never ends. Furthermore, he added that, a budget is prepared under certain basis assumption about the future. Any change in this should lead to the budget being revised.

2.1.6. System of Budgeting

2.1.6.1 Zero-base budgeting (ZBB)

Lucey (1994) argued that, zero-base budgeting is a cost benefit approach whereby it is assumed that the cost allowance for an item is zero and will remain until the manager responsible justifies the existence of the cost item and the benefit the expenditure brings.

Appiah-Mensah (1993) also argued that ZBB are prepared without reference to the budget of the preceding period. A fresh look is made at the activities of the organization and based on the new circumstances and entirely new budget is prepared.

(Pyhrr, 1976) The Zero-base approach requires each organization evaluate and review all its programs and activities systematically on the bases of performance output as well as costs, to emphasize management decision making first and numbers oriented budgets second, and to increase the analysis of allocation alternative. Although management approach to the adoption of zero-based budget differ among organization since the process must be adopted to fit the specific needs of each user.

Advantage of Zero based budgeting

- Properly carried out, it should result in a more efficient allocation of resource to activities and departments**.**
- ZBB focuses attention on value for money and makes explicit the relationship between the input of resource and the output benefits.
- It develops a questioning attitude and makes it easier to identify inefficient, obsolete or less cost effective operations.
- ZBB process leads to greater staff and management knowledge of the operation and activities of the organization and can increase motivation.
- It is a systematic way of challenging the status quo and obliges the organization to examine alternative activities and existing cost behavior patterns and expenditure levels.

Disadvantage of Zero-based budgeting

- It is a time consuming process which can generate volumes of paper work.
- There is a considerable management skill required in both drawing up decision packages and in the ranking process.
- ZBB might be perceived as an implied threat to existing programs.
- There are considerable problems in ranking packages and there are inevitably many subjective judgments.
- The thought of creating a budget from scratch causes considerable resistance if support groups and training programs are not in place.

2.1.6.2 Rolling Budgets or continuous budgets and forecasts

Survival in a competitive environment mean that business must be flexible and innovative, largely through the development of new products and services, while simultaneously improving productivity and customer services. However, incorporating the effect of innovation in to the budget can be difficult, especially if companies are using fixed budgets that cover specific time frame usually one fiscal year. These fixed budgets may be reviewed at regular intervals so that adjustments and corrections can be made if needed, but the basic budgets remain the same throughout the period. In an effort to adders the problem of rigid time frame in a fixed budgets, some firms, particularly those in rapid change industries, have adopted a rolling budgets and forecasts. (Hayes, 2002)

A rolling budget or continuous budget is a plan that is continually updated so that the time frame remains stable while the actual period covered by the budget changes. For example, as each month passes, the one year rolling budget is extended by one month, so that there is always a one year budget in place. Due to rolling budget, managers have to rethink the process and make changes each month or each period. The result of this is usually a more accurate, up-to-date budget incorporating the most current information (Horngren et al, 2000) Once an organization has decided to perform strategic financial planning through rolling forecasts, it should ensure that the forecasts are focused appropriately and not simply extension of the budgeting process. To be most effective, rolling forecasts should (Montgomery, 2002)

- Have a clear strategic Financial planning mind –set.
- Be performed at a more summarized level of detail
- Be modeled with operating metrics and parameters instead of general updates of previous forecast figures.
- Be closely integrated with the operating budget.

In this system the budget became the integral planning and control device for achieving strategic objectives like on-going product and service development and continuous improvement. By planning in smaller time frames (months or quarters), managers and frontline employees can make a better assessment of their work improvements and thus set more realistic targets. This attractive approach pushes decision down to the production floor and, as a result, helps gaining employee commitment and faster adoption of productivity improvements (Drtina et al, 1996).

Advantages of Rolling budgets and Forecasts

- Encourages managers to think about planning as an ongoing process, rather than as a static event.
- An opportunity to provide more "Real time" response to rapidly changing environment.
- In theory, the annual planning process is eliminated; the projection for next year is simply the first rolling forecast.
- Planning is not dictated by the calendar but can be triggered by important events and changes.

Disadvantages of Rolling Budgets and Forecasts

- Like a budgeting process, managers and employees must forecast responsibly and not regard it as a routine task.
- Rolling budgets and forecasts have to complete every month or quarter instead of annually as before, which increases work and cost related to budgeting.
- Constantly changing assumptions and the financial implications of those assumptions tends to invalidate targets, along with the commitment to achieve them.
- The planning process can become too time-consuming.

2.1.6.3 Activity based budgeting

Activity based budgeting is a quantitative expression of the expected activities of the organization, reflecting management's forecast of workload and financial and non-financial requirements to meet agreed strategic goals and planned changes to improve performance. Its main principal can be listed as (Brimson, Antos, 1999)

- Achieve excellence by eliminating waste and by reducing work load.
- Change the focus from variable and fixed cost budgeting to used and unused capacity.
- Synchronize and coordinate activities within and outside of the organization.
- Control the process rather than the results and understand underlying causes and effects.
- Include customers and suppliers in the decision making process.
- Use mistakes for learning, not for blaming.

- Use features and customer characteristics to understand the source of product variation and how customers are creating it.

Cooper and Kaplan (1998) defined activity based budgeting simply as activity based costing performed in reverse while Activity based costing trace costs from resources to activities and then from activities to specific products and services, activity based budgeting moves in the opposite direction and traces costs from the products to activities and then from activities to resources.

In short, the activity based budgeting approach combines a more complete operational model with a detained financial model where work activities are set as a building blocks for budgets. The resulting model makes resource consumption highly visible while identifying resources of imbalance or inefficiencies. The resulting transparency of the activity based budget promote the allocation of resources to their best uses in line with organizational priorities, enhances decision making and performance evaluation, and improves operational flexibility (Klammer et al,1997)

Advantage of Activity based budgeting

- By first balancing operational requirement, the activity based budgeting approach avoids unnecessary calculation of the financial effect of operationally infeasible plans.
- The activity based budgeting approach focuses on generating a budget explicitly from activities and resources. This highlights the resources of imbalances, inefficiencies, and bottlenecks, which allows better product, process, or activity costing and decision making, and better resource allocation to support organizational priorities.
- The explicit analysis of resource capacity and the increased visibility of resource consumption allow organizations to identify capacity issues and make adjustments earlier in the budgeting process than in traditional budgeting processes.
- Lower level managers and employees can more easily understand and communicate budgeting information in operational rather than financial terms. Activity based budgets can lead to improved performance evaluations by specifying accountability.
- The activity based approach reinforces horizontal process view of the organization cutting across departmental boarders, in contrast to the traditional budgeting's vertical orientation.

Disadvantages of Activity based budgeting

- One potential limitation of this approach is information availability about activities, processes, and resources and the cost of creating and maintaining the information.
- It is difficult and costly to implement if the company does not already have activity based costing system.
- The ultimate success of activity based budgeting depends heavily on management's commitment to act on the data.
- Due to numerous cause and effect linkage among the demand for products and services, activities required to provide them, and the resources required to perform the activities, the activity based budgeting system is time consuming and cumbersome to maintain.

Although having an activity based costing system is a precondition for implementing activity based budgeting, having an activity based mindset will greatly simplify and assist in the implementation of activity based budgeting especially if the company already has strong informational support system (Hansen, Torok, 2004)

2.1.6.4 The Balanced Scorecard

The main idea of this method is that the balanced scorecard translates an organization's mission and strategy in to a comprehensive set of performance measures that provides the framework for a strategic measurement and management system. The scorecard measures organizational performance across four balanced perspective (Financial perspective, Customers perspective, Internal business perspective and learning and growth perspective) Kaplan and Norton(2001) suggest that companies should follow a step down procedure to make transition from high level long term strategy goals to annual budgets for local operations in following way.

1. Translate strategy in to the balanced scorecard by defining strategic objectives and measures.
2. Set stretch targets for specific future times for each measure and identify planning gaps to motivate and stimulate creativity.
3. Identify strategic initiative and resource requirement to close the planning gaps, thereby enabling the stretch targets to be achieved.
4. Authorize financial and human resources for strategic initiatives and embed these requirements in to the annual budget. The annual budget should consist of two

components a strategy budget to manage discretionary programs and an operating budget to manage the efficiency of departments function and line items.

As the balanced scorecard replaced the budget as the center for management processes, companies in effect created a new kinds of organization based on the requirements of their strategy the organization that Kaplan and Norton (2001) named as the strategic-focus organization. The common feature of the kinds of organizations is that they have, by clearly defining the strategy, communicating it consistently, and linking it to the drivers of change, developed a performance based culture that has linked everyone and every unit to the unique feature of the strategy.

2.1.6.5 The Beyond Budgeting Model

The Beyond Budgeting Model represents a set of best practices-from organizational design and devolution of authority to planning and performance management which companies, that have abandoned the traditional budgeting model in one form or another, are one using to respond to continuous market change, unpredictable competition and increasing customer demands. Their aims have been not only to reduce the cost of budgeting and implement more adaptive planning processes, but also to devolve the responsibility and accountability to teams closer to customers. The way these organizations dealt with rewards was a key determinant of a successful transformation. The more successful cases have based evaluation and rewards on relative improvement contracts with hindsight rather than on fixed performance contracts agreed upon in advance(Hope, Fraser, 2006b).

Realizing that attempted to improve traditional system with introducing Zero-based, activity-based are not solving the problems caused by the fast changing business world, Beyond budgeting round table (BBRT) members have decided to create a flexible and responsive management model that will be based on more effective strategic management and the replacement model that will be based on more effective strategic management and the replacement of the command and control organizational design with the dispersion of effective authority to front line management.

CHAPTER 3- RESEARCH DESIGN AND METHODOLOGY

The previous chapter reviewed both theoretical and empirical studies, and it tried to give a brief conclusion and excavate the gap in the existing knowledge. This chapter presents research design used in this study. The remaining discussion in this chapter is organized in five sections. In section 3.1, Research Design to the particular research methodology adopted. In section 3.2, Sample and sampling techniques the different research approaches available to a researcher in general are discussed, In section 3.3, Types of Data used, In section 3.4, Data collection methods, and in section 3.5, Data Analysis method are explained.

3.1. Research Design

The Study adopted mixed research design in order to achieve the stated research objective and to answer research questions. Specifically, the study used survey method, in-depth interview and documentary analysis, The survey was conducted using questionnaire designed to generate information on existing budgeting process, specifically to see if there is consideration of past experience and future expectation during budget preparation, level of employee participation in the budget preparation, coherence of budget with strategic plan and planed targets. Existence of periodic budget review, main focuses of review and amendments made based on review was also seen. The questionnaire also includes question related to implementation of budget and its performance level. Interview was made with Strategic planning and Development effectiveness process team leaders and official of the bank. The interview made mainly focuses on assessing budgeting process, overall budget components, budgeting system adopted in the bank, performance evaluation approaches, effectiveness of performance of evaluation made used and factors leading to budget variances. Documentary analysis was made to find out budgeting performance of the bank using annual reports DBE, Strategic plan and budget of DBE, and other documents that were relevant for the conduct of the study.

3.2 Sample and Sampling Techniques

The purpose of sampling is to select representative sample individuals among the whole reference population. This is because of limited resources to deal with the whole population. Censes needs more time and capital investments than sampling approach.

Sampling is the process of choosing smaller and more manageable number of study units from a defined study population. Since the goal of quantitative research is to generalize the results of the work to the whole of the research population, the sample should be selected carefully using the correct procedure. The sampling strategy adopted can affect the quality of a piece of research (Dawson 2002 and Cohen et. Al. 2000). Thus, attention should be paid to rigorous sampling; otherwise, the basis of the survey's applicability to wider contexts is seriously undermined. Therefore, this study also goes through all the necessary steps of sampling design, First, the sample frame is determined. Then, from the sample frame, proper size of the sample, which can represent the population is determined. Once the sample size is determined, then the researcher also clearly stated the procedure of selecting participates of the study.

Sampling frame is a complete list of the study population. For this study, the sampling frame was all Head Office employees they are directly or indirectly participate on budgeting and performance evaluation in Development Bank Of Ethiopia until the conduct of the survey are include in the sample frame. It was designed to sample 15% of the employees which is 75 employees out of 500 employees at Head Office for the survey questionnaire. Then simple random sampling is the most basic selection method in which each element of the population has equal or nonzero chance of being selected. Hence, simple random probability sampling is appropriate, and the researcher used lottery method to select the survey respondents. Interview was made purposely with Strategic planning and Development effectiveness process (SPDEP) team leaders and officials as they are appropriate for data generation.

Document analysis itself was conducted on quarterly and annual reports of the year 2010/11 to 2014/15, first GTP's reports and other documents that are relevant for the study.

3.3 Types of Data

The types of data obtained by both the questionnaire and interview were primary and qualitative type. Qualitative research is used to describe or explain what is happening within a study area. The data collected through the use of questionnaire are efficient, reliable because of anonymous, honest, economical (in terms of time and money), quick (even possibly mailed), consistent (little scope for bias), offers the possibility of standardizing and comparing scales, and enables the anonymity of the data sources to be preserve. The questionnaire responses were designed to yield a nominal data which is categorized into five point Likert type scale (Strongly disagree, disagree, neither disagree nor agree, agree, and strongly agree). For that matter the questionnaires were organized under four categories namely Budget and planning, Budget implementation, Budget review and budget performance each to yield responses falling in to the categories above. Finally a pilot study was conducted to check validity & reliability of the questionnaires on some individuals, amendments were made and distributed.

An interview is a purposeful discussion and/or conversation with two or more people, and helps the researcher together valid and reliable data that are relevant to achieve research questions and objectives. This study was applying interview to explore the date that is unclear for the researcher and the information that have not been collected through survey and document analysis by allowing the interview to remain flexible. Thus, interview was conduct with three strategic planning & development effectiveness process team leaders of DBE as well as team members, with the intent of gathering information that needs clarification and not be achieved through other techniques.

Qualitative data was also obtained from interview but the data obtained from document analysis was quantitative (numerical data) mostly in percentage.

3.4 Data Collection

Data was collected by giving the prepared questionnaire in hard copies to every sample individual. The researcher was select several types of questionnaire, from highly structure (closed end) to unstructured (open end). Structure questionnaire is appropriate to gather straight forward and uncomplicated information. On the other hand, unstructured questionnaire gives a greater insight and understanding of the topic being studies. However, it may be difficult to classify and quantity and must be carefully interpreted. Thus, the use of either mere structured or unstructured questionnaire has its own flaws. To mitigate the limitations of both types of questionnaire, semi-structured questionnaire is a powerful tool (Cohen et al. 2000). Dawson (2002) also stated that researchers tend to use a combination of both open and closed questions. Such questionnaires being with a series of closed questions, with boxes to tick in one of the five point scales to rank, and then finish with a section of open questions for more detailed response. As a result, the researcher employ semi-structured questionnaire for survey data collection.

Interview responses were conduct with the three strategic planning & development effectiveness process team leaders of DBE as well as team members, simply written on a paper in front of each question and discuss with interviewee that needs clarification and not be achieved through other techniques.

Data from documentary analysis was gathered from quarterly and annual reports of the year 2010/11 to 2014/15, first GTP's reports and other documents that are relevant for the study.

3.5 Data Analysis

Data analysis is a tool conducted using document such as written materials, organizational records, official publications and reports, news papers, a minutes of meeting, and personal documents (diaries, artistic works, letters, photographs and journals) (Patton 2003). As Creswell (2009) noted. Use of documentary analysis has enables the researcher to obtain the language and words of participants, can be accessed to the researcher at a time conveniently, represents date which are thoughtful (participants given attention when compiling them),

Data analysis for the questionnaire survey was made by first summarizing the collected raw data and presenting in frequency tables. From the frequency table percentages were computed and mean and standard deviation were also calculated. Bar charts were also used to clearly visualize the extent of variability in responses of the respondents for different questions related to budgeting and performance. Interview results were simply analyzed against standards, facts and logic about budgeting process and performance evaluation. Document analysis results were analyzed by looking at percentage variability between planned targets and actual performance. This study employs a descriptive analysis of documents that are relevant for the study.

CHAPTER FOUR- RESULT AND DISCUSSION

In the previous chapter, the research methodology has been discussed, and the methods adopted for the study to attain the objective have been stated. This chapter presents the results and discussion of the data collected using different methods.

4.1. Survey Result

The sample size for the survey was 75 DBE employees at Head Office so that 75 questionnaires were distributed. However, the survey response was collected from only 66 survey respondents due to their workload as well as negligence. For this study, the response rate was 88 percent, and it is rationally fine. The remaining discussion in this section presents the survey outcomes regarding respondents' background information, Planning and budgeting, Budget review, Budget implementation and DBE performance.

4.1.1. Background Information of the Respondents

Out of the total respondents 77 per cent were Males and 23 per cent were Females. Regarding educational level 89 per cents of the respondents were degree holder in different professions and 11 per cent of the respondents were post Graduate & over. Regarding numbers of years worked with the Organization 6 per cents of the respondents were below one year, 38 per cents were one to three years, 26 per cents were four to six years and 30 per cents were seven years and above (Table 3).

Table 3: Background information of the Respondents

Variables N=66		Count	Percent
Gender	Male	51	77.3
	Female	15	22.7
Level of Education	Diploma	0	0
	Degree	59	89.4
	Post Graduate & Over	7	10.6
Number of years worked with the Organization	Below 1 year	4	6
	1-3 years	25	37.9
	4-6 years	17	25.8
	7 years & above	20	30.3

Source: Survey outcomes and own computations, year 2010/11-2014/15

4.1.2. Planning and Budgeting

From respondents' response (Table 4) it is seen that the largest proportion (75.8%) of the respondents agree on different issues regarding Planning and Budgeting in DBE. Especially regarding alignment of budget with strategic plan and planned targets, assessment of necessary information before budget preparation and concern of management to involve all branch and process in budgeting process. Relatively least (39.4%) number of respondents agree that they are actively engaged in budgeting.

The responses of the respondents to the first question which asks whether the budget process in DBE is participatory or not, indicates that only 6% of the respondents strongly disagree, 18.2% of them disagree which sum up to 24.2% of the respondents having a negative attitude toward presence of participatory budgeting process in the bank. This is not a small figure for a bank striving to meet the development goals of the country. The larger proportion of the respondents, that is 59.1% have confirmed that the budgeting process in the bank is participatory (48.5% agree and 10.6% strongly agree). Regarding budgeting system in the bank whether it followed a bottom-up approach considering all employees' needs and whether it involved all branches and processes in budgeting process, 3% and 4.6% of the respondents strongly disagree, 28.8% and 4.6% of the respondents disagree respectively. 45.5% and 54.5% of the respondents agree and 7.6% and 15.2% of the respondents strongly agree respectively. Even if larger proportions of the respondents agree or strongly agree, significant proportions of the respondents disagree or strongly disagrees existence of a bottom-up approach and involvement of branches and processes in budgeting process in the bank.

For the question that the sample respondents were asked whether they themselves have ever been actively engaged in budgeting, 7.6% of them strongly disagree and 30.3% of them disagree that they didn't take part in budgeting in the bank (a total of 37.9%). This figure is almost equivalent to the total proportion of respondents that agree (34.8%) and that strongly agree (4.6%) which sum up to 39.4% of the respondents. While these figures are seen together with the proportion of the ignorant groups who responded neither disagree nor agree (22.7%), a total of 60.6% not having satisfactory contribution in budgeting verse 39.4% actively engaged in budgeting process in the bank. Actually these, the so called ignorant groups in this study, yield misleading responses, unacceptable, creating bias. Because how could one fail to exactly tell whether he/she has actively engaged in budgeting or not. Better to consider them as unresponsive groups.

Regarding the rest questions/ DBE adopted appropriate (standard) budgeting process (system or technique)/, only few of the respondents, not more than 5% responded strongly disagree and not more than 12% responded disagrees. Whether or not employee participation could add value to budgeting process, 47% of respondents agree and 27.3% of respondents strongly agree that participation could add value. Whether or not budgeting in the bank is closely coordinated and performed with the bank's strategic plan and if DBE adopted standard budgeting system or technique, 57.6% and 43.9% of the respondents agree while 18.2% and 18.2% of the respondents strongly agree on the specific points respectively.

With respect to existence of assessment of past experience and consideration of future expectation and planned targets in the budgeting process in the bank, 54.6% and 54.6% of the respondents agree and 19.7% and 21.2% of the respondents strongly agree respectively.

Table 4: Summary of responses regarding Planning and Budgeting

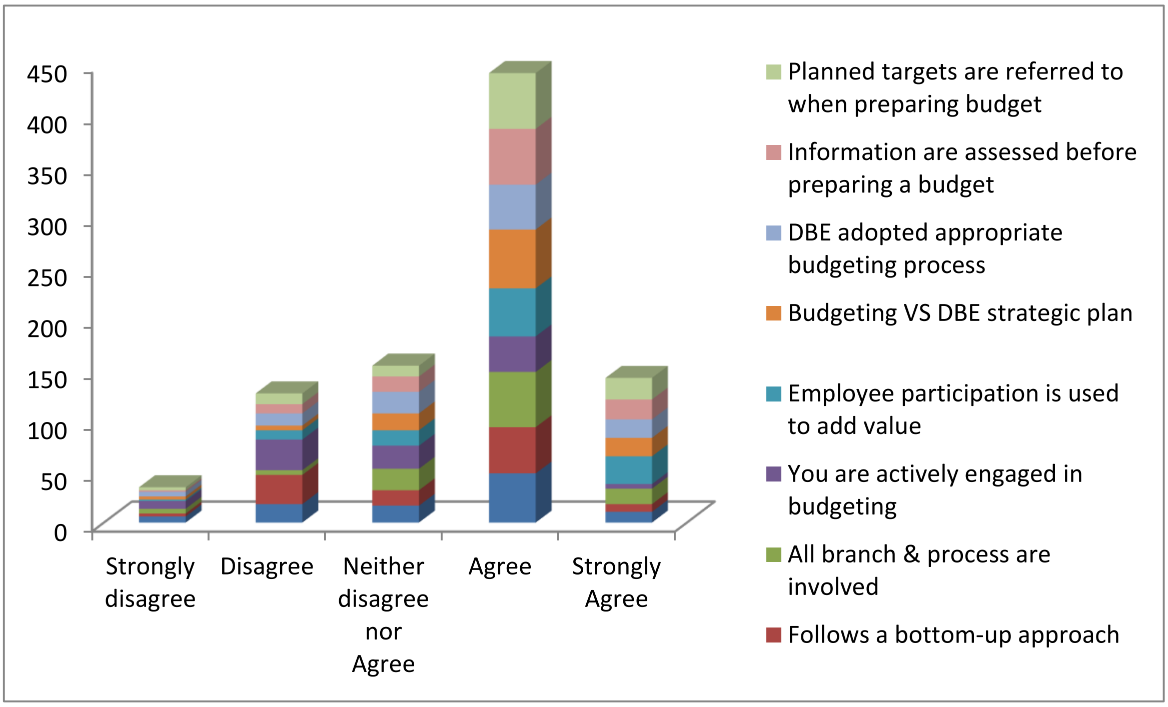
No	Statements	Percent					Std. deviation
		Strongly disagree	Dis agree	Neither disagree nor Agree	Agree	Strongly Agree	
1	The budgeting process is participatory	6	18.2	16.7	48.5	10.6	16.66
2	The budgeting process follows a bottom-up approach capturing all employees' needs	3	28.8	15.2	45.5	7.6	17.27
3	Management ensures that all branch & process are involved in the budgeting process	4.6	4.6	21.2	54.5	15.2	20.55
4	You are actively engaged in budgeting	7.6	30.3	22.7	34.8	4.6	13.45
5	The employee participation is used to add value to the budgeting process.	1.5	9.1	15.2	47	27.3	17.79
6	Budgeting is closely coordinated and performed with DBE strategic plan	3	4.6	16.7	57.6	18.2	22.10

No	Statements	Percent					Std. deviation
		Strongly disagree	Dis agree	Neither disagree nor Agree	Agree	Strongly Agree	
7	DBE adopted appropriate (standard) budgeting process(system or technique)	4.6	12.1	21.2	43.9	18.2	14.79
8	All the necessary information (past experience, future expectation, factors leading to budget variances & etc) are assessed before preparing a budget	1.5	9.1	15.2	54.6	19.7	20.50
9	Planned targets are regularly referred to when preparing budget	3	10.6	10.6	54.6	21.2	20.40
Mean		3.87	14.15	17.19	49	15.84	17.03
Std. deviation		2.03	9.63	3.84	7.17	7.14	3.01

Source: Survey outcomes and own computations, year 2010/11-2014/15

Figure 2, bellow could clearly reveal what the distribution of responses of the respondents look like while seen across the preset response categories. Regardless of the questions, the larger proportions of the respondents agree that the bank is on a good standing with processes related to budgeting and planning.

Figure 2: Response variability of respondents regarding Planning and Budgeting



Source: Survey outcomes and own computations

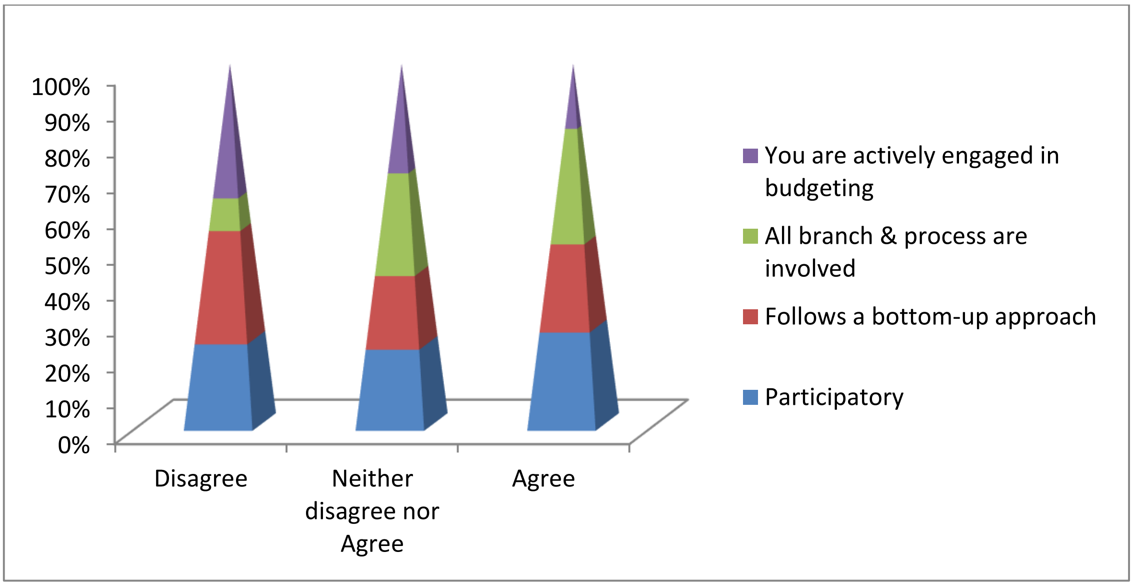
Table 5: Variability of respondents regarding planning and budgeting

Statements	Disagree	Neither disagree nor Agree	Agree
Participatory	24.2	16.7	59.1
Follows a bottom-up approach	31.8	15.2	53.1
All branch & process are involved	9.2	21.2	69.7
You are actively engaged in budgeting	37.9	22.7	39.4
Mean	25.77	18.95	55.32

Source: Survey outcomes and own computations

In summary (table above and fig. 3 and 4 bellow),taking both the categories strongly disagree and disagree as disagree and also the categories agree and strongly agree as agree, even if the degree of the agreement and disagreement varies the following results are obtained. From the result of the survey, generally it can be concluded that the budgeting process in DBE is participatory involving employees, branches and process (55.32% of the respondents agree). But it can't be denied that a significantly larger proportion of the respondents disagree (25.77%) about participatory nature of budgeting process in DBE. It is surprising that 18.95% of the respondents neither agree nor disagree whether the budgeting process in DBE is participatory or not. It implies that those respondents are either ignorant, do not fill responsibility to honestly respond, not self-confident or the bank didn't communicate information well among employees and that some of its employees do not know what is going on in the bank.

Fig. 3: Different responses of respondents across different response categories

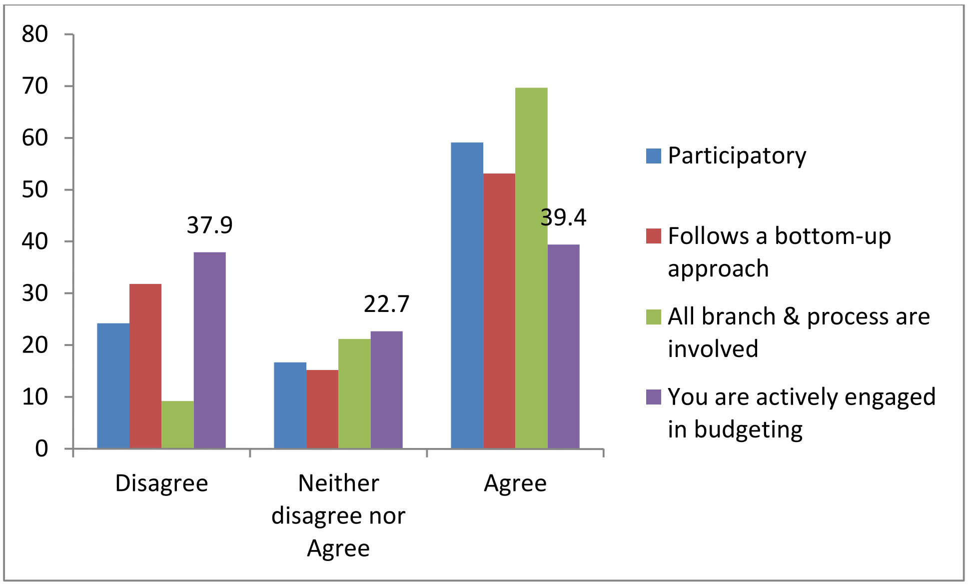


Source: Survey outcomes and own computations

For the singly question which asks whether or not the respondent is actively engaged in budgeting, 39.4% of the respondents agree and an almost equal proportion of the respondents (37.9%) disagree (meaning do not take part in budgeting process)

Figure 4, bellow presents a clear view of the magnitude of variability in responses toward different questions especially those related to involvement of employees and different sectors and process in budgeting process. The figure presents summary results after they are contracted from five response categories into three categories by summing up proportions for strongly disagree and disagree as well as those for agree and strongly agree under single categories; disagree and agree respectively.

Fig. 4: Comparison of percentage of respondents responding to different response categories



Source: Survey outcomes and own computations

Regarding the budgeting process, most of the respondents agree on different questions related with existence of budgeting process in DBE, even if some of them disagree and still others refrain from giving their opinion.

4.1.3. Budget Implementation

To assess status of budget implementation in the bank, different questions were given for the sample individuals to reply their responses in categories as usual. After their responses were summarized as in table 6 below, it was seen that no one of the sample employees strongly disagree the question that employees have a sense of belonging for the bank's budget, 7.6% of the respondents disagree and 56.1% and 10.6% of the respondents agree and strongly agree respectively. For the question that says employee are always ready to implement a budget according to its plan, 1.5% of the respondents strongly disagree, 13.6% of the sample employees disagree, 48.6% of the respondents agree and 13.6% of the respondents strongly agree. No one of the respondents strongly disagree that variance between the planed and implemented budget is due to absence of fully participation of employees in budget preparation. This means that absence of employee participation is a factor which causes variance and results in reduction of budget performance in the bank.

Contrary to this 21.2% of the respondents disagrees that variance between plan and actual budget has nothing to do with employee participation in budget preparation. This indicates that there is no consistency in the responses of the respondents for a specific question related to what is going on in the bank. This further implies that the respondents either do not understand some of the question (language gap)or may not fill responsible to fairly respond to the questions.

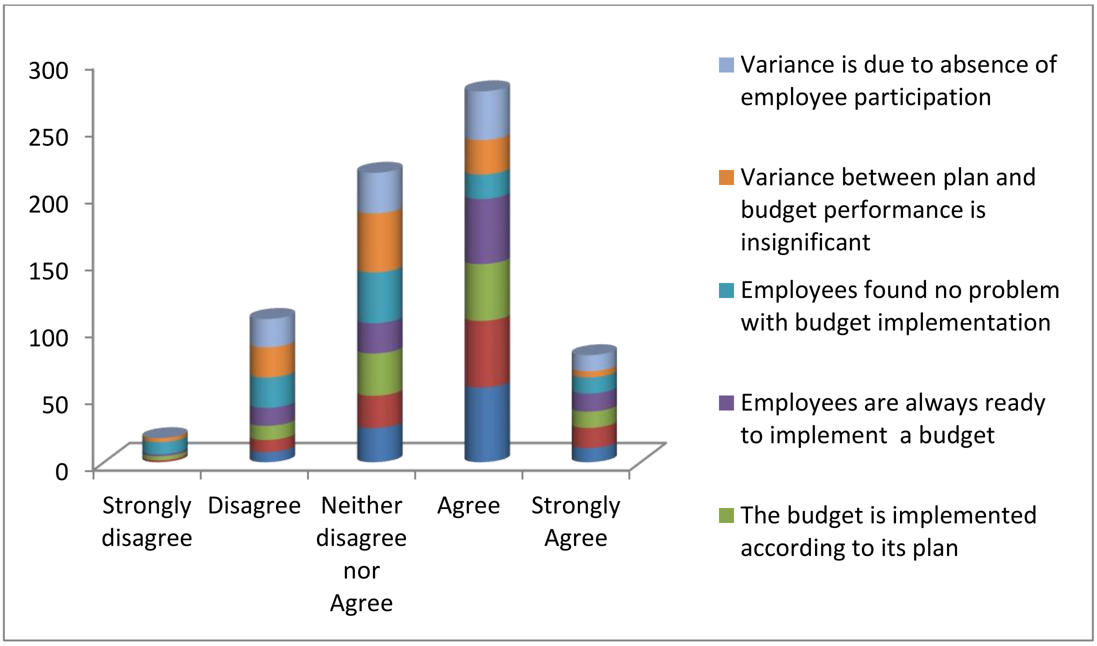
From respondents' response (Table 6) it is seen that relatively largest proportions (51.1% on average) of the respondents agree on different issues regarding Budget Implementation in DBE. Especially regarding budget is ease to put in to practice (65.2%). Relatively least (30.3%) number of respondents agree that they are Variance between plan and budget performance is insignificant. From the total respondents (17.94%) disagree while (30.94%) neither agree nor disagree regarding budget implementation.

Table 6: Summary of responses regarding Budget Implementation

No	**Statements**	**Percent**					**Std. deviation**
		Strongly disagree	**Disagree**	**Neither disagree nor Agree**	**Agree**	**Strongly Agree**	
1	Employees have a sense of belonging or ownership of their branch & process' budget	0	7.6	25.7	56.1	10.6	22.24
2	DBE's budget is suitable for implementation(it is ease to put in to practice)	1.5	9.1	24.2	50	15.2	18.72
3	The budget is implemented according to its plan	3	10.6	31.8	42.4	12.2	16.42
4	Employees are always ready to implement a budget according to its plan	1.5	13.6	22.7	48.6	13.6	17.67
5	Employees found no problem with budget implementation	9.1	22.7	37.9	18.2	12.1	11.31
6	Variance between plan and budget performance is insignificant	3	22.7	44	25.7	4.6	16.90
7	Variance between plan and budget performance is partly due to absence of or limited employee participation in budget preparation	0	21.2	30.3	36.4	12.1	14.48
Mean		2.58	15.36	30.94	39.63	11.48	15.02
Std. deviation		3.12	6.67	7.76	13.73	3.36	4.31

Source: Survey outcomes and own computations

Figure 5.1: Responses of the respondents regarding budget implementation



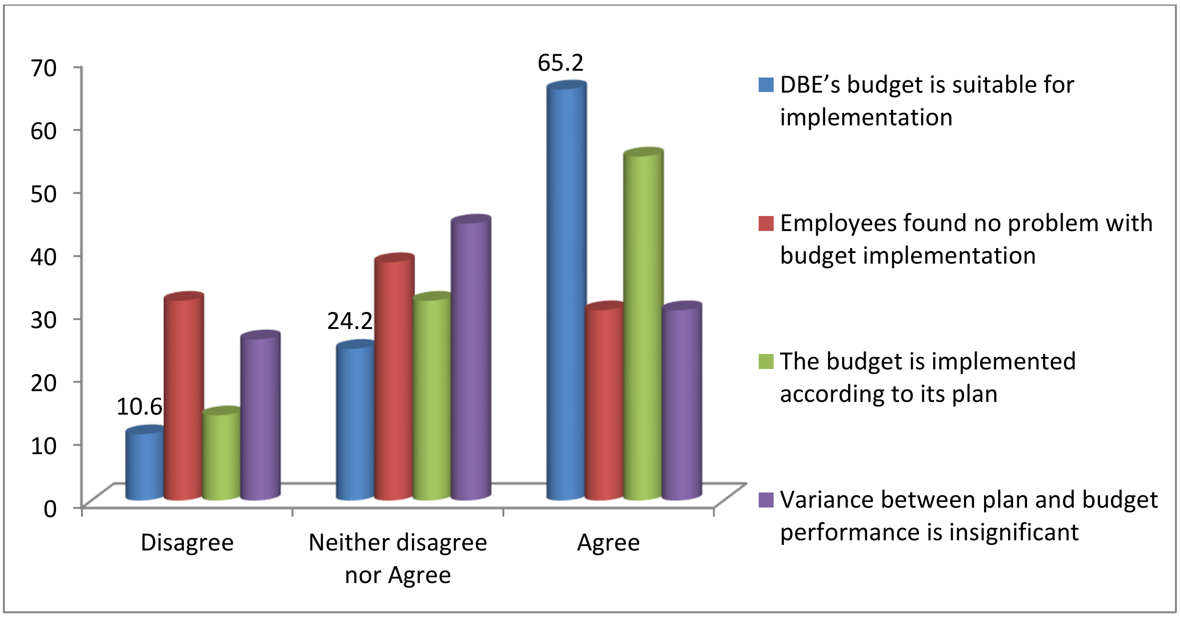
Source: Survey outcomes and own computations

While the responses are summarized into fewer categories only for some of the questions that are more related to budget implementation, they further make clear that on average still more of the respondents agree on different questions related to budget implementation even if an approximately equal proportion even on some questions more of the respondents disagree. For example for the question that says DBE's budget is suitable for implementation, 10.6% of the respondents disagrees (i.e. strongly disagree plus disagree) which means it is not suitable for implementation while 65.2% of the respondents agree (i.e. agree plus strongly agree) that it is suitable for implementation. For question that asks whether or not employees found problem with budget implementation in the bank, 31.8% of the respondents disagree the question and confirm existence of budget implementation problem among employees and 30.3% of the respondents agree that there is no problem with budget implementation. For the rest related questions regarding budget implementation according to its plan and level of variance between plan and budget performance, 13.6% and 25.7% of the respondents respectively responded disagree, where as 54.6% and 30.3% of the respondents agree on the matter (the summary table and figure below).

Statements	Disagree	Neither disagree nor Agree	Agree
DBE's budget is suitable for implementation	10.6	24.2	65.2
Employees found no problem with budget implementation	31.8	37.9	30.3
The budget is implemented according to its plan	13.6	31.8	54.6
Variance between plan and budget performance is insignificant	25.7	44	30.3
Mean	20.42	34.47	45.1

Source: Survey outcomes and own computations

Figure 5.1: Responses of the respondents regarding budget implementation



Source: Survey outcomes and own computation

On issues related to budget implementation (45.1%) agree that there is no problem with budget implementation, (20.42%) disagree while (34.47%) neither agree nor disagree.

The figure above shows variability and magnitude of responses of respondents to four selected questions related to budget implementation in DBE. The figure represents summary values after the categories are being reduced to three (strongly disagree and disagree being considered as disagree and agree and strongly agree as agree).

From the figure it can be seen that the proportion of respondents that agree on issues that were asked related to budget implementation in the bank are relatively higher on average than responses that fall into other categories.

4.1.4. Budget Review

The survey results indicate that budget review is conducted periodically in DBE to see if there is any problem on budget process, budget implementation and if there is any deviation from planned targets. Corrective measures are also forwarded and effected to reduce variance between expected and actual performance.(See table 7). On issues related to budget review (59.33%) agree that there is no problem with budget review, (15.83%) disagree while (24.9%) neither agree nor disagree.

While responses of the respondents were computed into percentage by categories and evaluated for some of budget review related questions, the results are as follows: about the presence of deliberate periodic budget review meeting in the bank at different levels, 3% of the respondents strongly disagree, 15.2% disagree (which can be summed up to 18.2% disagree) implying the budget review status is not well satisfactory. The rest 44% and 10.6% of the respondents agree and strongly agree respectively (which yield a sum of 54.6% of respondents agreeing on the point).

About referring of planned targets at review and assessment of budget variances, identification of factors that lead to budget variances and implementation of corrective measures, sample employees of the bank reply as follows: strongly disagree (1.5% each), disagree (7.6% and 15.2%), agree (63.6% and 45.5%) and strongly agree (9.1% and 6.1%) for both the above questions respectively.

About effectiveness of budget review in the bank, no one of the sample individuals strongly disagree that budget review gives solution for problems that occur during budget implementation. 9.1% of them disagree, 56% agree and 19.7% strongly agree.

For the question that respondents were asked whether or not budget review recommendations forwarded are substantiated for the subsequent budget preparation, 3% of the respondents strongly disagree, 15.2% disagree (which sum up to 18.2% of the respondents deny the case)implying absence of follow up, in coordination and the budget review meet being unimportant as far as it has no use in making adjustments. .Still 50%

and 10.6% of the respondents agree and strongly agree that contrary to the previous ones, the bank substantiated recommendations for the coming budget period.

Table 7: Summary of responses regarding Budget Review

No	Statements	Percent					Std. deviation
		Strongly disagree	Disagree	Neither disagree nor Agree	Agree	Strongly Agree	
1	There is examination techniques used to check the accuracy of budget	1.5	16.7	27.3	44	10.6	16.36
2	There are deliberate periodic budget review meeting at process and Head Office level	3	15.2	27.3	44	10.6	16.04
3	Employee’s, process & branch’s ideas are considered during budget review	4.6	16.7	33.3	39.4	6.1	15.77
4	During budget review factors that lead to budget variance is assessed and corrective measures are given to ensure better budget performance	1.5	15.2	31.8	45.5	6.1	18.36
5	Planned targets are regularly referred to when reviewing budgets	1.5	7.6	18.2	63.6	9.1	25.09
6	The budget review recommendations are effected in the subsequent budget adjustments	3	15.2	21.2	50	10.6	18.04
7	Budget review gives solution for the problems that occur during budget implementation	0	9.1	15.2	56	19.7	21.43
Mean		2.16	13.67	24.90	48.93	10.4	18.73
Std. deviation		1.49	3.72	6.86	8.34	4.57	3.41

Source: Survey outcomes and own computations

4.1.5. Budget Performance

Budget performance in DBE as seen from responses of the respondents to the questionnaire survey looks promising. Respondents agree (average 53.57% of the respondents, i.e. 41.9% agree plus 11.67% strongly agree) that performance is at good standing while the rest 15.63% (3% plus 12.63%) of the respondents disagree the promising budget performance and 30.83% neither agree nor disagree about the promising performance in DBE respectively.(see Table 8).

Document analysis of the actual budget performance of DBE is presented in seceding section.

Table 8: Summary of responses regarding Budget Performance

No	Statements	Percent					Std. deviation
		Strongly disagree	Disagree	Neither disagree nor Agree	Agree	Strongly Agree	
1	Budgeting is closely coordinated and performed with DBE strategic plan	3	4.6	16.7	57.6	18.2	22.1
2	The budget is implemented according to its plan	3	10.6	31.8	42.4	12.2	16.42
3	Variance between plan and budget performance is insignificant	3	22.7	44	25.7	4.6	16.9
Mean		3	12.63	30.83	41.9	11.67	18.43
Std. deviation		0	9.22	13.67	15.95	6.81	3.15

Source: Survey outcomes and own computations

4.1.6. In-depth interview Results

In –depth interview with Strategic Planning and Development Effectiveness Process(SPDEP) team leaders and Officials reveal that budget was prepared by each process and branches of the bank by considering last year's performance and estimating internal environment (strength, weaknesses, opportunities and threats of the bank) and external environment (social, economic, political and technological factors) at regional, national and global level. The operational plan incorporated both the Credit plan and budget. The main indicators used in credit plan include loan applications, approvals, planned disbursements and collection as well as outstanding loan and loan in arrears. Moreover, the operational plan of the Bank also includes noncredit items such as manpower planning, Capital expenditure and elements of the recurrent budget. The interview results also revealed that DBE critically conduct five years strategic plan and annual budget.

The in-depth interview with budget team officials shows that DBE has recently adopted a Activity Based Budgeting which is quantitative expression of the expected activities of the organization, reflecting management’s forecast of work load and financial and non financial requirements to meet agreed strategic goals and planned changes to improve performance and participatory planning and budget (bottom- up and top-down) approach. According to the participatory nature of the DBE planning and budgeting approach, planning and budgeting starts at the lowest process branch level. Consequently, each process of the Bank prepares its plan in line with the broader guidelines given from the Head Office and submits its plan and budget to the Strategic Planning and Development Effectiveness Process for consolidation. Then the aggregate plan and budget of the Bank will be compiled and submitted to the supervisory Authority after the necessary review and amendment by the management and the Board of management of the Bank.

The plan and budget, after it gets approval by the supervisory Authority, will be distributed to the each Process, Regional office, and Branches, so that it can serve as a directive for achievement of the target laid down by the Bank for the given year.

For a successful implementation of the plan and budget, it has to be internalized with dedication and commitment for execution by each process and member of the Bank.

The approved annual plan and budget will be further disaggregated in to quarterly basis in which the execution of the plan is checked by comparing actual performance against planned targets. This closes the circle of participatory planning and budgeting.

Table 7: Plan and Budget preparation and performance reporting Calendar

Sr. No	Description	From	To	Deadline
1	Plan & Budget initiations(accompanied by review of objective and strategies of the Bank)	Management (SPDEP)	Process, Branches, Services, Offices	January 1st
2	Plan & Budget Progress	Process, Branches, service & Office	SPDEP	March 15
3	Plan & Budget hearing and defending	All processes	Plan & Budget committee	March 30
4	Plan & Budget consideration analysis and review	SPDEP	Management	April 30
5	Plan & Budget discussion and approval	Management	BOM	May 30
6	Plan & Budget Approval	BOM	PFEA	June 15
7	Plan & Budget Communication	Management	All process	June 30
8	Plan & Budget performance report	All process	SPDEP	On the 10th day of the next quarter
9	Quarterly activity report	SPDEP	Management	

Source: DBE Procedure manual

The in-depth interview with SPDEP officials regarding to performance evaluation, evaluation refers assessing systematically and objectively the effectiveness and impact of an organization. Thus, the Bank's performance is evaluated based on a business score card (BSC) framework, and the extent to which the stated objective are achieved or not is also assessed in quarterly or annual basis. In addition to this sometimes performance evaluation there is confusion in the Bank on the implementation of budget performance evaluation.

When the budget is insufficient to handle the project usually the budget will be transferred to the next year but it affect the performance of the process/branch/ responsible to handle the project. There is always argument in this issue because the evaluation considers as if no movement is carried out. The performance evaluation given higher credit for projects consumed the whole budget & considers contingency budget & treats the unused contingency budget as under performance. In the case of capital budget, when variances are occurred the Bank uses contingency budget to fill the gap. However, if the gap is very wide the procurement budget will be cancelled & transferred to the next budget year.

The main factor that lead to budget variance is allocating budget without properly investigating the cost of the capital expenditures, lack of market survey for appropriate price, delay in project completion and additional work are the main factor for budget variance and that affect the performance of concerned process or branches.

4.1.7. Document Analysis Results

Document Analysis in this study focuses particularly on reports of GTP-I plan vs. actual as well as performance in the bank. The Thematic Areas assessed during this analysis includes: Credit Operation, Financial Performance, Income Accounts, Balance Sheet Account, Cash flow and others, Financial Ratio Analysis, Customer satisfaction, Perspectives, Strategic Initiatives Implementation, and Human Resources Assessment.

Credit Operation Performance

This section of the document analyze analyzes the Bank‘s credit performance for the past five years (2010/11–2014/15). It is based on the past five years actual performance. Accordingly, actual performance related to credit activity like Approval, disbursement, collection, outstanding and NPL‘s are summarized in the following table in comparison with the set plan targets.

Table 10.1: A five year's performance of the Bank regarding achievements in credit operation.(In Billion Birr)

Description		**GTP-I Plan vs. Actual (2010/11-2014/15)**		
		Plan	**Actual**	**Performance (%)**
Approval		44.1	39.3	89%
Disbursement		37.44	26.8	72%
Collection (P+I)		13.4	12.82	96%
Loan Outstanding		26.96	27.68	103%
NPLs	Amount	1.9	2.27	119%
	Ratio (%)	7.04%	13.00%	54%

Source: Strategic Plan and annual reports, year 2010/11-2014/15

Table 10.2: Summary of Planned and Actual Performance for the period covering 2010/11—2014/15 *('In Million Birr)*

Sr. No	Descriptions	2009 *	2010/11		2011/12		2012/13		2013/14		2014/15		TOTAL (2010/11-2014/15)		
		A	P	A	P	A	P	A	P	A	P	A	P	A	Perf.
1	Loan Approval	2,033	5,110	5,534	7,822	7,973	7,925	8,152	8,722	7,424	14,563	10,256	44,142	39,339	89%
2	Loan Disbursement	2,750	3,512	3,793	7,073	4,541	6,374	5,336	8,460	5,472	12,024	7,634	37,443	26,775	72%
3	Loan Collection (P+I)	750	1,310	1,387	2,647	2,155	2,574	2,540	2,961	3,054	3,900	3,689	13,393	12,824	96%
4	Loan Outstanding (P+I)	9,426	12,023	11,980	17,663	14,881	20,433	18,887	26,590	22,523	32,152	28,716	32,152	28,716	89%
5	Non-Performing Loan	2,144	1,170	1,398	1,400	1,123	1,147	1,627	1,497	1,853	1,693	3,733	1,693	3,733	45%
6	Non-Performing Loan Ratio	22.75		11.67%		7.54%		8.62%		8.23%		13.00%		13.00%	

□ Base year, CAGR- Compounded Annual Growth Rate A- Actual

Source: Strategic Plan and annual reports, year 2010/11-2014/15 .

A close look at the past five year‘s performance (2010/11–2014/15) indicates that the Bank has registered encouraging achievements in its overall credit operation. An Overview of Aggregate Performance and Targets are shown in table above (Table 10.10 & 10.2)
The quality of the Bank‘s asset measured by NPLs rate and sustainability has exhibited significant improvement over the past five years. Although it has not reached the target of 5%, the NPLs ratio has decreased to 13% at the end of strategic period.

Moreover, the strategic period performance has registered significant growth in both volume and value of business operations of the Bank. The value of loan approval has doubled from 5.6 Billion at the beginning of the plan period (2010/11) to 10.8 Billion at the end of the strategic period (2014/15).As depicted above the bank approval, disbursement and collection showed a Compounded Annual Growth Rate (CAGR) of 38.2%, 22.7% and 37.5%, respectively.

Financial Performance

The last five years financial performance indicates that the total income of the Bank has grown from Birr 920.4 million (2009/10) to Birr 2.73 Billion and registered an annual compounded average growth rate of 35%. Over the same period, the total expense of the Bank has increased from about Birr 481 million in 2009/10 to the tune of Birr 1.86 Billion at the end of the strategic year, showing compounded average growth rate of 31%. The following table summarizes income statement account.

Table 11: Summary of Income Statement Accounts (In million Birr)

No	Particulars	2009	2010/11		2011/12		2012/13		2013/14		2014/ 15		CAGR	% share
		A	P	A	P	A	P	A	P	A	P	A	A	
1	**Income**	612	922	920	1647	1646	1884	1882	2043	2042	2733	2731	35%	100%
1.1	Interest income	492	460	459	1413	1413	1617	1616	1696	1696	2523	2522	39%	84%
1.2	Non-Interest Income	120	462	461	234	233	267	266	347	346	210	209	12%	16%
2	**Expense**	481	720	722	1064	1063	1147	1146	1516	1515	1861	1859	31%	100%
2.1	Interest Expense	150	331	332	511	511	716	716	872	872	1,015	1,014	47%	55%
2.2	Non-Interest Expense	330	389	390	553	552	431	430	644	643	846	845	20%	45%
3	**Net Profit after Tax**	130.77	202	198.15	584	582.8	737	736	527	527.46	872	967.24	49%	

Source: strategic plan and annual report, year 2010/11-2014/15

From the total income, interest income and non-interest income has shown a compounded average annual growth rate of 39% and 12%, respectively. Furthermore, the interest income accounts for the lion share of 84% while the non-interest income constitutes the rest 16% of the total income.

Likewise, from the total expanses, the interest expense has registered an average compounded annual growth rate of 47% while the non-interest expenses which include employee salaries & allowances, employee benefits, depreciation, general expense, provision expense and income tax have increased by 20%. Moreover, in the period under review, the total interest expense accounts for 55% of total expense while the rest non-interest expense constitute 45%.

The net income after tax has increased from Birr 130.77 million (2009/10) and reach Birr 967.24 million at the end of the strategic period (2014/15) registering a CAGR of 49%.

To sum up, as depicted in the above table 11, the total expense showed an annual average growth rate of 31% whereas that of the total income was 35% during the past five years indicating a positive correlation.

Balance Sheet Account, Cash flow and others

During the review period, total assets at the baseline year (2009/10) was Birr 9.3 billion and is expected to reach Birr 42.84 billion (2014/15) and has shown CAGR of 31%. Moreover, loans & advances registered 30% CAGR and the non-loan and advances asset accounts grew by 48% per annum. Loans and advances made up the lion‘s share of the Bank‘s total assets (about 61%) followed by non-loan and advances assets accounting for the remaining 39%. Non-loan and advances assets includes assets such as investments (treasury bill), deposits with other banks, other assets, fixed and related assets, and cash on hand and cash equivalent.

Similarly, the total liability of the Bank has increased from Birr 7.2 billion (2009/10) the) to Birr 38.50 billion at the end of the strategic year (2014/15) and has shown CAGR of 40%.

From the total liability, borrowings constitute the lion‘s share of 88%, while non-borrowings account for the remaining 12%. Non borrowings consist of deposits, other credit balance, and provisions. In terms of average growth rate, total borrowings registered 40%, whereas total non - borrowings showed 10%.

In terms of total capital and reserve, the Bank registered Birr 2.03 billion in 2009/10 and is expected to reach Birr 4.35 billion at the end of the strategic year (2014/15), exhibiting CAGR of 16%.

From the total capital, the paid up capital comprises 41% whereas retained earnings, legal reserve and others in total constitute 59% of the total capital. Retained earnings, legal reserve and others in total showed CAGR of 61% while the paid up capital remains intact for the last five years.

Cash flow is one of the financial statements that reveal the financial soundness of an institution or a firm. In line with this the cash flow is prepared taking into account three components namely operating, financing and investing activities. Accordingly, the net increase in cash & cash equivalent was Birr 87.1 million as of 30 June 2010/11 and is expected to reach negative balance of birr 1563.28 million in 2014/15.

On the other hand the Bank‘s total foreign currency payment for import (sale of foreign currency) was equivalent to Birr 2.09 billion (2010/11) and is expected to reach Birr 3.4 Billion (2014/15) depicting an annual average growth rate of 10.22%. With regard to export proceeds, the Bank purchased foreign currency equivalent to Birr 2.15 billion (2010/11) and it is expected to reach Birr 1.47 billion (2014/15) registering an annual average declining rate of 7.24%.

During the last four years DBE has sold a total bond of Birr 6.1 billion including CBE, and Micro Finance Institutions. Accordingly, a total bond sale of Birr 2.62 Billion was sold in the fiscal year of 2011/12 and it is expected to reach to Birr 1.03 billion by the end of 2014/15 showing a declining average annual rate of 20.8%.

Over the past five year strategic period the Bank has allocated and expended Birr 256.9 million for different capital expenditure items such as building construction and renovation, transport equipment & vehicles, computerization program, computers and accessories and furniture and fixture. As can be seen from the table below, the trend of capital expenditure items of the Bank shows CAGR of 5.6% within the strategic period. The table below depicts the past performance of balance sheet accounts, cash flow and others.

Table 12: Performance of Balance Sheet Account, Cash flow and others (In million Br)

Sr. No	Particulars	*2009/10*	*2010/11*		*2011/12*		*2012/13*		*2013/14*		*2014/15*		*CAGR*
		A	**P**	**A**	**P**	**A**	**P**	**A**	**P**	**A**	**P**	**A**	
1	**Asset**	**9,262.72**	**15,230**	**15,227**	**25,029**	**25,025**	**31,190**	**31,185**	**37,317**	**37,317**	**42,845**	**42,844**	**36%**
1.1	Loans and Advances	6,949.12	11,210	11,209	14,044	14,042	17,931	17,929	21,439	21,438	26,187	26,186	30%
1.2	Non-loans and advances	2,313.60	4,020	4,018	10,985	10,983	13,259	13,256	15,878	15,879	16,658	16,658	48%
2	**Liability**	**7,226.40**	**13,029**	**13,028**	**22,480**	**22,476**	**28,037**	**28,034**	**33,750**	**33,749**	**38,450**	**38,499**	**40%**
2.1	Borrowings	4,684.83	9,580	9,579	17,984	17,981	24,495	24,493	29,250	29,249	33,801	33,800	48%
2.2	Others	2,541.57	3,449	3,443	4,496	4,487	3,542	3,530	4,500	4,487	4,649	4,685	**13%**
3	**Capital**	**2,036.31**	**2,201**	**2,198**	**2,549**	**2,548**	**3,153**	**3,150**	**3,567**	**3,567**	**4,395**	**4,345**	16%
3.1	Paid-up Capital	1,800.0	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	0%
3.2	Others	236.31	401	577	749	748	1,353	1,350	1,767	1,767	2,545	2,545	61%
4	**Net increase in Cash & cash equivalent**			87.09		(7.113)		721.28		838.51		(1,563.3)	23%
5.0	**Import/ Export**												
5.1	Foreign Currency sales	NA	2.12	2.09	2.90	2.85	2.65	2.55		3.0	3.5	3.4	10.22
5.2	Export Proceeds	NA	2.16	2.15	2.15	2.14	2.21	2.20		2.34	1.48	1.47	-7.24
6.0	**GERD Bond**	NA		NA	2.65	2.62	1.40	1.37		1.07	1.05	1.03	-20.8
7.0	**Capital Expenditure**		51,460	51,458	41,210	41,206	44,570	44,564		55,980	63,745	63,740	5.6

Source: strategic plan and annual report, year 2010/11-2014/15

Financial Ratio Analysis

Financial ratios are useful indicators of a firm's performance and financial situation. In view of this, the analysis of financial ratios of the Bank is conducted using three major categories as presented hereunder.

Table 13: Trends of Financial Ratios for the Strategic Period from 2010/11-2014/15

Types of Financial Ratio	AADFI's Prudential Standard	Years				
		2010/11	2011/12	2012/13	2013/14	2014/15
Capital Adequacy:						
Capital to risk weighted Assets	> 15%	20.55%	15.10%	14.22%	14.20%	15.13%
Debt to Equity Ratio	< 4:1	5.93	10.45	11.21	11.27	9.32
Asset Quality:						
NPLs to total Loans	< 15%	11.67%	7.54%	8.62%	8.23%	13%
Efficiency:						
Return on Asset (ROA)	>1%	1.30%	2.33%	2.36%	1.41%	2.16%

Source: strategic plan and annual report, year 2010/11-2014/15

a. Capital to risk weighted Assets: As it is noted from the above the ratio of capital to risk weighted assets seems to be good as long as it is not below the AADFI‘s prudential standard. However, in the near future, the capital of the Bank is not sufficient to absorb any shock in any loss of loan portfolio in consideration of the high risk nature of credit and long gestation period of projections in which DBE is currently operating.

b. Debt to Equity ratio: The ratio was 5.93:1 (2010/11) and is expected to be 9.32:1 at(2014/15). This implies that the capital of the Bank is highly leveraged or indebted. In addition, this ratio is also beyond the standard (4:1) throughout strategic period. Therefore, it is high time for the Bank to raise its capital to an acceptable international standard. By doing so, the Bank can improve its capital risk absorption capacity and raise its single borrower limit to address the ever-increasing credit demands from private entrepreneurs.

c. **Non-Performing (NPL) Ratio:** The NPL ratio of the Bank was 22.75% (2009/10) and it is estimated to reach 13% (2014/15). As it can be noted from the above table, the NPL ratio has been declining from time to time with CAGR of 10.6%, except in 2011/12, and is below the AADFI‘s standard (15%). But, this ratio is higher than the NBE target of 5%. Therefore, the Bank should design pragmatic and effective NPL reduction strategies.

d. **Return on Asset (ROA):** it is the ratio of net income to total assets. It is an indicator of how profitable the Bank is relative to its total assets. As depicted from the above table, the ROA of the Bank has grown from 1.30% (2010/11) to 2.16% at the end of 2014/15. The increasing trend of ROA of the Bank is a reflection of the improvement in profitability.

Customer Satisfaction/Credit Service Delivery Cycle Time

The strategic plan (2010/11 – 2014/15) had targeted to raise the customer satisfaction level from 70% to 90% by gradually pushing down the average credit service delivery cycle time from 48 to 32 working days at the end of the strategic plan period.

As can be seen from the trend in the table below, the customer satisfaction score had increased to 82% even though the average credit service delivery cycle time has increased to 46 days at the end of March 31, 2015. A survey was also conducted by the Public Financial Enterprises Agency (PFEA) in 2014 and its findings didn‘t significantly deviate from the Bank‘s reports. Summary of DBE and PFEA survey results are as presented below:

Table 14: Credit Service Delivery Performance Trend in GTP-I (2010-2015)

Credit Service Delivery Performance Indicators		**2010 Baseline**	**2011**	**2012**	**2013**	**2014**		**2015**
						DBE	**PFEA**	
External customer satisfaction	Plan	65	70	75	80	85	NA	88
	Actual		71	77	79	81	75	82
Internal customer satisfaction	Plan	-	70	75	80	85	NA	80
	Actual		70	75	70	74	72	72
Average credit service delivery cycle time	Plan	58	48	40	38	34	NA	32
	Actual		40	41	38	43		46

NA = Not Available

Source: DBE Annual Plans and Performance Reports and PEFA intuitional change implementation assessment report.

The service excellence of the Bank is actually measured by cycle time and Customer Satisfaction. During the past five years, although it does not reached the intended level of 32 days, the cycle time has been within the range of 32 days to 46days, implying effort on further improvement. Similarly, the Bank target for customer satisfaction was 90% while the actual achievement registered has been 82%.

BSC Perspectives

As a performance measurement tool the Bank has evaluated its performance using perspectives, objectives and measures. The Bank's strategic objectives reduced from 17 at the beginning of the strategic period to 11 objectives at the end of 2014/15. Similarly, the measures have also been condensed from 48 to 33 within the same period.

The past five years perspective performance is summarized hereunder.

Table 14: BSC Performance Result of the Bank (2010/11-2014/15)

Perspectives	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Finance & Development	35	26.05	25.5	22.6	22.6
Customer	20	20	19	19.5	19.23
Internal Business Process	16.01	26.49	26.3	27.0	27.0
Learning & Growth	19.26	18.79	18.4	19.12	19.12
TOTAL	**90.27**	**91.33**	**89.20**	**88.0**	**88.22**

Source: strategic plan and annual report, year 2010/11-2014/15

As depicted in the above table, the overall average performance of the Bank during the review period was about 89.86% and found to be ***'satisfactory'*** level. This demonstrates the fact that the accomplishments are clearly in accordance with expectations/performance score ranges.

Strategic Initiatives Implementation Performance

During the past strategic period, the Bank has selected 23 initiatives for implementation; out of which 15 (65%) has been fully implemented, 6 (26%) are ongoing and 2 (9%) were not yet started. Details are as presented hereunder.

Table 16: Status of Initiatives Selected during the past strategic period

Sr. No.	Initiatives	Status		
		Under Implementation	Not Yet Started	Implemented
1	Data Centre Construction	X		
2	Core Banking System implementation			X
3	Building maintenance and renovation	X		
4	Training			X
5	Recruitment			X
6	Redeployment			X
7	Network Connectivity			X
8	Disaster Recovery	X		
9	Process automation	X		
10	Process Redesign for Finance & Banking			X
11	Core Process Certification		X	
12	Rewards Scheme development		X	
13	Office Facility and Standardization	X		
14	Records & Archive Management			X
15	Branch Rationalization			X
16	Balance Sheet Restructuring			X
17	Field Vehicles Purchase			X
18	Public Bond Issuing			X
19	BSC implementation			X

20	Developing partnership modality			X
21	Customer information desk establishment	X		
22	Customer orientation cum training			X
23	Baseline data development			X

Source: strategic plan and annual report

Human Resources Assessment

Human resource development is one of the strategic focus areas to be addressed during the last five years strategic period. Accordingly the Bank was involved in different types of recruitments from both internal and external sources to fill the job position required. Moreover capacity development is also another strategic focus area of the Bank which has planned to be performed during the strategic period. To this end, the total man power balance of Bank at the beginning of the strategic period was1,064 and expected to reach at 1,328 at the end of the strategic period with CAGR of 4.5%.

The Bank human resource by occupational category can be classified further into 807(61%)professional and high level supervisor, 216(16%) semiprofessional, administrative and clerical,87 (7%) technical and skilled while the remaining 218 (16%) are manual and custodian.

In terms of job category i.e. Professional and High Level Supervisor, Semi-Professional, Administrative and Clerical, Technical and Skilled, Manual and Custodian increased by 11.4%, 5.2%, 2.7% and 1% respectively during the past five years. This indicates that the Bank focus for professionals and high level supervisor compared with other job categories. Refer the following table for details.

Table 17: Human resource assessment by category

Sr. No	HR Category	2010/11		2011/12		2012/13		2013/14		2014/15		CAGR
		No	%	No.	%	No.	%	No	%	No.	%	
1	Professional and High Level Supervisor	470	44%	594	55%	656	57%	713	59%	807	61%	11.4%
2	Semi-Professional, Administrative and Clerical	168	16%	191	18%	199	17%	210	17%	216	16%	5.2%
3	Technical and Skilled	76	7%	70	6%	75	7%	78	6%	87	7%	2.7%
4	Manual and Custodian	209	20%	225	21%	217	19%	209	17%	218	16%	1%
Grand Total		1064	100%	1080	100%	1147	100%	1210	100%	1328	100%	4.5%

Source: strategic plan and annual report

4.2. Discussion

The purpose of this study was to compare the theory of budgeting to its practical application in DBE. Therefore, based upon literature, the actualization of the budget through participation tends to increase the commitment, commitment tends to heighten motivation, motivation which is job oriented tends to make managers work hard and more productive work by managers tends to enhance the company's property. The decision as to how to distribute limited financial and non-financial resources, in an effective and efficient manner, is an important challenge in all organizations. In most large and complex organizations, this task would be nearly impossible without budgeting .without effective budget analysis and feedback about budgetary problems, many organizations would become bankrupt. Some of the problems arise from inadequate data to formulate.

Findings of questionnaires, in-depth interview and document analysis conducted reveal that, DBE has well defined approach to budget planning, budget review, budget implementations and performance evaluation. All processes, branch and sub branches are involved in the entire budgeting process, with participation of their employees (bottom- up and top-down) approach was used. Budgets are prepared on yearly basis, and implemented after it gets approval by the supervisory Authority, will be distributed to the each Process, Regional office, and Branches, so that it can serve as a directive for achievement of the target laid down by the Bank for the given year.DBE has adopted a Activity Based

Budgeting which is quantitative expression of the expected activities of the organization, financial and non financial requirements to meet agreed strategic goals. The activity based budgeting promote the allocation of resources to their best uses in line with organizational priorities, enhances decision making and performance evaluation, and improves operational flexibility.

The strategic plan and budget of DBE has supported with Balanced Scorecard framework, the bank has been reviewing the existing objectives and measurements in every planning period as BSC is a learning process which never stops at one time. Consequently, the bank performance is being measured by 11 objectives and 33 measures set under the four BSC perspectives of Finance/Development, Customer, Internal Business Process and Learning and Growth.

Budgeting is believed to be the cornerstones to attain the long term mission, vision and objectives of an organization. But most of the time there is a problem in budgeting process and its implementation so that there is failure to meet planned targets. A close look at the past five year‘s performance (2010/11–2014/15) indicates that the Bank has registered encouraging achievements in its overall credit operation. Moreover, the strategic period performance has registered significant growth in both volume and value of business operations of the Bank. Since this study considered the strategic plan year of 2010/11 to 2014/15 the results also goes to the same years. From this study it was found that most of the respondents replay that budgeting process in the bank is participatory. But other respondents disagree on existence of employee participation in budget preparation. Still others do not have a knowhow whether the budgeting process in the bank is participatory or not. This may be due to their ignorance or absence of communication among employee as well as absence of fully participation of employee in the budgeting process. Respondents have also agreed on better bank’s performance in terms of budget implementation, budget review and amendments.

CHAPTER FIVE- CONCLUSION AND RECOMMENDATION

5.1. Conclusion

Budgeting is believed to be the cornerstones to attain the long term mission, vision and objectives of an organization. But most of the time there is a problem in budgeting process and its implementation so that there is failure to meet planned targets. This is also the case in Development Bank of Ethiopia.

The budgeting process in the bank is found to be Activity Based Budgeting which is quantitative expression of the expected activities of the organization, reflecting management's forecast of work load and financial and non financial requirements to meet agreed strategic goals and planned changes to improve performance and participatory involving all the branches and processes it involves all the different sectors in the bank by top-down and bottom-up approaches. The bank has a strategic plan prepared for five years and also an annual plan prepared from the share of the strategic plan for each year of the strategic plan years.

Since this study considered the strategic plan year of 2010/11 to 2014/15 the results also goes to the same years. From this study it was found that most of the respondents replay that budgeting process in the bank is participatory. But other respondents disagree on existence of employee participation in budget preparation. Still others do not have a knowhow whether the budgeting process in the bank is participatory or not. This may be due to their ignorance or absence of communication among employee as well as absence of fully participation of employee in the budgeting process. Respondents have also agreed on better bank's performance in terms of budget implementation, budget review and amendments.

Document analysis result rather indicates a clear picture of budgeting and other performance of the bank. From documented annual and GTP-I accomplishment reports it was found that even if the bank has prepared an extended plan to meet the government's GTP-I goals and targets it didn't fully met its plan. While its performance is evaluated from different angle, mainly credit operation, financial performance, customer satisfaction, BSC perspectives, strategic initiatives implementation and human resource assessment there are gaps plan and actual performance in the bank indicating that there were problems of budget implementation.

5.2. Limitations of the Study

As with any study, this study has its limitation. First, the scope the study is limited by sample size (small sample might be unrepresentative) and excluding regional office, Branch and sub branches due to time and resource constraints. The other thing is limitation of knowledge in budgeting and performance evaluation, because almost non conducted research related to this topic especially in our country and reference materials (books).

Another limitation of this study is that the research did not full address the impact of budgetary participation on the performance measures used in this study. It did not tried to test the relationship between budgetary participation and job satisfaction.

5.3. Recommendations

- The study recommends that should frequently involve staff (as there are indicators of absence of equal awareness among employees about budgeting in the bank because a significantly large proportion of the respondents responded neither disagree nor agree) when coming up with budget. This is because when employees participate in budgeting process they get committed to their organizational budget goal and hence a committed employee will register high level of performance.
- The bank should thoroughly look at the existing budgeting process in the bank should come up with a better solution solve the lesser level of employee participation.
- The bank should stand and think of designing an applicable plan rather than preparing an ideal plan(very much extended to be put into practice and only ambitious to meet the GTP plan)which do not go with the current capability of the bank.
- The bank should capacitate its employee through training and providing information about every activity of the bank as there are indicators of communication gap where some respondents responded neither disagree nor agree on what is going on in the bank.
- The bank should design an efficient mechanism to evaluate its budget and

performance which can provide it a better feedback.

- DBE will benefit from clear and attainable budget goals.
- The bank should adopt a budgeting system of adequate planning with restrict adherence to implementation.

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Appendix 1_Budgeting and Performance Evaluation Survey Instrument

Saint Mary's University

School of Graduate Studies

Department of Accounting and Finance

Dear Participant

This project is in titled *"Budgeting and Performance Evaluation: The case of Development Bank of Ethiopia"*. The investigator is Bedilu Assefa who is currently an MBA in Accounting and Finance student at Saint Mary's University.

Participation in this project is completely voluntary. Survey results will be recorded anonymously, and strict confidentiality will be maintained.

For further information, please contact Bedilu Assefa by the following address:

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Part I: Background information

1. Sex of Respondents

   Male ☐ Female ☐

2. Education Qualification of Respondents

   Diploma ☐ Degree ☐ ost Graduate & Over ☐

3. Numbers of Years Worked With the Organization

Below 1 Year ☐ 1_3 years ☐ 4_6 years ☐ 7 years and above ☐

Part II: Questions regarding Budgeting and Performance Evaluation:

	Questions	Strongly disagree(1)	Disagree (2)	Neither disagree nor Agree (3)	Agree (4)	Strongly Agree (5)
1	**Section 1 Planning and Budget**					
1.1	The Budgeting process is participatory					
1.2	The budgeting process follows a bottom-up approach capturing all employees' needs					
1.3	Management ensures that all branch & process are involved in the Budgeting process.					
1.4	Your are actively engaged in budgeting					
1.5	The employee participation is used to add value to the budgeting process.					
1.6	Budgeting is closely coordinated and performed with DBEs' strategic plan.					
1.7	DBE adopted appropriate (standard) budgeting process (system or technique)					
1.8	All the necessary information (past experience, future expectation, variances, factors leading to budget variances and etc) are assessed before preparing budget					
1.9	Planned targets are regularly referred to when preparing budget					
2	**Section2.Budget implementation**					
2.1	Employees have a sense of belonging or ownership of their branch & process'					

	budgets.					
2.2	DBE's budget is suitable for implementation (it is ease to put in to practice)					
2.3	The budget is implemented according to its plan					
2.4	Employees are always ready to implement a budget according to its plan					
2.5	Employees found no problem with budget implementation					
2.6	Variances between plan and budget performance is insignificant					
2.7	Variances between plan and budget performance is partly due to absence of or limited employee participation in budget preparation					
3	**Section 3. Budget Review**					
3.1	There is examination techniques used to check the accuracy of budget					
3.2	There are deliberate periodic budget review meetings at process and Head Office level					
3.3	Employee, process and branch's ideas are considered during budget review					
3.4	During budget review factors that lead to budget variance is assessed and corrective measures are given to ensure better budget performance					
3.5	Planned targets are regularly referred to when reviewing Budgets.					
3.6	The budget review recommendations are effected in the Subsequent budget adjustments					
3.7	Budget review gives solution for the problems that occur during budget					

	implementation					
4	**Section 4. DBE/Budget performance**					
4.1	Budgeting is closely coordinated and performed with DBEs' strategic plan.					
4.2	The budget is implemented according to its plan.					
4.3	Variance between plan and budget performance is insignificant					

Thank you for your time

Part III: <u>Interview Questions</u>

1. What are the stages involved in preparing budget at DBE(general budgeting process adopted)---
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2. Explain the kinds of approach used for preparing budgets and performance evaluation in your company.

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3. What actions do the Bank takes to deal with variances if in case budgeted targets are not achieved ? ---
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4. To what extent has budgeting and performance evaluation been used in the Bank and how suitable is it to the Bank? ---
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5. What looks like the variance between plan and budget performance? ------------------
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----
6. What are some of the factors that lead to budget variance ? ------------------------------
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7. How does the problems of budgeting impact performance of DBE ? ------------------
----
----
8. How do you measure DBE performance and do you think it is effective ? -------------
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9. What are the challenges you face on the budgeting and performance evaluation, the action steps you took to solve it and the final result

Thank you for your time