

**Proceedings of the 3<sup>rd</sup> Annual Student  
Research Forum (ASRF)**

**Organized and Sponsored by  
St. Mary's University College**

**August 2009  
SMUC  
Addis Ababa**

## **Preface**

The 3<sup>rd</sup> Annual Student Research Forum (ASRF) was held at the University College Multi Purpose Hall on August 15, 2009. The Forum is an annual event, organized by the Center for Educational Improvement and Quality Assurance (CEIQA), which showcases the diverse research conducted by undergraduate students at the University College. It is meant for encouraging young graduate students in the Ethiopian Higher institutions to develop their research skills and present their research in a formal, supportive environment.

This proceeding is, therefore, a compilation of research papers presented on the forum. The research papers are done as partial fulfillment for the requirement of the completion of their undergraduate Degree courses. Papers which are drawn from the Faculty of Business, Informatics and Law are selected on merits of excellence. The forum which is the first of its kind for students to share their findings to the wider community of the university college is indeed indispensable for students and is believed to enhance students' research capacity. In the mean time the University College is highly grateful to paper contributors.

**Table of Content**

**Page**

|          |  |           |
|----------|--|-----------|
| <b>1</b> | <b>Bezawit Abebe</b>   |           |
|          | <ul style="list-style-type: none"> <li>• <b>Assessment of Employees' Job Satisfaction in Construction and Business Bank (CBB): The Case of Merkato Branch.....</b></li> </ul>  | <b>1</b>  |
| <b>2</b> | <b>Biruk Engliz &amp; Menur Jemal</b>  |           |
|          | <ul style="list-style-type: none"> <li>• <b>Transformation of Sales Tax to VAT, Revenue Collection and Tax Administration Problems in the Case of Ethiopian Revenue and Customs Authority.....</b></li> </ul>                        | <b>12</b> |
| <b>3</b> | <b>Belen Melaku &amp; Bethlehem Temesgen</b>   |           |
|          | <ul style="list-style-type: none"> <li>• <b>The Practice of Import Letter of Credit in Commercial Bank of Ethiopia.....</b></li> </ul>   | <b>24</b> |
| <b>4</b> | <b>Ermias Tadesse</b>  |           |
|          | <ul style="list-style-type: none"> <li>• <b>Study on the Physical Distribution Practice on Burayu Packaging and Printing Industry.....</b></li> </ul>  | <b>32</b> |
| <b>5</b> | <b>Mesfin Lemma</b>  |           |
|          | <ul style="list-style-type: none"> <li>• <b>Leadership Practices and Problems in the Office of the Federal Auditor General (OFAG).....</b></li> </ul>  | <b>41</b> |
| <b>6</b> | <b>Minas Ermias</b>  |           |
|          | <ul style="list-style-type: none"> <li>• <b>The Practice of Public Relation of Ethiopian Telecommunication Corporation: The Case of Central Addis Ababa Zone.....</b></li> </ul>   | <b>52</b> |
| <b>7</b> | <b>Muluken Berhanu</b>   |           |
|          | <ul style="list-style-type: none"> <li>• <b>Independence of the Judiciary in Parliamentary Democracy: The Ethiopian Experience.....</b></li> </ul>   | <b>62</b> |
| <b>8</b> | <b>Tatek Tadesse &amp; Wondwossen Gebre</b>  |           |
|          | <ul style="list-style-type: none"> <li>• <b>Analysis of the Rationale behind Non-performing Loans in Ethiopian Financial Institutions: The Case of Development Bank of Ethiopia and Awash International Bank S.C.....</b></li> </ul> | <b>79</b> |
| <b>9</b> | <b>Woyneshet Nigatu</b>  |           |
|          | <ul style="list-style-type: none"> <li>• <b>Strategic Planning and Management Process: The Case of St. Mary's University College.....</b></li> </ul>   | <b>95</b> |



# **Assessment of Employees' Job Satisfaction in Construction and Business Bank (CBB): The Case of Merkato Branch**

**By**

**Bezawit Abebe**

**Faculty of Business, Department of Management, SMUC**

## **1. Background of the Study**

Different scholars have defined job satisfaction in different ways. Saiyadain (2000) states that job satisfaction is a combination of psychological and environmental circumstances that cause a person to say 'I am satisfied with my job'. When a person comes to work, she/he brings her / his total personality, attitude, likes and dislikes, personal characteristics etc and these, in turn, influences the satisfaction, one derives from work. Similarly, Singh (2002) states that every individual who joins the organization is given some work or job to perform. Performance of the job by the employees also requires that expectations and aspirations in terms of reward, consideration and fulfillment of need, etc. have been met. If these are fulfilled, employees will be satisfied with the outcome of job performance and greater job satisfaction would generally motivate for performing more effectively. Singh (2002) further states that job satisfaction and motivation reinforce, strengthen and promote each other. Accordingly, it is this notion of employees' job satisfaction and its relations with motivation and performance which motivated the researcher to conduct this study on the level of employees' job satisfaction in the Construction and Business Bank, Merkato Branch.

## **2. Statement of the Problem**

Motivation scheme is one of the key factors which play significant role for the organization to operate competitively in the business world, reduce turnover and increase employee's performance. This study hypothesizes that employees of Construction and Business Bank of Merkato Branch are dissatisfied with their job. Besides, it is also assumed that there is a gradual increase of employees' turnover. Accordingly, the study

investigates employees' job satisfaction in Construction and Business Bank (CBB) of Merkato Branch.

### **3. Objectives of the Study**

The general objective of this study is to assess employees' job satisfaction in the Construction and Business Bank of Merkato Branch. The specific objectives of the study are to

- identify the major causes of job dissatisfaction,
- identify the motivation schemes of the organization,
- examine the relationship between job satisfaction and the organization's benefit scheme, and
- find out the consequences of satisfaction or dissatisfaction of employees on their job.

### **4. Research Questions**

The research tries to seek answer to the following basic questions:

- What are the major causes of job dissatisfaction?
- What kinds of motivation schemes does the organization use?
- What is the relationship between job satisfaction and the organization's benefit scheme?
- What are the consequences of satisfaction or dissatisfaction of employees on their job?

### **5. Research Methodology**

The study was specifically concerned with Merkato Branch of CBB where there are thirty-six employees including the branch manager. Since the number of the study population is manageable, the study employed the census method and considered the entire population as the subject of study.

Both primary and secondary data source are employed in the study. Data collected through interview and questionnaire from the respondents represent the primary one. On the other hand, in order to substantiate the primary data, the study also employed data from secondary sources like magazines, annual reports, books, etc.

The researcher designed a questionnaire to gather the primary data from employees of CBB in Merkato Branch. The questionnaire was distributed to all of the thirty-six employees. It consists of two parts: the first part focuses on background information of the respondents where as the second part focuses on employees' level of job satisfaction in relation to promotion scheme, reward system, working conditions, etc. To substantiate the information obtained through the questionnaire, the researcher conducted an interview with the branch manager.

The study employed descriptive statistics to analyze and generate the findings. The raw data which has been collected through questionnaire was coded, edited and entered in to the computers. The researcher employed statistical software: spread sheet (Excel) to process and analyze the data. Accordingly, frequency distributions and descriptive tables were used to present the findings of the study. Data collected through interview was transcribed.

## **6. Data analysis and Interpretation**

Out of the total thirty-six questionnaires distributed, thirty-five of them were filled and returned. This makes the response rate of questionnaire 97%. This section therefore, presents the analysis and interpretation of the data gathered from all 35 respondents. Besides, result of the interview is also included where appropriate.

### **6.1 Characteristics of Respondents**

This part addresses background characteristics of respondents with regard to sex, age, years of experience, and level of education. Accordingly, out of the total respondents 57% (20) of them are female and 43% (15) of are male. This indicates that the majority of employees are female. Similarly, 60% (21) and 26% (9) respondents fall with in the age

range 21 – 30 and 31 – 40 respectively. Where as, 14 % (5) of respondents belong to the age group between 41- 50. The finding indicates that the majority of the employees are youngsters.

With regards to work experience, majority of the respondents i.e. 30% (11) and 37% (12) of them worked for 1 - 3 years and 4 - 6 years respectively. While 14% (5) of the respondents have worked in the bank from 7 - 9 years, 9% (3) of them have worked from 10 - 12 years, and the remaining 9% (3) of the respondents have more than 12 years of work experience.

In terms of education level, about 23% (8) of the respondents have obtained their first degree while the majority of the respondents 43% (15) are diploma holders. Only 6% (2) of the respondents have completed 10 + 2 Diploma program, and the remaining, about 28% (10) of them are below 12<sup>th</sup> grade. According to the above finding, more than half of the total employees are diploma holders. This implies that employees at CBB may need to advance their educational status with further studies. Such provision of educational benefits can boost job satisfaction of employees which, in turn, addresses the problem of turn over.

## **6.2 Analysis of Data Pertinent to the Study**

Job satisfaction is defined as a pleasurable or positive emotional state resulting from the appraisal of one's job or job experience. It is an end state of feelings and consists of an employee's cognitive, affective, and evaluative reactions to his/her job. There are various factors that determine the level of job satisfaction of employees. These factors are classified into two categories. The first one is related to the organization itself and the other in related to personal characteristics of employees themselves. The major organizational factors are reward system, the work itself, supervisory behaviors, and working conditions. Individual factors include age, gender, work experience, status and seniority, and marital status.



**TABLE - 1: Reward system and employees satisfaction**

| Item   | Alternatives        | Frequency of Responses |            |
|--|---------------------|------------------------|------------|
|  |                     | No                     | %          |
| To what extent are you satisfied with the reward system? | A very great extent | 2                      | 6          |
|  | A great extent      | 4                      | 11         |
|  | Undecided           | 4                      | 11         |
|  | Some extent         | 4                      | 11         |
|  | Less extent         | 21                     | 60         |
|  | <b>Total</b>        | <b>35</b>              | <b>100</b> |

Table 1 shows that majority of respondents 60% (21), indicated that they are satisfied to a less extent with the reward system of the organization. However, only 6% (2) of the respondents asserted that they are satisfied to a very great extent. On the other hand, 11% (4) of the respondents said that they are satisfied to a great extent and the same percent of the respondents responded they are satisfied to some extent. The remaining 11% (4) of the respondents remained undecided. This shows that more than 70% of employees are not satisfied with the reward system of the organization.

**TABLE - 2: Reward system and employees performance.**

| Item  | Alternatives        | Frequency of Responses |            |
|---|---------------------|------------------------|------------|
|   |                     | No                     | %          |
| To what extent is the reward system tied with your performance? | A very great extent | 4                      | 11         |
|   | A great extent      | 3                      | 9          |
|   | Undecided           | 4                      | 11         |
|   | Some extent         | 11                     | 30         |
|   | Less extent         | 13                     | 37         |
|   | <b>Total</b>        | <b>35</b>              | <b>100</b> |

Table 2 shows that, more than half of the respondents believe that the reward system has either very little connection or does not have any connection at all with their performance. To put this in percentage, 30% (11) and 37% (13) of the respondents feel the reward system is tied with their performance ‘to some extent’ and ‘to less extent’ respectively. On the other hand, 11% (4) of the respondents answered that the reward system is connected to their performance ‘to a very great extent’ and 9% (3) of the respondents feel ‘to a great extent’. While 11% (4) of respondents remain ‘undecided’.

This indicates that the reward system of the organization is not based on the performance of employees.

**TABLE - 3: Employees participation in decision making process.**

| Item  | Alternatives        | Frequency of Responses |            |
|---|---------------------|------------------------|------------|
|   |                     | No                     | %          |
| To what extent does the organization try to give you the opportunity to participate in decision making? | A very great extent | 3                      | 9          |
|   | A great extent      | 3                      | 23         |
|   | Undecided           | 1                      | 3          |
|   | Some extent         | 9                      | 26         |
|   | Less extent         | 14                     | 40         |
|   | <b>Total</b>        | <b>35</b>              | <b>100</b> |

Table 3 presents respondents view on participation of employees in decision making process. From the data, about 40% (14) of respondents rate it 'to less extent' and 26% (9) of respondents rate it 'to some extent'. Whereas 3% (1) of the respondents are 'undecided' and 23% (3) rate it 'to a great extent'. The remaining 9% (3) responded opted for 'to a very great extent'. The data indicates that majority of respondents are not satisfied with their involvement in decision making process.

**TABLE - 4: Conduciveness of the organization's working environment.**

| Item  | Alternatives | Frequency of Responses |            |
|---|--------------|------------------------|------------|
|   |              | No                     | %          |
| How do you rate your level of satisfaction with the work environment? | Very High    | 3                      | 9          |
|   | High         | 7                      | 20         |
|   | Undecided    | 6                      | 17         |
|   | Low          | 12                     | 34         |
|   | Very Low     | 7                      | 20         |
|   | <b>Total</b> | <b>35</b>              | <b>100</b> |

According to the above table, majority of respondents i.e. 34% (12) believe that they have 'low' satisfaction with the working condition. Similarly, 20% (7) of the respondents have 'very low' level of satisfaction. On the other hand, 9% (3) and 20% (7) of the respondents have 'very high' and 'high' level of satisfaction respectively. The remaining 17% (6) remain 'undecided'. From the above data, it can be deduced that the working environment of the organization is poor.

**TABLE - 5: Employees' turnover in the organization.**

| Item   | Alternatives   | Responses |            |
|--|----------------|-----------|------------|
|  |                | No        | %          |
| Do you think that the rate of turnover is high in the company? | a. Yes         | 31        | 88         |
|  | b. No          | 1         | 3          |
|  | c. Do not know | 3         | 9          |
|  | <b>Total</b>   | <b>35</b> | <b>100</b> |

According to the above table, most of the respondents believe that there is high turnover in the organization i.e 88% (31). Only 3% (1) of the respondents disagree with the idea. However, 9% (3) of the respondents said they do not know. Almost all of the respondents said that high rate of turnover is linked with problem in salary increment. On the other hand, the other respondents relate the high rate of turnover with poor promotion system and managerial problems. The information obtained from the management during interview also indicated that there is high rate of turnover in the bank as compared to others.

**TABLE - 6: Insurance coverage and employees' satisfaction.**

| Item  | Alternatives      | Responses |            |
|---|-------------------|-----------|------------|
|   |                   | No        | %          |
| I am satisfied with the insurance coverage of the organization. | Strongly agree    | 7         | 20         |
|   | Agree             | 16        | 46         |
|   | Undecided         | 4         | 11         |
|   | Disagree          | 3         | 9          |
|   | Strongly disagree | 5         | 14         |
|   | <b>Total</b>      | <b>35</b> | <b>100</b> |

According to the above table, about 20% (7) and 46% (16) of the respondents opted for 'strongly agree' and 'agree', respectively with regards the insurance coverage of the organization. On the contrary, 9% (3) and 14% (5) of the respondents expressed that they 'disagree' and 'strongly disagree', respectively with the insurance coverage offered by the organization. The remaining 11% (4) of the respondents remain 'undecided'. The result indicates that the health insurance offered by the bank is satisfactory.

**TABLE - 7: Motivation scheme and employees satisfaction.**

| Item   | Alternatives      | Frequency of Responses |            |
|--|-------------------|------------------------|------------|
|  |                   | No                     | %          |
| I am the satisfied with the motivation scheme offered by the organization. | Strongly agree    | 2                      | 6          |
|  | Agree             | 7                      | 20         |
|  | Undecided         | 5                      | 14         |
|  | Disagree          | 9                      | 26         |
|  | Strongly disagree | 12                     | 34         |
|  | <b>Total</b>      | <b>35</b>              | <b>100</b> |

As indicated in the above table, 26% (9) and 34% (12) of the respondents said that they are ‘dissatisfied’ and ‘highly dissatisfied’ respectively with the motivation scheme. On the other hand, 6% (2) of the respondents are ‘highly satisfied’ and 20% (7) of the respondents feel ‘satisfied’. The remaining 14% (5) of the respondents remain ‘undecided’. This data indicates that the majority of the respondents feel dissatisfied with motivation scheme offered by the organization.

**TABLE - 8: Satisfaction of respondents with the training offered.**

| Item  | Alternatives       | Frequency of Responses |            |
|---|--------------------|------------------------|------------|
|   |                    | No                     | %          |
| To what extent are you satisfied with the training offered by the organization? | Avery great extent | 17                     | 49         |
|   | A great extent     | 8                      | 23         |
|   | Undecided          | 4                      | 11         |
|   | Some extent        | 6                      | 17         |
|   | Less extent        | -                      | -          |
|   | <b>Total</b>       | <b>35</b>              | <b>100</b> |

Table 8 presents the satisfaction of the employees with the training offered by the organization. The finding revealed that about 17% (6) of the respondents rate it ‘to some extent’ and 11% (4) of the respondents said ‘undecided’. 23% (8) of the respondents indicated ‘to a great extent’ and the remaining 49% (17) of the respondents rate it ‘to a very great extent’.

## **7. Summary of Findings, Conclusions and Recommendations**

This section summarizes the major research findings; draws conclusions based on the findings, and propose some possible recommendations

### **7.1 Major Findings**

The major findings of the research are summarized as follows:

- Majority of the respondents i.e. 71% of them are not satisfied with the reward system of the organization. Besides, 67% of them feel that the reward system is not linked with the performance of employees.
- The findings indicated that 66% of the respondents believe that they are not involved in the decision making process. Likewise, 54% of the respondents feel that the working environment is not conducive for employees. Similarly, 88% of the respondents believe that there is high rate of turnover in the organization.
- More than half of the respondents, i.e. 66%, of them are satisfied with the insurance coverage, particularly the health insurance. However, 60% of the respondents are not satisfied with the motivation scheme. It was also discovered that, only 49% of the respondents are satisfied with the training offered by the organization.

### **7.2 Conclusions**

As can be seen from the previous section of this chapter, employees of CBB are not generally satisfied with the organization. Hence, based on these major findings of the study, the following concluding remarks have been drawn.

- It can be concluded that the employees of CBB are not satisfied with the reward system of the organization. This has led employees to be dissatisfied with their job and develop the intention to leave. Further more, the reward system of the organization is not linked with the performance of employees.

- The organization does not give the required attention to its employees in order to involve them in decision making process.
- The working environment of CBB is not conducive for employees. Hence, the organization may not get the maximum return from its employees. In addition, the rate of turnover in CBB is very high. This certainly has a negative impact on the reputation of the bank. On the other hand, employees are satisfied with the health insurance of the organization. This will certainly have a positive impact on the reputation of the bank.
- The organization has a good training scheme that could retain employees.

### **7.3 Recommendations**

As can be seen from the above concluding remarks, employees of CBB are not satisfied with their job in relation to the various aspects mentioned. The researcher would like to give the following recommendations that could help the organization in addressing employees' job dissatisfaction and enhance the overall effectiveness of the organization.

- ❖ The organization is advised to introduce proper employees' reward system that helps to recruit, select competent employees, retain and increase both employees' morale and satisfaction.
- ❖ The organization should undertake a periodic review of salary and remunerate employees based on their qualification, experience and performance.
- ❖ The organization is advised to create a conducive working environment by improving office facilities (such as ventilation system) to improve employees productivity and job satisfaction.
- ❖ The organization is also advised to create healthy relationship among employees and provide the opportunity to participate in decision making. The organization needs to facilitate the forum whereby the management and employees discuss on the various problems towards proposing possible remedies.

### References

1. Brown, Mark G. (1996). *Keeping Score: Using the Right Metrics to Drive World-Class Performance*. New York: Quality Resources.
2. Daft, Richard L. (1997). *Management*. (4th ed.). New York: Dryden Press, Harcourt Brace College Publishers.
3. Everett, Melissa. (1995). *Making a Living While Making a Difference: A Guide to Creating Careers with a Conscience*. New York: Bantam Books.
4. Judge, T. and etal .(2001). *The Job Satisfaction-Job Performance Relationship: A qualitative and quantitative review*. Psychological Bulletin, 127(3), 376-407.
5. Locke, Edwin A. (1976). *The Nature and Causes of Job Satisfaction*. In M. D.Dunnette, ed., *Handbook of Industrial and Organizational Psychology*. Chicago:Rand McNally.
6. Nirmal, S. (2002). *Human Relation and Organizational Behavior*. Delhi: Rajouri Garden.
7. Saiyadain, S. (2004). *Human Resource Management*. Delhi: Hill Publishing CompanyLimited.
8. \_\_\_\_\_ (2003). *Organizational Behavior*. Delhi: Hill Publishing Company Limited.

**Transformation of Sales Tax to VAT in Revenue Collection and Tax  
Administration Problems in the Case of Ethiopian Revenue and  
Customs Authority**

**By**

**Biruk Engliz & Menur Jemal**

**Faculty of Business, Department of Accounting, SMUC**

**1. Background of the Study**

Governments use different policies to reduce and solve the problem of the country. The two such broader policies are monetary policy and fiscal policy. The latter focuses on the revenue and expenditures side of the government.

One of the bottom line instruments of fiscal policy is taxation. Taxation is a system of contributions levied by governments or other authorized body on Property, Corporation and people in order to fulfill the need of goods and service for the society.

According to Seigman (2004) tax is defined as, “a compulsory contribution from the person to the state to defray the expenses incurred in the common interest of all, without reference as special benefits conferred”. Tax can be used to redistribute income, goods which cannot be provided, by the private sector can but need to be provided by the government only if it has enough revenue. This revenue can be collected through taxation; hence, taxation is an important source of state revenue.

Developing countries like Ethiopia, among other things, need to have efficient and effective taxation system to facilitate the achievement of sustainable economic growth and development. Hence, The Ethiopian Revenues and Custom Authority (ERCA) has been instituted to assess and collect legally specified federal taxes which include domestic taxes, foreign trade taxes and profits from sales of lottery so as to enable the government to finance its developmental activities by assuring the enforcement and implementation of tax laws, regulations and directives.



The former Federal Inland Revenue Authority which was accountable to the Ministry of Revenue used to collect legally specified federal domestic Direct, Indirect and Non taxes. Its mission was to enable the taxpaying society to accomplish its duties and responsibilities on a self compliance basis and to collect adequate tax revenue through the help of ethical and skilled manpower and modern organization which provide efficient and honest service and tax payer education, thereby preventing tax fraud and evasion (ERCA annual report, 2000).

To this end, the Federal Democratic Republic of Ethiopia (FDRE) has introduced a tax reform program since early 2003 to modernize its taxation system. One of the major tax transformations is sales tax converted to Value Added Tax (VAT). This paper, therefore, assesses the impact of transformation of sale tax to Value Added Tax in Revenues Collection and Tax Administration in ERCA.

The former Federal Inland Revenue Authority was established as an autonomous public office in February 1997. The 1997 Proclamation No. 61/1997 provision the establishment of the Federal Inland Revenue Authority. Since 2009 Federal Inland Revenue Authority has been changed to Ethiopian Revenues and Custom Authority. The Authority is established to assess, collect and execute legally specified federal taxes of both domestic and foreign tax.

The sharing of revenue between the Federal and Regional Governments has been made in line with the prevailing Federal state structure. The collection of legally specified Federal tax revenues, which originate and are dispersed in all the regions, has to be properly executed. Therefore, it is necessary to establish Ethiopian Revenues and Custom Authority as an autonomous public office with the requisite powers and duties as well as an efficient working system. Currently, the Ethiopian Revenues and Custom Authority has its head office in Addis Ababa and seven branch offices in different regions.

Among ERCA's branch offices, the Large Taxpayers Office, VAT department, the Mekele and Jimma branches are established after the tax reform. The Large Tax Office

on the one hand and Mekele and Jimma branches and VAT department on the other have been providing tax collection service since June, 2003 and January, 2003 respectively. In addition to these, the Ethiopian Revenues and Custom Authority has been administrating the withholding tax scheme since January, 2003. In implementing this scheme the withholding taxes on payments are managed through the ERCA's tax collector offices (ERCA Annual Report, 2000).

## **2. Statement of the Problem**

The Ethiopian Revenues and Customs Authority has implemented the tax reform program since 2003. The transformation of sale tax into Value Added Tax has been one of the broader issues reflected on the reform.

As it has been heard, the implementation of VAT has had a huge impact on the revenues generation, and at the same time, it has faced lots of problems during transformation, such as large number of TIN repetitions and lack of trained tax officers. The other problem was absence of such compiled research documents concerning the transformation of sales tax into VAT. Based on the above stated problems, this research will answer the following research questions.

## **3. Research Questions**

The research questions of this study include:

1. What were the changes made during the transformation in tax law framework?
2. Did the transformation of sales tax into VAT have significant impacts on revenue collection?
3. What were the problems faced during transformation of sales tax into VAT with special focus to VAT implementation?
4. What were the causes and the impacts of the problems on the implementation?

#### **4. Objectives of the Study**

The general objective of the study is to assess the impact of transformation of sales tax into VAT in respect to revenues collection and administration. Having this general objective, the study has the following specific objectives

1. Analyze the changes made as a result of the transformation in light of tax law frame work,
2. Analyze whether the transformation of sales tax into VAT had a significant impact on revenue collection,
3. Identify the problems faced during the implementation of VAT,
4. Look for the causes for the problems on the implementation, and
5. Evaluate the impacts of the problems on the implementation.

#### **5. Research Methodology**

Descriptive research method was used. Tax officer which carry out the day to day activities in ERCA and the VAT registered companies are taken as a subject for this study. The study is based on sampling basis. The sample respondents are selected using non-probability sampling approach. From the non-probability sampling technique the researchers used judgmental/ purposive sampling technique in order to select tax officers and payers out of the total population.

Both primary and secondary data were collected. Primary data was collected from taxpayers as well as tax officials, and secondary data was collected from those materials that are related with the research topic. Primary data was obtained by distributing questionnaires and conducting interview with tax officers and tax payers. Secondary data had been obtained from published materials and the Internets.

This study uses descriptive statistics for the analysis of the data. Thus, percentage and average of different tax categories are used to compute and see the share of Domestic Taxes in the total revenue collection and to indicate the growth of Domestic Tax after implementation of VAT.

## 6. Summary of Findings, Conclusions and Recommendations

### 6.1 Summary of Findings

Government revenue is increasing from year to year by changing the tax law from sale tax to VAT, and VAT is becoming the major source of government revenue. The following table shows distribution of government taxes and revenues.

**Table 1: Share of Direct, Indirect and Non-tax Revenue from Total Tax Revenue**

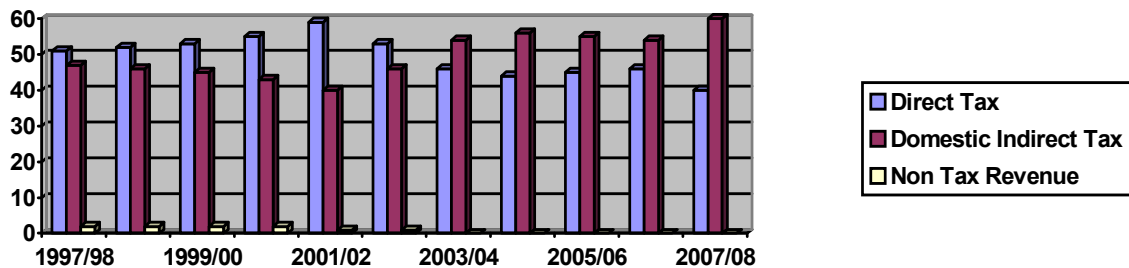
| Description           | Years           |                |                 |                     |                 |                 |                     |                 |                 |                 |                     |
|-----------------------|-----------------|----------------|-----------------|---------------------|-----------------|-----------------|---------------------|-----------------|-----------------|-----------------|---------------------|
|                       | 1997/98<br>1990 | 1998/9<br>1991 | 1999/00<br>1992 | 2000/0<br>1<br>1993 | 2001/02<br>1994 | 2002/03<br>1995 | 2003/0<br>4<br>1996 | 2004/05<br>1997 | 2005/06<br>1998 | 2006/07<br>1999 | 2007/0<br>8<br>2000 |
| Direct Tax            | 51              | 52             | 53              | 55                  | 59              | 53              | 46                  | 44              | 45              | 46              | 40                  |
| Domestic Indirect Tax | 47              | 46             | 45              | 43                  | 40              | 46              | 54                  | 56              | 55              | 54              | 60                  |
| Non Tax Revenue       | 2               | 2              | 2               | 2                   | 1               | 1               | 0                   | 0               | 0               | 0               | 0                   |
| Total Tax             | 1               | 1              | 1               | 1                   | 1               | 1               | 1                   | 1               | 1               | 1               | 1                   |

Table 1 indicates that domestic indirect tax covers an average of 46% and 60% of the total revenue before and after the tax reform respectively. Here we can clearly see that after the tax reform, indirect tax is the major contributor of government revenue compared as with the direct tax because the direct tax is reduced from 53% to 40% before and after the tax reform.

The figure below gives an idea about the share of Direct, Indirect and Non-tax Revenue from Total Tax Revenue before and after the tax reform. After the tax reform the revenue

collection performance shows an increment throughout the year; especially the indirect tax collection shows growth from year to year.

**Figure 1: Share of Direct, Indirect and Non-tax Revenue from Total Tax Revenue**



### Performance of Indirect Tax

Indirect tax is a tax, in which the burden may not necessarily be swallowed by assessing, which mean indirect taxes can be shifted on to other persons. Generally, the tax incidences of indirect tax are on ultimate consumer; however, sometimes seller might absorb such indirect tax to be competitive in the market. Example of Indirect Taxes are; Customs Duty, Excise Tax, Sales Tax, Value Added Tax, Stamp Duty. Here, we may see only VAT.

**Table 2: Performance of Indirect Taxes (In million)**

| Description s          | Year            |                 |                 |                 |                 |                 |                 |                 |                 |                 |
|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                        | 1998/99<br>1991 | 1999/00<br>1992 | 2000/01<br>1993 | 2001/02<br>1994 | 2002/03<br>1995 | 2003/04<br>1996 | 2004/05<br>1997 | 2005/06<br>1998 | 2006/07<br>1999 | 2007/08<br>2000 |
| VAT                    | -               | -               | -               | -               | 372.26          | 1220.70         | 1542.80         | 1819.85         | 2390.31         | 3243.37         |
| Excise Tax             | 417.20          | 431.89          | 312.40          | 343.76          | 362.32          | 413.90          | 466.60          | 577.32          | 603.37          | 834.49          |
| Turn Over Tax          |                 |                 |                 |                 | 40.42           | 132.60          | 82.43           | 51.95           | 57.86           | 36.88           |
| Sales Tax              | 527.60          | 684.02          | 764.82          | 860.24          | 579.14          | -               | -               | -               | -               | -               |
| Stamp Sales and Duties | 54.86           | 51.92           | 58.02           | 45.12           | 52.31           | 53.11           | 75.18           | 84.22           | 104.08          | 109.47          |
| Total Indirect Tax     | 999.88          | 1167.83         | 1135.24         | 1249.12         | 1406.45         | 1820.31         | 2167.01         | 2533.34         | 3155.63         | 4224.21         |

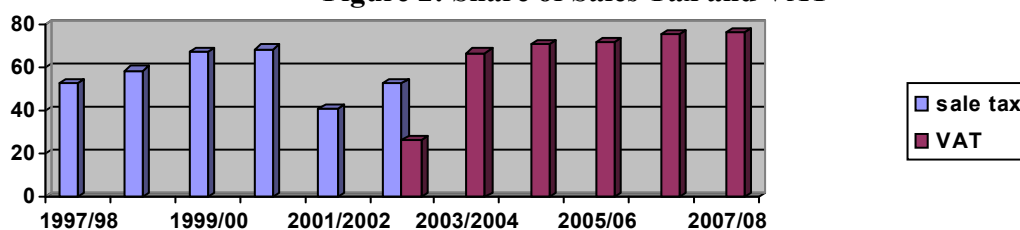
When we observe the performance of domestic indirect tax from table 2, it covers the lowest part of the total taxes revenue up to the tax reform (1995 EFY). After the tax reform (1995 EFY) it shows an improvement and covers the largest part i.e.1406.45 to 4224.21 before and after the tax reform. The reasons for the improvement for the performance of domestic indirect taxes could be the introduction of Value Added Tax (VAT), and the introduction of Turn Over Tax (TOT).

**Table 3: Share of Sales Tax and VAT**

| Descriptions | Years           |                 |                 |                 |                 |                 |                 |                 |                 |                 |         |
|--------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------|
|              | 1998/99<br>1991 | 1999/00<br>1992 | 2000/01<br>1993 | 2001/02<br>1994 | 2002/03<br>1995 | 2003/04<br>1996 | 2004/05<br>1997 | 2005/06<br>1998 | 2006/07<br>1999 | 2007/08<br>2000 | Average |
| Sale tax     | 52.76           | 58.57           | 67.37           | 68.86           | 41.17           | -               | -               | -               | -               | -               | 57.84   |
| VAT          | -               | -               | -               | -               | 26.46           | 67.06           | 71.19           | 71.83           | 75.74           | 76.78           | 64.4.   |

Table 3 indicates the performance of all Indirect Taxes, when we observe the performance of sales tax; it covers on the average 57.84%. This indicates sales tax cover more than half of the Indirect Taxes Revenue up to the tax reform (1995 EFY). After the tax reform (1995 EFY) when sales tax were converted to VAT, it shows an improvement and covers the largest part on the average 64.4% implying that VAT is the major contributor of government revenue compared with sales tax.

**Figure 2: Share of Sales Tax and VAT**



Accordingly to Fig 2, VAT collection increased steadily, and showed a trend in growth from 372.26 million in 1995 EFY to Birr 3243.37 million in 2000 EFY (table). It now contributes about 15.57% of the total domestic tax revenue of the ERCA, implying that VAT has become the major contributor of the government revenue.

## 6.2 Conclusions

As per the analysis of the study, the transformation of sales tax to VAT system was associated with increased government revenue and simplified tax administrative procedures. It covers more portion of ERCA domestic indirect tax revenue implying that VAT has become the major contributor of the government revenue. In line with the responses of VAT registered companies and tax officials, the following conclusions were drawn.

- The majority of taxpayers claimed they faced different problems. To begin with, the timing of transformation of sale tax to VAT was not clear for a number of large tax payers. It was well addressed and they were not trained to comply with the law.
- Almost half of the respondents did not get sufficient time for declaration of VAT and do not get sufficient cooperation at the time of payment. Those who fail to meet the due date have severe and un-proportional penalty.
- Most respondents encountered working capital deficiency due to non-refunding VAT inputs. Large numbers of respondents do not get direct refund on the return of VAT in put. At the time of damage, the authority doesn't give due consideration for the damage. Almost half of the respondents had not been asked for an audit by ERCA.
- VAT registrations have effect on competitiveness, Non-registrant companies have negative impact on competition as observed in the analysis from 15%-75% reduction on customers.
- From the data collected, it can be concluded that almost all of the respondents have seen change in the accounting records as the result of the change introduced by the authority from sales tax to VAT. On the other hand VAT payers suggested several points concerning improvement of VAT assessment by the authority.

- To begin with, the authorities do not register all the concerned parties liable for VAT. Some VAT employees do not have the appropriate training. Some taxpayers complain that the authorities do not set up clear directions.
- On the other hand, however, most, if not all, officials claim that the implementation of VAT is at the right time. Media coverage is enough to create awareness. Inversely, the tax officials responded that department officials, staffs have adequate knowledge concerning VAT. The number and educational qualification of employees are adequate and sufficient.
- Large number of tax officials responded that the VAT reinforcement capacity of the law is appropriate by using different methods, such as auditing, assigning and approving.
- According to the findings there are positive indications that government revenue dramatically increases through changes in the tax law and that the number of VAT registrants increased from year to year. VAT refund service by the organization has been organized and facilitated as a means of forwarding into their future.
- Yet tax officials faced problems during VAT assessments and a problem in collection has been observed. Most tax payers do not have complete financial documents and most VAT payers are not honest. Large number of TIN repetition and lack of trained officials on the SIGTAS system are some of the drawbacks observed.

### **6.3 Recommendations**

Based on the empirical analysis and drawn conclusion, it is appropriate to indicate the recommendation.

- ERCA should be equipped with efficiency in all aspects and respond positively to the questions and demands of the taxpayers. Well-educated and rich experience personnel is vital for ERCA.



- All Information should be duly passed to the taxpayers. Changing the attitude of the taxpayers is also equally important.
- Protection of VAT payers from unduly system, VAT unregistered companies, VAT refund and maladministration is very important. And the time and penalty given to the tax payers should improve.
- Rotation of staff may have negative effect. The replaced staff should be knowledgeable and ought to have the necessary work experience and the required educational qualification.

### References

1. Arega Hailu (2004). *Assessment on value added Tax implementation in Ethiopian*. A paper presented on the second international conference on the Ethiopian economy.
2. Bernard P. (2004). *Modern public finance*. (5<sup>th</sup> edn) A.I.T.B.S Publisher and distributors.
3. Ethiopian Revenues and Customs Authority (2007). *Annual Report*. Addis Ababa, Ethiopia.
4. Fantahun Belew (2001). *Tax Reform program in Ethiopia*. A paper presented on the 11<sup>th</sup> Annual Conference of the Ethiopian Economic Association, Addis Ababa, Ethiopia.
5. Frank W. (1999). *Business Accounting*. New Delhi, Prentice-hall of India Pvt.
6. Girma Tafesse (2005). *Value Added Tax Administration in Ethiopia*. A paper presented on the second seminar organized by ACCA Ethiopian branch in partnership with the FIRA. Addis Ababa, Ethiopia.
7. Gebru Worku (2006). *Tax Accounting in Ethiopia context*. (1<sup>st</sup> edn). Addis Ababa University; College of Commerce.
8. Gberie Worku (2008). *Tax Accounting in Ethiopia context*. (2<sup>nd</sup> edn). Lanning; MI USA.

9. James.S & Nobes.C. (1996/97). *The Economic of Taxation*. (2<sup>nd</sup> edn). Prentice Hall.
10. John M. (2006). **Tax system in Developing country**, Ministry of revenue C.A.
11. Misrak Tesfaye (2008). *Ethiopia Tax Accounting; Theory and Practice*. (1<sup>st</sup> edn) Research and Publication UUC.
12. Negarit Gazeta (2001). *Original Sales Tax Proclamation* No 228/1993, , Addis Ababa, Ethiopia.
13. Negarit Gazeta(2002). *Value Added Tax Proclamation*. No 285/2002, Addis Ababa, Ethiopia.
14. Richard A. & Peggy B. (2004). *Public Finance in Theory and Practice*. (5<sup>th</sup> edn). Tata McGraw –Hill Publishing Company Limited.

# **The Practice of Import Letter of Credit in Commercial Bank of Ethiopia**

**By**

**Belen Melaku & Bethlehem Temesgen**

**Faculty of Business, Department of Accounting, SMUC**

## **1. Background of the Study**

As a banker dealing with import business, one may be familiar with trade finance. Trade finance is the science that describes the management of money, banking, credit investment and assets for international trade transactions.

There are various trade finance methods by which capital can be raised for the traders, risks associated with international trade can be mitigated and payment can be effected. The other important thing to traders involved in international trade is managing their risks. These risks may be categorized as economic risks, exchange rate risks, transportation risks and political risks. Traders can mitigate such risks by utilizing the various services of insurance, companies and banks. Terms of payment are also the crucial things that buyers and sellers should agree on concluding a contract. The methods of payment are of different types with varying degree of securing payment. Therefore, banks as facilitator of international trade, knowing these various methods of payment, is equally important as for exporters and importers since having adequate knowledge on them helps the bankers to give quality services and support their customers in satisfactory manner by extending professional advice beyond mere effecting and receiving payments.

There are different methods of international trade payments of which import letter by a bank upon which payments in international trade are effected by banks through documents is one. It is issued by the bank at the request of a buyer (importer) to pay a seller (exporter) upon presentation of import documents specified in the instrument. This

study, therefore aims to evaluate the practice of import letter of credit in Commercial Bank of Ethiopia.

The history of banking in Ethiopia dates back to the turn of the last century, when in 1905 the Bank of Abyssinia was established in Addis Ababa, under the reign of Menelik II. The bank of Abyssinia was given a 50 year concession and was engaged in issuing notes, collecting deposits and granting loans, but its clients were mostly foreign business men and wealthy Ethiopians. Disappointed by the behavior of the bank, mainly devoted to profit making rather than promoting economic development, Haile selassie could not accept that the country's issuing bank was foreign owned and in agreement with National Bank of Egypt. Consequently, he decided to liquidate Bank of Abyssinia. A new bank, the Bank of Ethiopia, under government control was established in 1931 and rented management staff, premises and clings of the old bank, and the 1936 Italian occupation brought the liquidation of the Bank.

Currently, there are many private and government banks of which Commercial Bank of Ethiopia is one of them. Commercial Bank of Ethiopia is the largest bank in Ethiopia and has about 49 billion in assets, accounting for some 63.5% of deposits and 38% and above loans. The bank has 8,000 employees working in its head quarter and 205 branches positioned in the main cities and regional towns, including 45 branches in Addis Ababa. The bank recently opened new branches in the remote towns of Injibara and Humera. The bank had one branch in Djibouti which ceased operation recently. Commercial Bank of Ethiopia is chosen for this study as it is the bank with ample experience and voluminous transaction in international trade. ([www.wikipedia.org](http://www.wikipedia.org))

## **2. Statement of the Problem**

International trade is concerned with business transactions taking place between citizens of different nations. Commercial Bank of Ethiopia, being one of the biggest financial institutions, facilitates payment in the transaction.

Commercial letter of credit has been used for centuries to facilitate payment in international trade. Its use has continued to vary as the global economy changed in 1998 and on wards. New policy mechanism were introduced affecting importers to import by NBE, problems of delay by CBE to process L/C system and CBE also faces collateral evaluation problem. This study will try to investigate some of the unexploited advantages engaged in import letter of credit by Commercial Bank of Ethiopia.

### **3. Research Questions**

In this study, the researchers will try to address the following questions:

- How are import letter of credit practiced in CBE?
- What are CBE procedures on import L/C and its impact on importers?
- What are the major effects of 100% margin import L/C handling policy?
- How are the employees involved in L/C acquainted with the activities?
- What is importers' level of satisfaction in CBE with the L/C method or system?

### **4. Objectives of the Study**

#### **4.1 General Objective**

The general objective of the study is to investigate practices of import letter of credit and how it works at Commercial Bank of Ethiopia.

#### **4.2 Specific Objectives**

Having the fore mentioned general objectives, the researchers' aims to address the following specific objectives.

- To evaluate the CBE procedures for importers to import goods;
- To identify the effects of 100% margin import Letter of Credit handling policy ;
- To evaluate employees involvement with L/C activities; and
- To assess the satisfaction level of importers.

## **5. Research Methodology**

The study employed descriptive research technique. Both primary and secondary data collection methods were employed. Primary and secondary data were gathered from Commercial Bank of Ethiopia, International Banking Division, National Bank of Ethiopia, and Private and Public importers. Face to face interview was conducted with selected division heads and employees of letter of credit section in IBD and NBE. In addition to this, policy manuals, office annual reports and publication were gathered from CBE branch offices.

The research considers letter of credit transaction in L/C section at Commercial Bank of Ethiopia branch office, head office-International Banking Division (IBD) and National Bank of Ethiopia (NBE) as a population. Using simple random sampling, from 45 branches of CBE, only three branches were selected, namely Joseph Branch, Mahatma Gandhi Branch and Kirkos Branch; and using judgmental sampling method, two organizations, one from public and one from private (Importers) were selected. Respondents in the IBD, NBE, ECAA and NOC are accountants, L/C clerks, L/C auditors and importers who have direct and indirect relationships with the problem under study.

## **6. Summary of Findings, Conclusion and Recommendations**

The study was designed to examine the import letter of credit practice in CBE and intended to suggest possible recommendation to the problems identified in order to enhance the effectiveness of L/C system. This section, therefore, presents summary of findings, conclusions and possible recommendations.

### **6.1 Summary of Findings**

Commercial Bank of Ethiopia is authorized to allow import and provide associated services against required document. If importers need to import goods, they have to first

apply for import permit after having clearance certificate from National Bank of Ethiopia. CBE receives the following from customers – L/C application signed by customer and other supporting documents required as per National Bank of Ethiopia’s directives issued in 1998 and onwards. Then, the CBE verifies the signature against the specimen maintained on the system.

Commercial Bank of Ethiopia ensures that the importers have a valid trade license along with other documents and L/C might be cancelled made by way of amendment. Amendment is accepted if there is an agreement between the two parties and if it is not contrary to National Bank of Ethiopia’s directives and International chamber of commerce rules. Handling of letter of credit is known as L/C settlement. Letter of credit can be settled in full or in part. If there is no any discrepancy with the documents and does not affect the directives the normal processing continues. Otherwise the documents should be returned and then the files closed by reversal entries. Closing is needed if the L/C remained expired for more than 45 days and the remaining balance of partially settled 5% of L/C is not expected to be shipped.

Commercial Bank of Ethiopia closely follow up by sending a reminder message to customer to settle the amount outstanding L/C every 15 days. Failure to collect documents covering shipment by air, foreign currency approval every week and settle L/C with source of fund reserve should be reported by Commercial Bank of Ethiopia (on subsidiary and general ledger of customers). There are advantages as well as risks of using L/C. The policy of 100% margin deposit, shortage of foreign currency and delayance of CBE’s approval for import permit discourage importer to import. But CBE is doing with its full potential to gain its customers’ satisfaction.

Finally the pros outweigh the cons, so importers choose letter of credit instead of any other trade settlements in Commercial Bank of Ethiopia.

## **6.2 Conclusion**

From the preceding discussion, we have seen that the overall performance of international banking activities in the reported period was satisfactory. The continued improvement of its import foreign – transfer performance has created condition for the bank’s international banking operations. Furthermore, the IBD’s business process is being reengineered, as part of the bank’s overall BPR. However, there are certain changes in policies from 2000 on wards which are still being applied. Importers who have been enjoying L/C facility are unable to import due to 100% margin deposit. The new customers other than importers of pharmaceuticals, fertilizers, fuel, public transport vehicles, airplanes, ships, boats and investment goods exempted from custom duty of Ethiopian Investment Authority.

Commercial Bank of Ethiopia delays to approve import permit application after having clearance certificate from NBE because of the preparation for BPR. As a result, importers money is blocked for sometime and sales contract expires on CBE’s counter. Even if the banks process and procedures are getting better and the services are going more smoothly than before, there is also a problem that many banks are facing today regarding to the shortage of foreign currency which may not be improved any time soon. As a result, this will end up in affecting the customers’ satisfaction.

Finally, when the researchers looked at the performance of three branches, they found out that staffs were doing to their full potential to satisfy their customers and working to the highest standard to minimize the L/C risk exposure.

## **6.3 Recommendation**

Based on the foregoing major findings of the study, the researchers forwarded the following recommendation.

- The bank has to develop appropriate policy so that it will bring satisfaction to customers and banks to increase interest income earned from L/C facilities.



- In order to manage L/C risk involved in the area of Foreign Service, the bank needs to develop and implement comprehensive procedures and information system to follow up the condition of its customers.
- The bank has to seek ways of dealing with the collateral valuation problems (applicant who are unable to pay). The bank could take security like cash collateral and make sure that the L/C facility limits are not exceeded. Moreover, the bank has to follow – up and ensure the strict and uniform implementation by the engineers of the existing and any forth coming procedures concerning proper valuation.
- The bank must check documents carefully against the L/C terms and conditions as well as inter – compliance to avoid from paying documents containing discrepancies.
- Consulting applicants (importers) on the outcomes of the evaluation that is made based on the information data and documents submitted should be emphasized.
- Short term training and workshops for personnel engaged in the analysis work should be organized regularly and also avail relevant reading materials should be availed.
- The bank has to establish organizational set-up for its credit management concerning L/C and deliver service to the highest standard.

### **References**

1. Bahalla V. (2001). *International Financial Management*. (2nd edn). Anmol Publication Pvt. Ltd.
2. James C. & John M. (2001) *Fundamental Managemnet*. (11<sup>th</sup> edn). Prentice-Hall of India Private Limited.
3. Madura J. (2000). *International financial Management*. (6<sup>th</sup> edn). Asian Books Private Limited
4. Pakash G. (2002). *International Financial Management*. (3<sup>rd</sup> edn). Tata Mc Graw-Hill Publishing Company Limited.

5. Chandra P. (2004). *Financial Management- Theory and Practice*. (6<sup>th</sup> edn). New Delhi: Mc Graw- Hill Publishing Company Limited
6. Sharan V. (2004). *International Financial Management*. (3<sup>rd</sup> edn). Prentice Hall of India Private Limited.
7. International Banking operations Manual (2008).
8. International Chamber of commerce Publication No 500 (1993).
9. [Http://en.wikipedia. Org/wiki/Commercial Bank of Ethiopia](http://en.wikipedia.org/wiki/Commercial_Bank_of_Ethiopia)
10. [Http://en.wikipedia.org/wiki/ letter of credit](http://en.wikipedia.org/wiki/letter_of_credit)
11. [Http://tomerkato.com/import/import-payment](http://tomerkato.com/import/import-payment)
12. [www.southafrica.info/business/trade/import](http://www.southafrica.info/business/trade/import)

# **Study on the Physical Distribution Practice of Burayu Packaging and Printing Industry**

**By**

**Ermias Tadesse**

**Faculty of Business, Department of Marketing Management, SMUC**

## **1. Background of the Study**

The term physical distribution was first used in the army in connection with supplying and quartering of troops. Nowadays, the term is not limited to military, it is applied to the various areas of business, whether agricultural or industrial. In the agricultural sector it involves procurement, storage, movement and distribution of food grains. In the industrial sector, physical distribution is applied to the movement and storage of raw materials and finished products. As a subject of study physical distribution is relatively a new field, although the various elementary functions have been carried out always by other departments. The discipline aims at integrated management. It recognizes related activities that were previously scattered amongst various units within the firm and includes major activities like transportation, inventory control, packaging, warehousing, material handling, order processing, location analysis, and customer service (Khanna, 2002:13).

Currently, physical distribution becomes one of the core aspects that firms must give emphasis to get competitive advantage within the industry. The Burayu Packaging and Printing Industry (BPPI) is one of the largest firms which practice physical distribution activity in a manner to create smooth interaction with its customers. The Burayu Packaging and Printing Industry which was named as the Burayu Development PLC was established in 1997 G.C as a private limited company with initial capital of 15,000,000 birr; and started to commercialize its products in 2001 G.C. The company has a production plant located in the Oromia region at Burayu city, 10km far from Addis. At its initial stage it was only producing cartoon box for packing different kinds of commodities based on customer specification. But after four years, starting from August 2005, the company has begun to launch new product lines such as duplex board, labels,

cone paper, paper tube and other related products using the state of art technology. The company has different branches in Addis Ababa; the main branch is located around Bulgarian Embassy within the Kirkos Sub City. The firm has 350 employees, out of which 180 are permanent and the rests are on contractual basis. The key products the firm produces and offers to the market are different types of cartons in different sizes based on the customer specification such as two, three, five layers, cake tray, egg tray, paper cone, label, packet, calendar, paper tube and others as per the order of customers. So this study will focus on the physical distribution practice of Burayu Packaging and Printing Industry.

## **2. Statement of the Problem**

Physical distribution encompasses broad range of activities with in a company (or other type of organization) concerned with the efficient movement of goods and raw materials both inwards to the point of manufacture and outwards from the production line to the customer (Cannon, 2002: 338). Sherlekar (2004:417) classified distribution as physical distribution which includes *order-processing, transportation, warehousing, inventory management, material handling, packaging, and customer service* and channel members mainly include *wholesalers, agents and retailers*. But this research tried to focus on the physical distribution activity practiced in BPPI, since it uses direct distribution channel without the involvement of intermediaries.

Even if BPPI was one of the dominant firms having a lion's share in the industry, currently, its market share is reducing. Because of this, the researcher was motivated to conduct the study to understand the reasons that lead to a reduction in market share by focusing on the physical distribution aspect (since it uses zero degree channel) with the intention of helping the company to get back to its previous position by giving special emphasis to the following basic questions:

1. Does the company give equal attention to all elements in the physical distribution activity?

2. Does the company create an appropriate link between each element in the physical distribution activity?
3. What are the factors that should be considered to make the company's physical distribution practice effective?
4. How does the company's physical distribution practice affect its market share?

### **3. Objectives of the Study**

The main objective of the study is to assess the physical distribution practice of Burayu Packaging and Printing Industry. Moreover, the study has the following specific objectives:

- ❖ To find out the organization's performance by giving equal consideration to all elements in the physical distribution activity.
- ❖ To assess the company's physical distribution practice by making a link between each elements within the physical distribution activity.
- ❖ To study the extent to which the company's physical distribution practice is effective.
- ❖ To study how the company's physical distribution practice can affect its market share.

### **4. Research Methodology**

Since the purpose of the study was to assess and describe the current physical distribution practice of Burayu Packaging and Printing Industry, descriptive research method was used. Population of the study comprised company's managers (marketing, procurement, and inventory) and also those industrial customers found in Addis. Since the company has a list of its target customers, probability sampling technique was used. Among the probability sampling technique simple random (lottery) method was employed. Out of the total population of customers found in Addis (which is 190 industrial buyers), 30% was taken as a sample since industrial buyers exhibit similar characteristics.

Both primary and secondary data were used in order to make the study complete and achieve its stated objectives. The primary data was collected by conducting interview with the company's procurement, inventory control, and marketing managers. Structured questionnaires, in both open and close ended format, were used as a primary tool to collect information from customers. Secondary data was collected by reviewing the company's published documents such as company's profile.

Qualitative and quantitative data analysis techniques were used. Quantitative data analysis technique, using percentage, was computed to get the total picture of the data collected from sample respondents. Then the summarized data were presented in the form of tables. Qualitative data was transcribed to substantiate the above findings.

## **5. Summary, Conclusions and Recommendations**

Based on the analysis and interpretation made, the following summary, conclusions and recommendations were drawn.

### **5.1 Summary of findings**

- Regarding the company's transportation potential, 55.1% of the respondents rated it as medium, 20.41% of them as high, 16.33% of them as low and 8.2% of them considered it as very low.
- In relation to transportation management and operation, 59.2% of them replied that it's not guided by the principles of economics of scale and distance, and the rest of the respondents said the don't know about it.
- Regarding the company's inventory management in relation to producing the ordered quantity at the right time, 22.45% of them said it is very high, 42.86% them high, and 34.69% of them said it is medium.
- Concerning the company's overall order processing potential in relation to order taking capability, 63.29% of them rated it as high and very high, 30.61% of them rated it as medium and 6.12% of them as low.

- Regarding the company's capability of producing goods based on customers' specification, 61.22% of them evaluated it as very high, 24.49% of them evaluate as high, 8.2% of them as medium and 6.12% of them evaluated as low.
- In relation to the company's reliability, 18.4% of them said it is very high, 26.53% of them gave their response as highly reliable, 44.89% of them evaluate it as medium and the rest 10.2% said it is low.
- With regards to the company's warehouse location the majority of the respondents i.e. 61.22% of them indicated that it is not located in the appropriate place, 26.53% of them replied positively, and the rest of them said they don't know about it.
- Concerning the company's material handling practice in relation to perceiving defective products, 28.57% them rated it as medium, 61.22% of them measured as low, and 10.21% of them as very low.
- Regarding the company's package majority of the respondents (i.e. 53.06%) of them has faced problems on their products, where as 40.82% of them replied that they haven't faced such kind of problems, and the rest 6.12% did not remember whether they have faced or not.
- In relation to customer service, particularly company's responsiveness to handle customers compliant, 12.24% of them evaluated it as very high, 18.4% of them as high, 53.06% of them evaluated it as medium, and the rest 16.33% of them evaluated it as low.
- Finally, concerning the overall physical distribution practice of the company 12.24% of the respondents rated it as very high, 36.73% of the respondent customers as high, 42.86% of them as medium and the rest 8.2% evaluated the overall physical distribution practice of the company as low.

## **5.2 Conclusions**

Based on the findings indicated above the following conclusions are drawn.

- As it is revealed in the research findings, the company has not enough transportation to facilitate its activities. This will have significant impact in the over all physical distribution activity since it is the primary function and a very important element of physical distribution which really provides the time and place utility that can increase the mutual benefit of both customers as well as the company.
- The study also indicated that the company is highly capable in producing the ordered quantity at the right time. Even though this is the case, where the majority of them agreed upon, a significant number of respondents were against the idea. This situation gives, the company, to pay attention to its inventory management activity so as to reconcile the above contradictory ideas
- Based on the findings majority of respondents evaluated the overall order taking capability as high. In relation to the company's capability of producing based on customer specification majority of the respondents evaluated it as very high. From this we can deduce that the company is producing customized products which really match with the need of its customers, which in turn will have a paramount importance in creating long lasting relation for the mutual benefit of both parties.
- In relation to reliability of the company while delivering the promise at the right time, the figure shows that the company is not at the right position and this is not good for the company because reliability is the indicator for customers either to continue or stop their relation with the company.
- As it is revealed in the findings, majority of customers responded that the company's warehouse is not located at the appropriate place. Nevertheless, the company's inventory control manager would not agree with this, and he has said that the Company is not producing to stock; it is rather based on an order made from customer.
- In relation to material handling practice of BPPI, the figure has revealed that the company has good material handling practice.
- With regard to the company's package, majority of customers have made complaints; meaning, sometimes the company distributes the products by



covering with a hard plastic sheet. During this time the product may encounter some kind of damage which can in turn raise complaints from their ultimate customer too.

- Concerning customers' service of BPPI, specifically in relation to responsiveness to handle customers compliant, figures revealed that majority of the respondents rated it as medium. And this is a red light for the company to stop and think about it because customer service creates customer value or benefit, and has an impact on market share, total cost and profitability.

### **5.3 Recommendations**

Making reference to the major findings which have been discussed so far, the following points are recommended by the researcher

- The company should give due consideration to have enough vehicles so as to overcome problems related with the company's transportation capability. In addition to this, as much as possible, it should try to guide itself with the basic principles of economics of scale and economics of distance which can really reduce the company's cost of transportation.
- In relation to inventory management, even though the company is in a good position, still it should work with the principle of just-in-time concept by reducing the lead time which is the time gap between order delivery and receipt.
- The company should give due consideration to the reliability of the service delivered to its customers. Since, as it is mentioned before, it is the encounter for customers either to continue or to break their relation.
- In relation to packaging, the company must distribute its products through containers made of thin layer of zinc or through wood made containers rather than through hard plastic sheet. This is because the dissatisfaction will not be only from buyers of the company, but it's also from ultimate customers of product too. And as the level of compliant increase, these industrial buyers may shift to competitive firms.

- Regarding the company's customer service, the company should improve its product availability in terms of delivery at the promised time and in terms of the right assortments of products. Besides, it should improve the order cycle time which is the time gap between order and delivery and improve the consistency between order delivery. Furthermore, it should give fast response for customers compliant so as tackle unforeseen problems.

#### **References**

1. Agrawal,D. (2003). *Logistic and supply chain Management*. New Delhi: Mc Millan India ltd. Co.
2. Altekar,V. (2005). *Supply Chain Management: Concepts and Cases*. Delhi: Prentice Hall.
3. Bowersox, J & David J. (2003). *Logistical management: Integrated Supply Chain Process*. New Delhi: Tata McGraw-Hill Publishing Co. Ltd
4. Cannon,T. (2002). *Basic Marketing: Principle and Practice*. New Delhi: A.I.T.B.S. Publishers & Distributors.
5. Data, k. (2003). *Material Management Procedure, Text and Cases*. New Delhi: Prentice Hall of India Private Limited.
6. Etzel, J. and et.al (2006).*Marketing Concept and Cases*. New Delhi: Tata McGraw-Hill Publishing Company.
7. Havalder,K & Cavale M. (2007). *Sales and Distribution Management: Logistical Approach*. Mumbai: Himalaya Publishing House.
8. Khanna,K. (2002). *Physical Distribution management: Logistical approach*. Mumbai: Himalaya Publishing House.
9. Kotler, P. (2005). *Marketing Management*. New Delhi: Prentice-Hall of India Private Limited.
10. Kumar, A. & Meenakshi N. (2006). *Marketing Management*. New Delhi: Vikas Publishing House Pvt. Ltd.
11. Reeder, R and et.al (2001). *Industrial Marketing; Analysis Planning and Control*. New Delhi: Prentice Hall of India PLC.
12. Sherlekar (2004). *Marketing Management*. New Delhi: Vikas Publishing House Pvt. Ltd.

# **Leadership Practices and Problems in the Office of the Federal Auditor**

**General (OFAG)**

**By**

**Mesfin Lemma**

**Faculty of Business, Department of Management, SMUC**

## **1. Background of the Study**

Leadership is one of the enigmatic topics in the field of management as well as in real life political, economic and social organizations of human beings.

Leadership attracts universal attention. Historians, philosophers and social scientists have attempted to understand and explain leadership for centuries. From Confucius to Plato to Machiavelli, many of the world's most famous thinkers have theorized about how people lead one another. One reason for the fascination with this subject lies in the very nature of human experience. Leadership is all around us. We get up in the morning open the newspapers, turn on the radio or television and discover what actions leaders all over the world have taken. We attend classes, work and interact in social groups all with their own distinct patterns of leadership (Hackman and Johanons, 2004:2).

The definition of leadership, quoted from the work of Tom Peters and Nancy Austin, by Fiona Elsa Dent, titled "The Leadership Pocket Book" provides us with the following broader insight about the essence of leadership;

*Leadership means vision, cheerleading, enthusiasm, love, trust, verve, passion, obsession consistency, the use of symbols, paying attention as illustrated by the content of one's calendar, out and out drama (and the management thereof), creating heroes at all levels, coaching, effectively*

*wandering around, and numerous other things. (Fiona, 2004:2).*

Based on the above definition, leadership plays an important role in providing shared vision and values that are essential for the accomplishment of organizational objectives or goals. It enhances commitment, by empowering and coaching employees and work groups, which in turn will enable the organization to create heroes at all levels.

At present the Office of the Federal Auditor General has 356 employees, 11 departments, 25 divisions (5 of them are vacant), and five branch offices located in Awassa, Jimma, Diredawa, Bahirdar and Addis Ababa. The office is now undertaking business process reengineering (BPR) to bring about a fundamental change in the performance of the organization. Thus, it is expected that the existing change will be implemented with full commitment of its leaders. To this end, a new Auditor General has been appointed recently.

This may be true, if the leaders are committed to provide vision, and values that inspire the staff, and if they empower their staff and work groups so that they will get full commitment of the workforce. However, the current situation shows that many professional staff including department heads have left the organization as they are dissatisfied by the existing leadership. Hence, the purpose of this study is to assess leadership practices and problems in the organization.

## **2. Statement of the Problem**

It is very obvious that the objectives of OFAG require strong leadership that provides vision and empowers employees to carry out their responsibilities effectively and efficiently. However, according to a preliminary assessment made by the researcher through an informal discussion with some staff members of the organization, OFAG has the following major leadership problems:

1. Most of the leaders at different levels follow outdated leadership style, mainly bossy and/or authoritarian;
2. Although the very nature of the major functions of the organization auditing requires an empowerment of each auditor to perform his/her respective responsibilities, the key technical staff do not receive any kind of empowerment, and the big bosses are the ones who give instructions to the minute details;
3. Professional staff including some department heads do not stay long in the organization and there is a high rate of turnover; and,
4. Despite the fact that the organization has well qualified accountants and auditors, when its performance is measured, the quality and quantity of audit reports is showing a declining trend from year to year.

The study, therefore, investigates the magnitude of these problems and examines the general leadership practices in OFAG to identify the real causes of these problems. Emphasis is given to the effect of the current leadership practices on the problems enumerated.

### **3. Research Questions**

The research aimed to answer the following questions. What is the

1. perception of employees on the leadership practices of OFAG?
2. role played and bottlenecks encountered by OFAG leaders to attain organizational objectives?
3. dominant leadership style and the degree of employee satisfaction on the style demonstrated by their leaders?
4. perception of employees about the relationship between
  - employees and leaders? and
  - high rate of turnover and the leadership style demonstrated by leaders?
5. solution to improve the existing leadership problem in the organization?

## **4. Objectives of the Study**

### **4.1 General Objective**

The general objective of the study is to investigate leadership practices and problems of the Federal Auditor General and suggest remedial measures that would help enhance the leadership capacity of the organization.

### **4.2 Specific Objectives**

The following specific objectives are stated from the general objective. Thus, the specific objectives of the study are to:

- unfold the prevailing leadership practices and styles of OFAG;
- identify the leadership problems and bottlenecks of the organization that significantly affected the performance of the organization;
- determine the perception of the employees towards the leadership styles demonstrated by the management;
- determine the contribution of the organization's leadership practices to staff turnover and,
- document problem caused by the leadership practice and recommend solutions for the problems identified.

## **5. Research Methodology**

The research method employed is qualitative method that uses a survey approach in collecting data. The research design include compilation of review of related literature, development of questionnaire and interview questions, compilation of data obtained from primary and secondary sources as described under method of data collection of this proposal, and summarizing findings, drawing conclusions and forwarding recommendations that are relevant to address the situation.

The total population consists of 356 staff members of the Head Office of OFAG. To carry out the research, the total population was classified using stratified sampling technique based on the positions that each staff member has in the organization and by gender. In order to make the sample representative, a probability sampling, specifically, simple random sampling technique was used. Therefore, out of the total population, 71 members of the employees (20% of the total population) were considered for the study.

In order to get sufficient and relevant information for the study, both primary and secondary data sources have been used. The primary data were collected through interview and questionnaire from both the staff members and the management of the OFAG. Whereas the secondary data were collected from books, manuals, organizational documents and other relevant published and unpublished materials.

The method used is mainly survey method. The study was carried out using self completed questionnaire and structured interview. The questionnaire includes both close-ended and open-ended questions. The open-ended questions are included to find more information which cannot be obtained from the closed-ended questions. They are also expected to enable the respondents to express their views freely.

After the relevant data were collected from the data sources specified above, the facts were tabulated, systematically analyzed, organized and interpreted using frequency count and percentage. Thus, descriptive statistics method was used to analyze the data, because it is appropriate and simple to analyze quantitative data.

## **6. Summary, Conclusion and Recommendations**

### **6.1 Summary**

Findings of the primary data collected are the following:

- Most of the employees are not satisfied with the current leadership practices in the organization.
- Employee respondents feel that the role of leaders for the accomplishment of the objectives is not as such significant. Leader respondents think their role is significant.
- Employee respondents tend to think that the relationship between leaders and employees is not that close. The leader respondents seem to admit this but transfer the blame to their big boss.
- Employee respondents are dissatisfied with the existing leadership styles of leaders, which according to the majority; the dominant leadership style in the organization is autocratic. None of the leader respondents considered themselves autocratic, but clearly admit that there is a gap between old and young leaders attitude about leadership and consider the dominant leadership style as traditional, bossy and that is not open to change and opinion of others.
- Both groups of respondents believe that the existing leadership style is the major source of high turnover in the organization.
- The employee respondents feel that the involvement of the leadership of the organization in setting directions is very low. All leader respondents think they do their level best to set directions, and seem that they have no idea about their followers' opinion about them in this regard.
- The majority of employees' rating the extent to which their leaders communicate to them about the vision, values and objectives is moderate. The leader respondents admit that they do not communicate because they think employees know them well or they themselves do not know them.



- The majority of the employee respondents confirm that the decision making process in the organization is not as such participatory.
- Most of employee respondents feel that in comparison to the leadership practice of other government organization, their organization's leadership practice is not as such satisfactory.
- Most of the employee respondents think that competencies of leaders in their organization are moderate. They also pointed out that lack of sufficient delegation (empowerment), lack of good communication with subordinates and lower level employees, lack of capable leaders who can understand, initiate, listen to employees and give quick solution to problems, lack of emotional intelligence etc...are prevalent in the organization.
- Some of the comments and suggestions given by respondents to solve the problems of leadership in the organization include:
  - Shift to transformational leadership,
  - Integrate at all levels of the organization starting from the top management,
  - Introducing new blood into leadership positions,
  - Organizing a discussion forum,
  - Attitudinal change of leaders and,
  - Leadership training for both employees and leaders.

### **6.3 Conclusions**

Based on the findings stated above the following conclusions can be drawn.

- The majority of employees are not satisfied with the existing leadership practice. This may result in poor motivation, less passion of employees for their organization.

- The majority of employees feel that the relationship between leaders and employees is not good. This major bottleneck hinders leaders from aligning themselves with their followers. As a result, it may create an organizational culture that is dominated by a passive transactional relationship that do not allow leaders to inspire, coach and mentor employees to invest their preferred self, towards the attainment of organizational objectives
- Employees are dissatisfied with the existing leadership styles demonstrated by leaders. This may create a negative attitude among employees about the image of their leaders, which in turn may reduce the degree of commitment they will have to perform their work.
- The involvement of the leadership of the organization in setting directions is very low. This may indicate that leaders in the organization are rather managers than leaders. This may create a vacuum in leadership and tend to endanger the long-term sustainability of organizational activities in the face of the ever-changing environment.
- The existing leadership style is the major source of high turnover in the organization. This may cause losing well-experienced employees, and deterioration of the organization's human asset.
- The decision making process of the organization is not participatory. This tends to impede the quality of decision-making and the sense of belongingness among followers. It further hinders the learning experience that employees can acquire in the process and the eventual potential development of leaders at all levels in the organization.
- The degree of shared vision, values and objectives are moderate in the organization. This may cause low level of commitment, teamwork and sense of direction among both employees and leaders.
- The dominant leadership style practiced in the organization is autocratic. This may be the major reason that caused dissatisfaction of employees in the leadership practices, the existing distance between leaders and followers, the

low-level involvement of leaders in setting directions and other related leadership problems identified in this study.

- The standard of leadership practices in the organization is not as such satisfactory in comparison with the leadership practice of other government organizations. This may result in low reputation of the organization, and the attractiveness of the organization, to recruit, retain and develop talented human resource. This could also entail further deterioration of the quality of outputs the organization would produce.

### **6.3 Recommendations**

Based on the findings of the study and the conclusion drawn the student researcher forwards the following recommendations.

- The organization is advised to minimize the high turnover of employees by adopting more empowering, participatory, inspiring and transformational leadership practices in order to recruit, motivate, develop and retain well-experienced employees.
- The organization is strongly advised to recognize that dissatisfaction of employees can entail unfavorable outcomes such as turnover, absenteeism and lower productivity of employees. Therefore, the leaders should improve their leadership practice to avoid employees' dissatisfaction. To this end, among other things, the organization should design and implement a leadership and employee development-training program to change the attitude of leaders and followers at all levels.
- It is advised that such leadership training programmes should aim at improving the role played by leaders including, skills and competencies on understanding, initiating, listening to employees; empowering, coaching and mentoring employees and giving quick solutions to problems.

- The leadership of the organization is strongly advised to align followers through the creation of healthy and close relationship with employees and must give more attention to employees. To this end, leaders should assign adequate time to communicate with their subordinates, to coach and listen to them.
- It is strongly recommended that the leadership style of the organization/leaders should be changed into modern, participatory and more empowering leadership style. New leaders that have the skill, experience and potential for leadership should replace leaders that cannot be assisted through training.
- The organization and its leaders should set directions and align employees with that direction through communication, inspiration, motivation, empowerment and basic need gratification.
- The organization and its leaders are strongly advised to involve employees' in decision making and include their ideas in the decision of the organization in order to create participatory leadership environment rather than imposing what is decided. Periodic or regular meetings with employees can also help in promoting participatory decision-making.
- The organization should communicate its vision, value and mission in a very transparent way to inspire and mobilize employees towards the accomplishment of common goals.

### **References**

1. Dent F.E (2003). *The Leadership pocket book*. London: management pocket books limited
2. ECSC (2004). *The Ethiopia civil service transformational leadership development program*
3. Ethiopia Civil service Collage (). *Participants manual*. Unpublished manuscript, Addis Ababa

4. Hackman M.Z & Johnson C.E (2004). *Leadership*. Long Grove: Waveland Press Inc.
5. Hersey P, Blanchard K.H and Johnson D.E (2001). *Management of Organizational Behavior*. New Jersey: prentice-Hall.
6. Nelson D.L and Quick J.C (2000). *Organizational behavior*. Ohio: South Western Colleague Publishing.
7. Singh N. (2000). *Humane Relations and Organization Behavior*. New Delhi: Deep and Deep Publications Pvt. Ltd.
8. Sudan A. & Kumar, N. (2003). *Management Process and Organizational Behavior*. New Delhi: Anmol Publications Pvt. Ltd

# **The Practice of Public Relation of Ethiopian Telecommunication**

## **Corporation: The Case of Central Addis Ababa Zone**

**By**

**Minas Ermias**

**Faculty of Business, Department of Marketing Management, SMUC**

### **1. Background of the Study**

Public relation can be defined as the management function which evaluates public attitudes, identifies the policies and procedures of an individual or an organization with the public interest and plans and executes a program of action to earn public understanding and acceptance (Cutlip, 2000:4). It is the best tool for creating effective communication with the public. Nowadays it has become a two way communication, sending message from the organization and receiving feedback from the public.

ETC provides different kinds of services to a large number of customers in order to meet its mission in developing and maintaining modern information and communication network infrastructure to improve the availability of information to the entire society. Due to the great number of customers, their characteristics and diversity, interest, expectation and needs also vary. From this perspective, ETC is trying to satisfy its customers as much as possible through its services and their implementation. Based on government policy, ETC is the only telecom service provider all over the country. This permits the corporation to work without the risk of competition from other organizations and rivals. Even if, there is no competition, customers, as well as government and other stakeholders of the corporation expect more from it.

ETC as a huge corporation in the country must develop and maintain favorable image and relationship with its vast and diversified customers. In building favorable image and maintaining better relationship with the public at large, the better tool is considered to be public relations. Public relations can establish and maintain better relationship and

dependability between the two sides, the corporation and its public. Better PRs is a vital work for a marketer to create better image in customers mind and maintain the relationship among different stakeholders of the corporation. To this end, the researcher will try to assess the PRs practice of ETC in this study.

## **2. Statement of the Problem**

Public relation can be defined as deliberate, planned and sustained effort to establish and maintain mutual understanding between an organization and its public (Banik, 2002:5). Cutlip (2002:6) has also highlighted that public relations play a great role in facilitating the marketing activities of a business organization. Now-a-days, PRs concept changes into communication between an organization and its public and gathering information about the present situations of an organization in the dynamic market that helps in creating favorable image. PRs also promote focus on both internal and external relations. Internally there must be good relation with its members of an organization, whereas externally with customers, stakeholders and the public at large.

Public relations also takes as a part of marketing management mix through promotion as a tool for establishing and maintaining both side relationships between the corporation and its public. Planned and frequent PRs activities can help in building favorable image in the minds of the public about the organization. Besides PRs has its own impact especially on promotional and marketing activities of the organization. From this perspective any company especially those that are at a corporate level must have well organized and frequent PRs programs in order to create favorable image in the customers mind as well as the public at large.

Based on this, the researcher tried to see the PRs activities done by ETC so far and came up with the following observation through preliminary assessment. The corporation uses as PRs tools Tele Negarit, which is distributed only for the employees. Limited in number, it is not distributed in a regularly and doesn't get employees attention. The company's profile also gets printed but not distributed efficiently. The press release done by the communications division is limited only when some problem occurs. Recently the

corporation uses websites for information availability, but here also the internet service is under question mark because the internet service isn't reliable.

As a communication company, it must facilitate efficient information availability for both internal and external customers. This can be implemented through effective PRs activities and programs like applying two-way communications, appropriate PRs tools, participation in community services and social events and the like. This leads the researcher to assess and evaluate the performance of PRs practices of ETC in creating and maintaining favorable image in customers' mind.

### **3. Research questions**

The study will try to seek answer to the following research questions:

- What is the effort of the corporation's public relations programs in creating and maintaining favorable image in publics' mind?
- Does the Corporation use the feedback from the public as an input in creating better relationship?
- Is there a well developed and organized information centers for public relations activities?
- What is the extent of the corporation's participation in social activities, events, customer's information programs and the like?

### **4. Objectives of the Study**

#### **4.1 General Objective**

This study was generally aimed to assess the public relations practices of Ethiopian Telecommunications Corporation in light of public perception and communication pattern in use.

#### **4.2 Specific Objectives**

In an attempt to answer the research questions raised, the study tries to:

- investigate the extent to which the company creates favorable image in the minds of customers,
- analyze whether the company is effectively utilizing two-way communications or not,



- assess the formation and organization of information centers to facilitate the public relations activities' and
- investigate the extent of the corporation's involvement in community service and social affairs.

## **5. Research Method**

The research was conducted using descriptive research method. The researcher used descriptive research method in order to describe the PRs variables like PRs roles, application of two-way communications, involvement of the corporation in community services and others.

Customers, employees of CAAZ and the corporate communications officer were considered as participants of the study. In order to select sample customer respondents, the researcher used non-probability sampling approaches, specifically convenient sampling technique because of the units of samples is available in a certain specific time and place, like customers available in service delivery points. Whereas, in the case of employees, probability sampling approach particularly systematic random sampling technique (Selecting every Kth employees) was employed. The total number of employees in this particular zone, CAAZ, is about 497 based on the company's profile of 2008. The researcher selected 30% of the total population.

Both primary and secondary data were employed for the study. The primary data were obtained through distributing a questionnaire and interviewing the corporation's personnel. The secondary data were gathered from different texts, books written related with the subject matter, appropriate data from the corporation, related researches conducted before, and from Internet and other sources. In order to collect the primary data, the questionnaire was distributed to the representative samples of both employees and customers. Besides, interview check list was used for obtaining response from 5 employees of corporate communications division including the division manager. The following table summarizes the total number of questionnaire distributed to and returned from employees of CAAZ.

**Table 1: Questionnaire Distributed and Returned**

| Item                       | Employees Respondents |             | Customers Respondents |             |
|----------------------------|-----------------------|-------------|-----------------------|-------------|
|                            | Number                | Percent (%) | Number                | Percent (%) |
| Questionnaire distributed  | 150                   | 100         | 150                   | 100         |
| Questionnaire returned     | 138                   | 92          | 141                   | 94          |
| Questionnaire not returned | 12                    | 8           | 9                     | 6           |

As shown in the above table 138 (92%) of employees were willing to fill and return the questionnaire to the researcher, whereas 12(8%) of the questionnaire distributed to the employees were not returned, and 141 (94%) of customers were willing to fill and return the questionnaire to the students researcher, but 9(6%) of questionnaires distributed to the customer were not returned.

The data collected from distributed questionnaires were analyzed by quantitative measurement method and computed in terms of frequency distribution and tabulated in the form of percentage. The responses gathered through interview were narrated.

## **6. Summary, Conclusions and Recommendations**

This section deals with summary of the major findings, conclusions and recommendations.

### **6.1 Summary of the Major Findings**

Major findings of the study are listed here under.

- The images of the corporation in its public's minds were concentrated at medium level as indicated by respondents. In developing the relationship between ETC and its public, both internal and external publics of the corporation gave similar responses and most of them replied that their relationship with ETC as medium.
- Regarding building mutual understanding between two parties, 48 (34%) of customer respondents replied that it was moderate, however, 44(32%) of

employee respondents indicated that there was low mutual understanding with their corporation

- The use of feedback from the public as an input in creating better relationship make customers feel as part of the corporation. In this case, most of both groups of respondents attested low experience of the corporation in taking information from the public which partly shows failure of the PRs department. Regarding questions related to providing tools to accept complains, suggestion and opinions, answering questions raised by the public and facilitating meetings with them, respondents indicated that there is low practice in ETC.
- Regarding the availability of information, customers of ETC had different responses. Out of the total customer respondents most of them rated availability of information as medium, where as, employees replied that the performance was low. Concerning the ability of information personnel and the technological development of the information centers, both groups have similar opinions. The PRs department is making information available, updating personnel and developing the information centers well in order to facilitate the public relation activities of the corporation.
- In order to assess the effort of ETC in supporting public events and participation in both internal and external events, both employees and customers have similar opinions. They replied that the experience of the corporation in participating and supporting social activities were moderate. But the communications personnel asserted that, ETC had a better experience in supporting and participating publics' events regularly.
- In developing corporate culture, most of employee respondents agreed with medium level of PRs practice. In case of implementing two-way communications, employees here also opted for medium level. Likewise, the corporate communications officer indicated that the practice of the corporation in implementing two-way communications was not efficient. The PRs department fails also to establish the overall team spirit among employees of different

departments. Almost 50% of the total respondents rated it at medium level. Among the rest, the majority rated low and very low. Regarding job satisfaction based on relationship with the management, majority of respondents' concentrated at medium level. This implies the effort of the PRs department in developing relationship between two parties to assure job satisfaction of employees was not effective.

- Concerning the service delivery, majority respondents said it was medium and below. The services delivery of the corporation was not satisfactory. One aspects of service delivery is making information available for customers, which is the major task of public relations department. Regarding this issue, the practices of ETC was at moderate level in the eyes of its customers.
- Finally, the level of satisfaction was measured based on the overall activities of the corporation. The result summarizes that, the majority of respondents said it was moderate.

## **6.2 Conclusions**

The corporation public relations practice in creating and maintaining the image of ETC in the minds of the public at large was at moderate level. Furthermore, activities done by the PRs department in building mutual understanding was viewed differently by internal and external public of the corporation. In addition, the extent of the relationship between the corporation and its public was moderate. Similarly, the PRs effort in creating and developing corporate culture, which represent the corporation's personality, was also found to be moderate. Generally, the performance of the PRs department in creating and maintaining favorable image in the minds of its public was at moderate level. The department did not utilize its resources as well as its effort in order to create an image better than the corporation has now.

The ultimate goal of using feedback from the public is to strengthen the relationship with them. It also helps to know what the public needs. Regarding this issue, the corporation practice was low. In addition to this, the extent of participation of the public in taking

corrective actions and strategy formulation is one aspect of getting information and strengthening the relationship between the two parties. However, the performance of ETC regarding the issue was not efficient. Therefore, the PRs practice in using feedback from the publics and developing better relationship between ETC and its public was not efficient and effective.

Regarding the development and organization of information center, the PRs department activities weren't impressive, although, information centers are the new approach to PRs. As a communication institution, ETC's effort in developing and organizing information centers wasn't efficient at all.

Supporting and participating in social activities and public events helps to get better reputation in the minds of the public and to build better relationship with them. The corporation's practices regarding the issue were not as efficient as expected from the huge company in the country. The corporation's efforts in supporting events of its public were at moderate level. Similarly, arranging meetings with the public is one aspect though the practices of ETC were low. In addition, the participation of the corporation in events of its internal and external public was low and medium, respectively.

### **6.3 Recommendations**

Based on the conclusions drawn, the researcher would like to forward the following recommendations.

- The corporation's PRs practice in creating and maintaining the image of ETC in the minds of its public were at moderate level; however, the activities and programs that aimed to get the attention of target group must be well implemented. In building mutual understanding between ETC and its public, the PRs department must focus on internal public of the corporation because their mutual understanding with ETC was worse than with that of external public. In order to change this situation, the PRs department should facilitate different meetings between the two parties to improve their understandings. The

department should focus not only on employees, but also on external public of the corporation to improve mutual understanding between the two parties.

- In developing corporate culture the PRs department must focus internally. The PRs activities should focus on updating the employees, improving the flow of information, creating effective communication between employees and the management. This leads to harmony between the two vital parties of the corporation.
- In making tools available to receive information from customers of the corporation, ETC must implement easily accessible tools to get feedback. Tools like suggestion boxes, information desk that facilitate face-to-face communication, calling centers and the new technological features like SMS and using internet access make the flow of information from the public easy.
- In handling customers' complains and questions, the communications division of ETC should focus on its information centers and personnel working in those centers. By implementing latest information technologies and by updating the personnel with those technologies the problem of the corporation can be minimized.
- To strengthen the relationship with its public, the corporation PRs department should focus on facilitating meetings with the public. The PRs department should focus on the development of the information centers in number as well as quality and capacity of the centers in making information easily accessible.
- In order to improve corporation's efforts in participating and supporting in social events, the corporation should hold such events and activities by itself. Activities like customers day, loyal customers, donations, preparing events (Telecom day, Mobile and Internet users) and other related activities helps the corporation build better reputation in the minds of its public.

## References

1. Banik,G.C.(2002).*Effective Public Relations in Public and Private Sector*. Mumbai: Jaico Publishing House.
2. Blech, E. & Blech A. (2003). *Advertising and Promotion*. New Delhi: Tata McGraw Hill.
3. Center, A. & et.al (2003). *Public Relations Practices*. New Delhi: Prentice Hall of India Private Limited.
4. Clow, E. & Baack (2004). *Integrated Advertising, Promotion and Marketing Communications*. New Delhi: Prentice Hall Inc.
5. Cutlip M. (2000). *Effective Public Relations*. New Delhi: Dorling Kind Ersley.
6. Doyle, P. (2003). *Marketing Management and Strategy*. Gasport: Ashford Color Press Limited.
7. Ethiopian Telecommunications Corporation. (2008). **Company Profile**. Addis Ababa: ETC.
8. Etizel M., & et.al. (2002). *Marketing*. New Delhi: Prentice Hall Inc.
9. Hiebing, J & et.al. (2003). *The Successful Marketing Plan*. New York: Pashupati Printers Pvt.Ltd.
10. Jefkins, F. (1983). *Public Relations for Marketing Management*. London: The Macmillan Press Limited.
11. Kotler, P.(2000). *Marketing Management*. New Delhi: Jarun Offset Printers.
12. Kyambalesa, H. (2003). *Successful Marketing in the 21<sup>st</sup> Century*. New Delhi: Infinity Books.
13. Sahu, P.K & K.C. Raut. (2003). *Salesmanship and Sales management*. New Delhi: Vikas Publishing House.
14. William, D and Others. (2000). **Basic Marketing**. Turin: McGraw Hill Int.
15. ----- (). *Public Relations*. Retrieved from [www.wikipedia.org](http://www.wikipedia.org) on 12 March, 2009.
16. ----- (). *What is Public Relations*. Retrieved from [www.wisegeek](http://www.wisegeek) on 12 March, 2009.

17. \_\_\_\_\_ (2006). *Principles of Marketing Management*. New Delhi: Hall of India Private Limited.



# **Independence of the Judiciary in Parliamentary Democracy: The Ethiopian Experience**

**By**

**Muluken Berhanu**

**Faculty of Law, SMUC**

## **1. The Concept, Importance and Basic Principles of Judicial Independence**

### **1.1 Definition of Judicial Independence**

Judicial independence is the doctrine founded on the premise that decisions of the judiciary should be impartial and not subject to influence from the other branches of government or from private or political interests. As provided in many legal instruments around the world, judges should be guided only by laws and that is the true meaning of judicial independence.

As declared in the Act of Athens, judges should be guided by Rule of law, protect and enforce it without fear or favor and resist any encroachments by governments or political parties on their independence as a judge. Judicial independence implies that freedom from interference by the executive or legislative with the exercise of the judicial function. However, it does not mean that the judge is entitled to act in arbitrary manner. Though we say that the judiciary must be independent, it does not mean, of course, that judges should not be subjected to any form of supervision. In fact, there should be effective ways of supervising judges for they are prone to abuse their power as any official of other organs of the state. However, this must be done without interfering in their judicial function. Courts may be supervised through such means as appointment, disciplining and dismissing judges according to the law. In addition to these, a judge should not be allowed to try a case in which he is somehow personally interested and he should always give reason for what he decides as a judge.

## **1.2 The Importance of an Independent Judiciary.**

Judicial independence is an essential constitutional principle to the impartiality of justice and it is related with rule of law. The rule of law implies, among other things, the existence of law which defines the rights and obligations of individuals and the supremacy of these laws over any body or person. Nevertheless legislation by itself does not create rule of law; the existence of an impartial and independent body which interprets these laws is imperative.

Thus, the role of the courts in establishing a system under the rule of law is immense. They adjudicate cases not only between individuals but also between the state and individuals, thereby being capable of safeguarding the individual from the arbitrary and illegal action of the state. Fundamental human rights could be respected through a properly functioning of courts. Courts declare laws as unconstitutional if such laws contradict with the constitution, provided however that such power is vested upon the courts.

However, courts could dispense such a glamorous responsibility if they are free from any direct or indirect pressures. Hence, judges should be morally upright, professionally competent and they should also be independent.

## **1.3 Basic principles of judicial independence**

Before discussing the Ethiopian experience with regard to judicial independence, it is desirable to analyze the basic principles of judicial independence.

The existence of such universal principles may be questioned due to the diversity of political and legal realities of different countries. It is true that such differences would entail different mechanisms of realizing the independence of the judiciary. However, notwithstanding the diversities of political systems and legal mechanism in different countries, there is a basic and substantial consensus on the principles and minimum standards related to the independence of judiciary in the

constitutions and legal systems of the world. The following are the basic principles of judicial independence.

- Separation of the judiciary from the legislature and the executive organ
  - *Separation of persons exercising judicial power;*
  - *Separation of the function of the judiciary.*
- Direct Interference in the judicial process
- Execution of court pronouncements
- Immunity of judges
- Freedom of expression and association
- Commitments of the judges
- Provision of adequate resources for the administration of justice

## **2. Independence of the Judiciary in Parliamentary Democracy: The Ethiopian Experience**

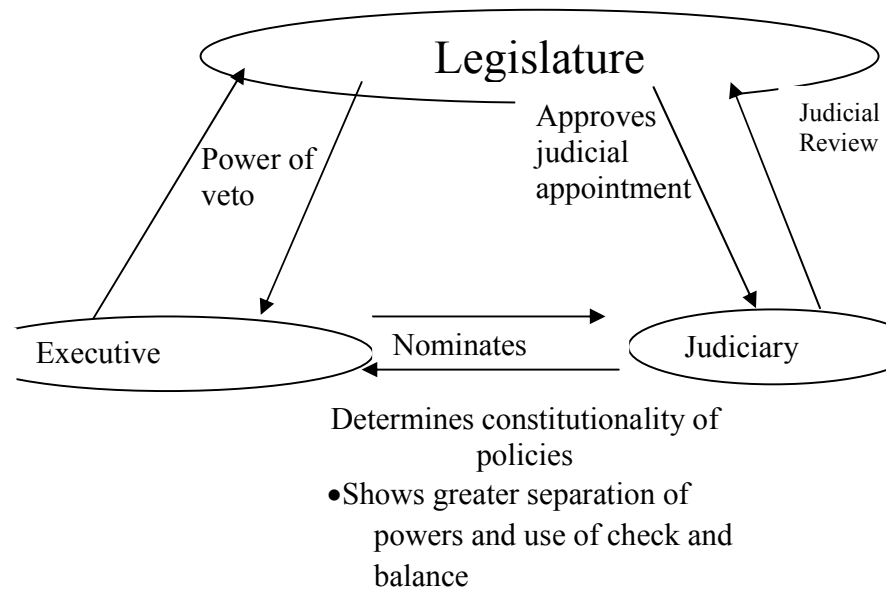
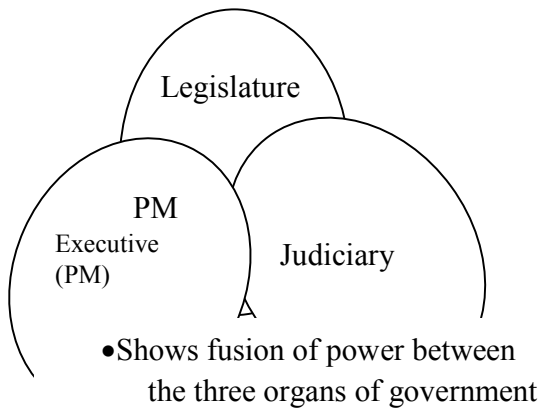
There are two main types of political systems. These are presidential and the parliamentary system. Each of them has its own advantages and disadvantages.

Parliamentary government is defined as a form of government in which the executive branch is made up of the prime minister and the official's cabinet. And in such a system the executive branch is selected by the legislature. From this one can deduce that in a parliamentary system of government there is a tendency of fusion of power between executive and legislative organ of the government.

Unlike parliamentary government, presidential government is a form of government in which the legislative and executive branches are separated, independent and co-equal. Hence, in presidential system the three branches of the government appear to be separated.

The following diagram clearly shows the difference in the two forms of government.

A) Parliamentary government B) Presidential government



In presidential system, the legislative branch is separated from the executive branch and these entails the higher chance of check and balance of one another. But in parliamentary government, the system allows fusion of power between the executive and legislative branches of the governments. Hence, in the latter case the probability of check and balance appears to be less likely. Therefore, the existence of an independent judiciary is a pillar in parliamentary form of government to check the activity of the government. There are different mechanisms which enable countries to have strong and independent judiciary in parliamentary system. These are:

1. *Constitutional guarantee of the independence of the judiciary.*
2. *Non political selection of judges.*
3. *Self – regulating legal profession.*
4. *Parliament does not comment on the cases which are before the court.*

The 1995 constitution of the Federal Democratic Republic of Ethiopia established a parliamentarian form of government.

### **3. Separation of powers under FDRE Constitution**

Separation of power is the division of governmental authority into three branches of government legislative, executive and judicial- each with specified duties on which non of the other branches can encroach

From this, one can understand that the power of the government must be divided into legislature, which has the supreme and exclusive power to make law (Rule initiation), executive to enforces the law (Rule application), and the judicial whose sole function is to make binding orders to settle dispute (Rule adjudication). Each of these organs must carry on their own respective duty. Historically, in the past two regimes, the idea of separation of power would not be expected because of the over whole nature of their system. The FDRE constitution incorporates these organs of government under its provision. Both, the federal government and member states shall have legislative, executive and judicial power.

However, a mere fact of structuring the organs of the state into legislative, executive and judiciary does not entail separation of powers because in addition to such organization there are different parameters that help examine the degree of separation of power in any country.

In this regard, Vile (1967) lists some yardsticks that help to evaluate the degree of separation of power. These are:

- ❖ The government should be divided in to three categories, legislative, executive and judiciary;
- ❖ The three specific government powers should be separated, and
- ❖ The three branches of government shall be composed of quite separate and distinct groups of people, with no overlapping membership.

On the bases of Vile's criteria it is better to see the FDRE constitution to evaluate the constitutional principle and pillar of democracy, that is separation of powers. Under this very constitution it is provided that:

*The federal government and member states shall have legislative, executive and judicial power. The house of Peoples Representatives shall have the power of legislation in all matters assigned by this constitution to federal jurisdiction. The highest executive powers of the federal government are vested in the prime minister and the council of ministers. Judicial powers, both at federal and state levels, are vested in the courts.*

The very existence of these articles suggests that the FDRE constitution upholds the principle of separation of power because it seems to satisfy the first and the second criteria set by Vile. However, with regard to the third yardsticks of Vile, there seems to be no separation of power in the FDRE Constitution, since it is provided in the Constitution that a political party or a coalition of political parties that have the greatest number of seats in the House of People's Representatives shall form the executive and lead it.

This article of the Constitution allows members of the House of People's Representatives to be members of the executive at the same time. This inevitably creates a solid line fusion of power in the two organs. As empirical observation shows, the different individuals sitting at the top as ministers who are responsible for rule implementation, at the same time are sitting as a member of the parliament to promulgate law.

In addition, in the mentioned articles the executive branches of the government through its various administrative agencies have come to do tasks which are similar to those done by the legislature and the judiciary. This act of the executive organ contradicts with the principle of separation of power which holds that the executive, legislative and judicial powers should not be combined in the same person or the same group of persons.

Therefore, the FDRE Constitution does not clearly stipulate the constitutional principle of separation of power but all it provides is the function and duties of the three branches of the government. Hence, it is more of a division of labor than separation of power. Even this division of labor is highly contested, owing to the entitlement of the upper house to interpret the constitution which is the fundamental law of the land. In this regard Montesquieu, a French jurist and philosopher, says:

*There can be no liberty when legislative and executive powers are joined in the same person or body of lords because it is to be administered in a tyrannical way. Nor is there any liberty if the judicial power is not separated from the legislative and executive power. If the three functions merge in to one organ, everything will come to an end.*

#### **4. Judicial Independence in Ethiopia**

Judicial independence is an instrumental value for the pursuit of rule of law and democracy. It is an undeniable fact that for effective justice administration, there should be an independent judiciary organ. This independence could be either personal or institutional.

##### **4.1 Judicial Independence during Haile Selassie Regime**

In the traditional system, there was no established legal profession or judicial services, government courts and judge. During Haile Selassie regime, there was a change in the traditional administration of justice. Although during this period courts were established by the law and vested with judicial power, the separation of the judiciary was not real because the power of the emperor was not in line with the demand of the judicial independence. In relation to this the 1955 revised constitution provided that:

*The Emperor had the right and duty to maintain justice through the courts, pardons and amnesties and to commute penalties.*

In addition, the Emperor had the power to appoint judges with out any requirement of approval from the parliament. This all coupled with the Zufan Chilot jurisdiction had subordinated the Judiciary to the Emperor. This was evident from the following statement by Clapham:

*...the principle of judicial independence conflicted with the absence in the traditional system of any distinction between judicial and administrative powers. The problem was resolved on paper by affirming the independence of the judiciary, while the emperor received powers to pardon to commute penalties and to maintain Justice through the courts. The balance has in practice been tipped to wards the Emperor by the continuation of traditional practices.*

During this period, there was no separation of power between the executive and judicial organ of the state. Hence, the attempt to separate the judiciary from the executive was not

an easy task. Thus, only the highest benches, that is, the high courts and the supreme imperial courts were able to be relatively free from the influence of provincial administrators. Governors' interference in the administration of justice was immense.

Furthermore, at this period, one could hardly say that the government and its officials were subjected to the law as to be restrained from directly interfering in the judicial process. The judges could not independently make a decision contrary to the will of the governor. If the judges made any decision against the will of the governor the governor might set-aside the court decision. This made the judiciary to be dependent in rendering judgment.

To sum up, the government during Haile Selassie is characterized by the fusion of powers. In other words, there is no separation of power; the constitution rather empowers the emperor to have an absolute power. Therefore, in such a system it is very difficult to assume an independent judiciary that is established for the administration of justice.

#### **4.2 Judicial Independence during the Dergue Regime**

After a long period of coronation, the absolute monarchical regime of Haile Selassie was over thrown by a military group called Dergue. With the coming of Dergue to office, a new change in the economic, social, legal, political and, most importantly, ideological sphere began to be introduced.

Dergue declared that Ethiopia is a socialist state with Marxist Leninist ideology. The system lasted for seventeen years till the fall of the regime. In the socialist state the idea of judicial independence is contrary to the Marxist theory of state organization because:

*..... the judges have to submit to the direction of those who control soviet power..... The judge is also a member of the party in the great majority of cases..... As a member of the party he has to follow the prescribed line. The establishment of judicial independence by the constitution is a striking example of the gulf between law and reality.*

Therefore, in the socialist state the judiciary would not be expected to be an independent body from the state. As a result of the ideological line taken by the Dergue, the western concepts of rule of law and judicial independence had no place in Ethiopia. The absence



of rule of law means arbitrary and direct interference of the government, political parties and higher officials in the judicial function.

The Dergue was known for establishing various tribunals outside the judiciary assigning political appointees as judges, who rendered decisions under the influence and order of government officials. This is against the universally accepted principle of institutional and personal independence of the judiciary.

This time it was a period of political instability and armed conflict, therefore citizens were denied a fair public trial. The government took any “revolutionary measure” so as to maintain “peace” and “order” of the country.

At the time, there was no separation of powers between the executive branch of the government and the judiciary. Courts were subject to political control and were responsive to the requests and directions of Ethiopia’s leadership. Various laws used to be issued which authorized security forces to search, arrest, imprison and use force with out any authorization from courts.

Dergue, after ruling the country with out a constitution for about 14 years which was characterized by gross human right violation and prevalence of rule of men, introduced a socialist oriented constitution called the constitution of the People’s Democratic Republic of Ethiopia (PDRE) in 1987. This constitution declared the establishment of an independent judiciary as follows:

*Judicial power was vested on one supreme court and courts of administrative and autonomous regions and other courts. Judges of the supreme courts are elected by the National Shengo, and those of regional courts are elected by their respective regional Shengo. The president, vice president and judges of the supreme courts are appointed by the National Shengo presented by the president of the republic. Judges and peoples assessors shall exercise their judicial function in complete independence; they shall be guided by no other authority than that of the law.*

Nevertheless, as the political and ideological realities were against judicial independence, one could not conclude that the constitution would establish practically an independent judiciary. Therefore during the Dergue regime the judiciary was not independence.

### **4.3 Judicial Independence Since 1991**

After long years of civil war between Dergue and different political groups; in 1991 the EPRDF won the battle against military regime of Dergue in 1991.

Since the fall of the previous government efforts have been made to improve the justice system of the state in general and to create independent judiciary in particular.

#### **4.3.1 Personal independence**

There is a principle embodied in many modern constitutions that emphasize that:

*Every judge is free to decide matters before him in accordance with his assessment of the facts and his understanding of the law, without any improper influence, inducement, or pressure, direct or indirect, from any quarter or for any reason.*

It is very important that judges should be free from external influence when they sit on the bench to decide matters brought to them. The crucial condition for judicial independence is the personal independence of the judge. Therefore, judges should resist any external influence so as to preserve justice and equity. To do so judges must be competent enough academically and professionally, otherwise, they become simply the “instrument” of the executive.

Competency is developed through judicial training. Regarding to judicial training in Ethiopia there is a kind of “Quota system” judicial training. Individuals who are members of a political party recruited from the different regional state are sent to a judicial training institution and trained there both “Legal” and “Political” skills. This trend is in violation of the international practice of judicial training.

The internationally accepted practice of judicial training is life long, well structured and accessible training programs for all judges, based on...modern adult education method...controlled by the judiciary and focused largely on the acquisition of judicial skills and attitudes:

Therefore, judges who are not competent, knowledgeable and confident enough to perform their task properly, will not be ready to resist and say no to any pressure from the executive organ.

Hence, this kind of judicial training particularly “Quota system” makes the judges to be dependent on the other branches of the government resulting in the judiciary being unable to win the heart of the society because such judges are an extension of the executive organ. This argument is supported by the following statement:

*....if a country lacks....wise judges who will command respect and who are schooled and realistically prepared to enforce the constitution and other laws, there are indeed risks in placing too heavy a responsibility and too much expectation on the judiciary.*

Besides “Quota system” judicial training, the procedure of appointment of judges is another pitfall for the existence of independent judges. In relation to the appointment the F.D.R.E constitution provides that, “The president and vice president of the Federal Supreme Court shall up on recommendation by the Prime Minister, be appointed by the House of People’s Representatives.”

Although the Prime Minister brings his nomination to the House of Peoples Representatives for approval, there is no any yardsticks that is used by the House to check whether is the nomination based on loyalty to the ruling party or not. Regarding to other federal judges, the selection of judges is conducted by the Federal Judicial Administration Commission. The commission shall have the power to select those who qualify for judgeship.

This power of the commission makes the personal independence of judges vulnerable for encroachment because the commission is not purely a judicial organ; there are individuals

who are member of the House of Peoples Representative init. From this, one can conclude that there is fusion of power which violates the basic principles of independence of the judiciary from the control and influence of the executive and legislature.

Therefore, it is very difficult to assume the personal independence of judges because judges may not be able to decide cases solely based on the law and facts without leaning to politics and without fearing penalty for their decision.

In addition, though the objective of the proclamation is to establish the judicial administration commission in a way free from the influence of government organs, no article in the proclamation clearly states that judicial administration commission is explicitly protected from political interference.

### **1.3.2 Institutional Independence.**

Personal independence is a necessary but not sufficient condition for the prevalence of an independent judicial organ. Judicial independence also means that the judiciary is independent of the executive and legislature and has jurisdiction, directly or by way of review, over all issue of a judicial nature.

The FDRE constitution declared the establishment of an independent judicial organ which evidenced from the following provisions:

*An independent judiciary is established by this constitution. Judicial powers, both at federal and state levels, are vested in courts. Judges shall exercise their functions in full independence and shall be directed solely by the law.*

By and large, it would be a gross misinterpretation of facts to assume the judiciary is independent from the control of the government because of the mere existence of a law governing the judiciary.

The FDRE constitution, though empower courts for any judicial act, it also gives power to the House of Federation to interpret the constitution which is not common in the federal state structure.

In many federal systems the power of interpretation is given either to the ordinary court or separate constitutional court. Accordingly, these courts not only have the power to interpret the constitution but are also, and even more importantly, entitled to decide on conformity of the laws with the constitution. The practice of constitutional interpretation in Ethiopia; however the F.D.R.E constitution snatched the inherent right and powers of the judiciary.

According to the constitution the authority to interpret the constitution is vested in the House of Federation which is composed of representatives of nationalities indirectly elected by the electorate at regional level. This seems to give the House of Federation the profile of a political organ than a judicial one. However, it is vested with a power which is a judicial one as provided in the constitution that the house has the power to interpret the constitution. All constitutional disputes shall be decided by the House of the Federation

These provisions of the constitution not only empower the House of Federation to interpret the constitution but also to decide constitutional dispute which is not common in many federal system.

Hence, the Ethiopian practice of interpretation of the constitution lacks a theoretically sound base to interpret and resolve dispute in relation to the constitution. Therefore, the F.D.R.E constitution prohibits the inherent right of the judiciary to interpret the constitution which can be considered as a pitfall for institutional independence of the judiciary because it is a political organ which is interested to resolve any constitutional issue.

Furthermore the judiciary complains about a whole list of factors affecting its performance.... lack of trained judges and resource.... and political pressure... From this, one can conclude that there is direct interference with the judicial process from the other branches of the government.

To conclude, although efforts are made to improve the justice system in Ethiopia, there is a direct or indirect interference from the other branches of the government in the activity of the judiciary. Therefore to establish a real and independent judiciary which is interested to rule adjudication efforts need from every stake holders.

## **5. Conclusion**

When we see the long history of Ethiopia with regard to the concept of separation of power, there has been a solid fusion of power of law making, executing and adjudicating of cases in the hands of a few individuals. This fusion of power makes the individuals to become above the laws.

The modernization in state organization during Haile Selassie brought about a significant change on the administration of justice separating to some extent the judiciary from the government. Though there was some development, it is very difficult to assume the existence of an independent organ which was entrusted with rule adjudication.

During the Dergue regime, the very ideology of the system contradicts with the concept of constitutional principle of rule of law and independent judiciary. It was a time of the total subordination of the judiciary to the government. At that time, there was a gross violation of human right because of the fusion of the power of the three branches of the government in the hands of a few political elites.

After the coming of EPRDF to office efforts, were made to improve the justice system and try to limit the act of government by introducing the constitutional principle of separation of power and independent judiciary. However, there is no real independent organ which is entrusted with rule adjudication; therefore, the struggle to limit the act of government and for creating a powerful and independent judiciary must continue till not bowing to the will of any body is created.

## 6. Recommendation

The following points should be taken into consideration for the existence of an independent judiciary which will enable to adjudicate cases on the bases of law not guided by another authority.

- ❖ There should be a constitution which is a legal document not of a political document that protects the interest of the ruling class which is common in Ethiopia's constitution.
- ❖ The executive should be limited by the law and controlled by the legislature
- ❖ The separation of powers of three the organs of the state with methods of check and balance should be embodied in the constitution
- ❖ Courts should be authorized to interpret and have final say on constitutional issues
- ❖ Supervision of the judiciary i.e. appointment, disciplinary measure, promotion etc should be conducted by a purely judicial organ or an independent organ
- ❖ The act of administrative agencies should be limited by the law.
- ❖ Judicial training should be designed on the bases of the international practice of judicial training
- ❖ The executive should execute court pronouncement without redefining it
- ❖ There should not be any interference in the judiciary process of the state from the other branches of the government.
- ❖ The state should provide adequate material resources for the administration of justice.

### References

1. Aharon B., (). *The judge in Democracy*, Princeton University Press.
2. D.I, and et. al (1979). *Case in Constitutional Law*. Oxford University Press.
3. Fasil N. (1997) *Constitution for a Nations of Nations*. The Ethiopian Prospect, The Red Sea Press, inc
4. James C., (1997). *Ethiopian Constitutional Development*. A source book, Haile Selassie I University.
5. Jerome A. (1986). *Constitutional Law, In a Nutshell*. (5<sup>th</sup> edn). West Publishing Co.

6. ----- (). Juridical independence. Wikipedia, the Free Encyclopedia.
7. Micheal G. (1994). *Political Science: An Introduction*. Prentice Hall Inc.
8. M.J.C.vile (1967). *Constitutionalism and Separation of Power*. Oxford Clarendom Press.
9. The international commission of Jurists, “Act of Athens.” (1959) *In the Rule of law in a free society*. A report on the international congress of jurists, New Delhi, India,
10. St. Mary’s University collage Constitution Module



**Analysis of the Rationale behind Non-performing Loans in Ethiopian  
Financial Institutions: The Case of Development Bank of Ethiopia and  
Awash International Bank S.C.)**

**By  
Tatek Tadesse & Wondwossen Gebre**

**Faculty of Business, Department of Accounting, SMUC**

**1. Background of the Study**

Lack of financial resources is usually regarded as a major bottleneck to the development of many developing countries. To control this problem, efforts are made by governments, the public and private sectors to have access to credit funds procured both locally and from abroad. Credit financing has long been recognized as one of the important financial services that contribute to the success of a business venture. This success, in turn, is believed to contribute towards economic development. However, the existence of credit facilities alone does not necessarily result in supporting economic development unless otherwise it is accompanied by the existence of factors conducive to the efficient utilization of credit funds. For instance, a loan has to be repaid on time if the objective of making loan funds available to those who want them for productive purposes on continuous basis is to be met. Repayment performance is a critical feature of credit. When it declines, the consequences for the health of a lending institution can be material, not to say catastrophic.

Persistent poor repayment performance ultimately leads to the inability to cover cost out of interest income and fees in any lending institution. The consequence of this failure contributes to the increasing of provision for bad and doubtful debt expense that reduces profits for the period in which it was made. If the period's result is a loss, the capital of the lender is reduced by the amount of the loss. Reduction of capital may affect the institution's new fund mobilization activities for fresh lending since it increases its debt equity ratio, undermine public confidence in the formal financial markets causing savers

to withdraw their funds and increases staff turnover due to doubt on the capability of the institution to stay in the market. Ability to recycle funds constitutes the corner stone of the development of banking industry. If loans are not repaid over the scheduled time; chronic overdues become irrecoverable in course of time; the net worth of the lending institution will be eroded and will have serious impact on the volume of lending. The high incidence of overdues affects the overall liquidity and solvency of credit institutions and impairs their capacity to undertake fresh lending.

DBE, one of the public enterprises, and AIB which is a privately owned bank are engaged in the provision of development credits to all sectors of the economy. Their main objective, among others, is mobilization of funds from national and international sources and provision of short, medium and long-term investment credits. To achieve their stated objective, the two banks have to be sustainable by generating sufficient profits from their operations. This rests on the efficiency and effectiveness of loan fund mobilization, credit provision and ultimate collections of loans, which have direct impacts on the two banks' profitability and liquidity.

### **1.1 The History of Banking in Ethiopia**

The agreement that was reached in 1905 between Emperor Minilik II and Mr. Ma Gillivray, representative of the British owned National Bank of Egypt marked the introduction of modern banking in Ethiopia. Following the agreement, the first bank called Bank of Abyssinia was inaugurated in Feb, 16, 1906 by the Emperor. The bank was totally managed by the Egyptian National Bank with some rights and concessions agreed up on the establishment of Bank of Abyssinia.

In its short period of existence, Bank of Abyssinia had been carrying out limited business such as keeping government accounts, exporting financing and undertaking various tasks for the government. The bank faced enormous pressure because of its inefficiency. It was criticized for focusing on pure profit making objectives. As a result they concluded to abandon its operation and to liquidate the banking activity from foreign control and to make the institution responsible to Ethiopia's credit needs. Thus by 1931, shortly after

Emperor Haile Selassie came to power the Bank of Abyssinia was legally replaced by Bank of Ethiopia up until the Italian invasion in 1935.

### **1.1.1. The Bank of Ethiopia**

The new bank, Bank of Ethiopia, which was established by an official decree on August 29<sup>th</sup> 1931 with a capital of £750,000 was purely an Ethiopian institution and was the first indigenous bank in Africa. The bank of Egypt was willing to abandon its own cessionary rights including its manager in return for £ 40,000 and the transfer of ownership took place very smoothly in the offices and personnel of the Bank of Abyssinia. The Ethiopian government owned 60% of the total shares of the bank and all the tractions were subject to scrutiny by its Minister of Finance.

Bank of Ethiopia took over the commercial activity of the Bank of Abyssinia and was authorized to issue notes and coins. During the invasion, the Italians established branches of their banks namely Banco di Italia, Banco di Roma, Bano di Napoli and Banco di Nazionale de Lavoro, and started operation in the main towns of Ethiopia. ([www.gov.nbe.](http://www.gov.nbe))

### **1.1.2. The State Bank of Ethiopia**

On 15<sup>th</sup> April 1943, the state Bank of Ethiopia commenced its full operation after 8 months of preparatory activities. In 1963 the Ethiopian monetary and banking law came into force. The law separated the function of the commercial and the central banking. This brought the present National Bank of Ethiopia and Commercial Bank of Ethiopia to be operational. Moreover, it allowed foreign banks to operate in Ethiopia limiting their maximum ownership to 49%, while the remaining balance should be held by Ethiopians. It started operation on January 1, 1964 with a capital of 20 million Eth. Dollars. Unlike the former State Bank of Ethiopia, the new commercial bank employees were all Ethiopians ([www.gov.nbe.](http://www.gov.nbe)).

### **1.1.3 The Development Bank of Ethiopia**

The history of Development Bank of Ethiopia goes back to 1909 when the first attempts of its kind known as the Societe Nationale d' Ethiopie pour le Development de l'a Agriculture et de Commerce (the Society for the Promotion of Agriculture and Trade) was established in the Menilik II era. Since then the bank has taken different names at different times although its mission and business purpose has not undergone significant changes except for occasional adjustments that were necessitated by changes in economic development policies of the country.

### **1.1.4. Private Banks and the Awash Int. Bank S.C in Ethiopia**

Monetary and banking proclamation No.83/1994 and the licensing and supervision of banking business No.84/1994 laid the legal basis for investment in the banking sector. Consequently shortly after the proclamation the first private bank Awash International Bank was established in 1994. Dashen Bank was established in September 1995. Bank of Abyssinia, Wegagen Bank, United Bank, Nib International Bank, Cooperative Bank of Oromiya, Lion International bank, Zemen Bank and Oromiya International Bank have been operational in the private banking industry.

Awash International Bank is the first private bank established in Ethiopia after the liberalization of financial institutions, which we have used as one of the case in this study. Shortly after the proclamation of the liberalization, Awash International Bank was established in November 10, 1994. It started operation in February 1995 by 486 shareholders and with birr 24.2 million paid up capital. By the end of year 2007 the paid up capital of the bank reached birr 282.3 Million. (AIB, Annual Report, 2007.)

## **2. Statement of the Problem**

Providing loan to various sectors in the economy is the lifeblood of banking activity as in the case of DBE and AIB whose aim is to promote investment and facilitates the economic activity in and out side Ethiopia as a whole. The loan extended to the various sectors must be recovered in full otherwise it will be non-performing and becomes a loss

to banks. Strong control mechanism on loan recovery enables banks and other financial institutions as a whole to meet the increasing demand for credit and keep the banks in sound financial health state. Both the principal, which is used for re-lending and the interest to meet the operating costs and increasing profitability in its future investment capital, must be recovered. But for the recent two years 2004/05 and 2005/06 the banks loan recovery performance has been very low due to external and internal factors (Annual Report, AIB & DBE 2005 and 2006). This research aims to evaluate the major internal factors which contribute to the non performing loans that are associated with project appraisal, inadequate applicant screening criteria, collateral security and follow up that affect the loan recovery performance of the two banks, i.e. of DBE and AIB.

### **3. Research Question**

In due course this research will answer the following questions:

- How do the banks achieve their financial health, especially on loan recovery?
- What methods are used by the banks to improve the ratio of collectibles to loan recovery?
- What are the internal key success factors for determining effective loan repayment?
- Which internal factors contribute more for the accumulated Non Performing Loans in the financial statements of the two banks?

### **4. Objectives of the Research**

The main objective of the study is to analyze the causes behind non performing loans in the two selected banks i.e. Awash International Bank and Development Bank of Ethiopia.

The following are specific objectives

- Evaluating the prevailing conditions to achieve high loan recovery performance of the two the banks.
- To investigate the internal factors contributing to the non-performing of loans.
- Explaining and elaborating those factors related to the problem of uncollectible and suggesting possible solution to these problems.

## **5. Research Methodology**

A descriptive research method was used. Both primary and secondary data were employed as a source of input to perform the research. The population from which representative samples were selected were head office credit analysts, credit departments and loan officers of AIB & DBE. AIB is selected for the purpose of this research because it is the first private bank established in Ethiopia after the liberalization of financial institutions there being the one with the longest experience in the field. Similarly DBE was selected from among the existing government owned banks for the same reason. The sampling method that has been applied in this study was purposive sampling. From Development Bank of Ethiopia, out of the total number of *twenty four* permanent employees in client relation department, only *nine* selected respondents were taken for the purpose of the study. Concerning Awash International Bank, out of the total number of twenty six permanent employees in Credit relation department, only *thirteen* permanent employees were selected.

To collect the primary data, a questionnaire was distributed to some Head Office Credit Analysts, Loan Officers and former credit department staffs (formerly credit officers and currently positioned in other departments) to have an overall insight about non performing loans. The secondary data was gathered from annual audited financial statements, journals, magazines, brochures, directives and other documents about *loan recovery performance*. Ratios and percentages were used in the research to analyze the data and draw conclusions.

## **6. Data Presentation and Analysis**

This section attempts to analyze the factors that contribute to loan recovery performance at Development Bank of Ethiopia (DBE) and Awash International Bank S.C. (AIB). The first section tries to show a guide to DBE and AIB loan requirements. The second section describes the evaluation of Loan Recovery Performance.

## 6.1 Evaluation of Credit recovery performance

The data obtained from the loan recovery performance report of both Banks is presented as follows: (Source: - DBE & AIB Annual Audited Reports of the respective years)

**Table 1: Summary of DBE and AIB Non Performing Loans Status (2005-2006) in Br**

| Description  | DBE           |                |                | AIB           |                |                 |
|--|---------------|----------------|----------------|---------------|----------------|-----------------|
|  | 2004          | 2005           | 2006           | 2004          | 2005           | 2006            |
| <b>1. Loan &amp; Advances</b>                              |               |                |                |               |                |                 |
| Total Portfolio  | 4,331,100,000 | 4,911,826,000  | 5,376,500,000  | 1,148,976,405 | 1,544,986,744  | 2,464,369,675   |
| <b>Loan Portfolio %age changes to the base year /2004/</b> | <b>0</b>      | <b>13.41 %</b> | <b>24.14 %</b> | <b>0</b>      | <b>34.47 %</b> | <b>114.48 %</b> |
| <b>2. N.P. LOANS</b>                                       |               |                |                |               |                |                 |
| Non performing Loans                                       | 1,929,900,000 | 1,542,330,000  | 1,908,517,000  | 141,079,249   | 101,875,483    | 128,546,836     |
| <b>3. Percentage of arrears to Total portfolio (2÷1)</b>   | <b>45%</b>    | <b>31 %</b>    | <b>35 %</b>    | <b>12 %</b>   | <b>07 %</b>    | <b>05 %</b>     |

As in the case of the Development Bank of Ethiopia the total loan and advances for the period 2004 amounting Birr 4,331 million increased by 13 % to 4,912 million in the year 2005. Furthermore, this amount rose by 24.14 %, amounting to Birr 5,377 million in the year 2006 as compared to the base year 2004. But the 45% of arrears to the total portfolio seems decreasing to 31% and slightly increased to 35% in the subsequent years. This decreasing function doesn't guarantee the bank's recovery rate of non performing loans. The decrease appeared due to a superficial declining in percentage that resulted from the

injection of new loans to new clients. These new loans injected will in turn automatically lower the ratio of NPL arrears by raising the total portfolio in the subsequent years.

In the case of the Awash International Bank one can also easily figure out similar decreasing trends. It seems decreasing from 12% of arrears to the total portfolio seems to 07% and then to 05% in the subsequent years. In similar fashion, the new loans injected have in turn automatically lowered the ratio of NPL arrears by raising the total portfolio in the subsequent years. This implies that the non performing loans of the two Banks do not show much of a decreasing trend during the period under consideration.

## **6.2 Loan Repayment Problems**

The data, through questionnaires, was collected from a total population of 50 credit departments' staff in which 24 from DBE and 26, from AIB are represented. To simplify the presentation, tabular presentation is selected for each parameter under consideration.

### **6.2.1 Banks Performance in Collecting Loans at DBE *and* AIB.**



**TABLE 2: Performance of Loan Recovery and the Causes for NPLs**

| Items                                   | Respondents |            |
|---|-------------|------------|
|   | Frequency   | Percentage |
| Degree of Satisfaction on loan recovery |             |            |
| • Very much Satisfied                   | 1           | 4.6        |
| • Satisfied                             | 5           | 22.7       |
| • Dissatisfied                          | 10          | 45.4       |
| • Very dissatisfied                     | 6           | 27.3       |
| • I don't know                          | 0           | ---        |
| <b>TOTAL</b>                            | <b>22</b>   | <b>100</b> |
| Degree of contribution to NPL Loans     |             |            |
| • By the bank                           | 10          | 45.5       |
| • By the client                         | 7           | 31.8       |
| • Both B and C                          | 3           | 13.6       |
| • By the 3 <sup>rd</sup> Party          | 2           | 9.1        |
| <b>TOTAL</b>                            | <b>22</b>   | <b>100</b> |

As it can be seen from table 2, only 4.6% of the respondents are very much satisfied with the loan recovery performance of the banks, while 22.7% have only been satisfied. 27.3% of them responded as very dissatisfied, whereas, the majority of them i.e. 45.4%, claimed that they are dissatisfied by performance of the bank. This shows that there is unsatisfactory loan recovery in the two banks under study.

When it comes to the degree of contribution to the Non Performing Loan/NPL, only 9.1% of the respondents said that 3<sup>rd</sup> parties contributed to NPL and 13.6% of them said both banks and clients contribute to the NPL. In addition, 31.8% responded that clients only contribute, while the majority (45.5 %) said banks only contribute to the NPL. The majority of staff agreed that the degree of contribution to NPL by the bank is greater than by the client and the third party.

### 6.2.2 Do Banks Benefit from the Sale of Collaterals?

Following are tables showing frequency distribution about whether banks benefit from selling collaterals, any other solution to the problem of NPLs that respondents may suggest and the existence of any technical assistance, consultancy, trainings before and after loan grant to the clients.

**TABLE 3: Banks' Benefit from the Sale of Collaterals**

| Items   | Respondents |            |
|---|-------------|------------|
|   | Frequency   | Percentage |
| Banks benefit from selling collaterals  |             |            |
| • Strongly Agree  | 1           | 04.5       |
| • Agree   | 4           | 18.2       |
| • Disagree  | 9           | 41.0       |
| • Strongly Disagree   | 7           | 31.8       |
| • I don't Know  | 1           | 04.5       |
| <b>Total</b>  | <b>22</b>   | <b>100</b> |
| Any technical assistance like consultancy, Trainings before & after Loan Grant in banks |             |            |
| • Yes   | 6           | 27.3       |
| • No  | 15          | 68.2       |
| • I don't Know  | 1           | 04.5       |
| <b>Total</b>  | <b>22</b>   | <b>100</b> |
| Is there any other solution to the Problem of NPL 's                                    |             |            |
| • Yes   | 11          | 50.0       |
| • No  | 5           | 22.7       |
| • I don't Know  | 6           | 27.3       |
| <b>Total</b>  | <b>22</b>   | <b>100</b> |

From the total respondents, 4.5% and 18.2% strongly agreed and agreed respectively that banks benefit from sale of collaterals. Others 41 % and 31.8 of the respondents disagreed and strongly disagree, respectively on the same idea. The remaining 4.5% responded that they do not know or understand about it.

Regarding the existence of customer support such as technical assistance, consultancy service, trainings for the business owners, managements and sales promoters of client’s before and after loan grant in their setting, only 4.5% of the respondents do not know about it and 27.3% of them responded that the banks have “customer service” and technical assistance, while 68.2% responded that there is no as such “customer service” and technical assistance in their respective bank.

### 6.3 Analysis of other relevant data’s related to loan recovery.

The following list of items which the researchers believe are relevant to loan recovery of banks, has been forwarded to the respondents in the questionnaire. Hence, each respondent is given an equal chance of picking a minimum of 3 opinions given equal value of 1/3 point each opinion.

**TABLE 4: Opinions related to loan recovery performance of DBE & AIB staffs.**

| Description  | Respondents                    |            |
|--|--------------------------------|------------|
|  | Number * 9 choices (1/3 Value) | Percentage |
| Too long loan process                                    | 4                              | 6.1        |
| Loan repayment reschedule                                | 13                             | 19.7       |
| Additional loan grant                                    | 13                             | 19.7       |
| Interest arrears Cancellation                            | 2                              | 3.0        |
| High interest rates                                      | 13                             | 19.7       |
| No timely Loan information                               | 2                              | 3.0        |
| Under estimation of collaterals<br>-against market value | 5                              | 7.6        |
| Unorganized customer Service                             | 13                             | 19.7       |
| Grace period extension                                   | 1                              | 1.5        |
| <b>TOTAL</b>   | <b>66</b>                      | <b>100</b> |

As we can see it from the above table, a total of 80% of the respondents said at equal response percent/ 19.7%/ for each of the following points Loan repayment reschedule, Additional loan grant has to be given, High interest rates and Unorganized Customer Service. Others, about a total of 20 % said under estimation of collaterals, too long loan process, No timely Loan information, Interest arrears Cancellation and Grace period extension at 7.6%, 6.1%, 3 %, 3% and 1.5% respectively. We can easily understand see that the respondents Majority of them gave the same reason for the non-repayment of lack or inadequate applicant screening criteria, fund diversion, willful defaulting and project duplication.

## **7. Summary, Conclusions and Recommendations**

### **7.1 Summary**

The aim of this research paper is to analyze factors that contribute to the rationales behind Non Performing Loans in DBE & AIB. Thus based on the findings we can summarize that the Non Performing Loans of the two banks do not show much of a decreasing trend during the period under consideration. In the same way, there is unsatisfactory loan recovery in the two banks. The contribution to NPL by the bank is greater than that of the client and third party. Technical assistance like consultancy and trainings before loan grant in the two banks is very low.

### **7.2. Conclusions**

In light of the findings the following conclusions are drawn:

- Timely and planed recovery of loans contributes to the profitability as well as financial sustainability of any lending institution, the strength of which is believed to enhance economic development efforts. Hence, lending institutions like the Development Bank of Ethiopia and Awash International Bank are expected to have good loan recovery performances comparable to minimize the amount of non performing loan in their counterparts elsewhere.
- As the overall recovery performance of the Development Bank of Ethiopia shows the total demand for the period under review (2005 –2006) was about Birr 9,395 million of which Birr 1,233 million was recovered. The overall average recovery

- rate during these periods was only 13%. Apportioning this figure into principal and interest, the average recovery rates come to about 12% and 15%, respectively.
- In the case of Awash International Bank the overall recovery performance shows that the total demand for the same period under review (2005 –2006) was about Birr 76 million of which Birr 6.9 million was recovered. The overall average recovery rate during the two years period was only 10.2 %. Apportioning this figure into principal and interest, the average recovery rates come to about 11% and 13%, respectively.
  - Factors affecting recovery performance of the two banks are also the problems associated with project appraisal. This is because appraisal is the comprehensive and systematic assessment of technical, commercial, financial, economical and managerial aspect of the proposed project and it directly influences loan recovery.
  - Incapable staffs are unable to appraise projects, due to weakness in exhaustively searching for up-to-date and relevant data on similar projects in the industry. Copying other appraisal reports are also other problems redundantly happening in project appraisal. These problems have highly contributed to improper granting of loans by the financial institutes for unviable projects.
  - On the other hand lack of inadequate applicant screening criteria can also be the other major factor to be considered by the two Banks. In order to screen potential, risk taking and dependable applicants, criteria such as portfolio management, credit discipline or repayment history, current capacity to repay loan, personal behavior or character and business experience of applicants should be investigated seriously before approving and disbursing loans. The study shows that these Banks have no adequate applicant screening criteria that are used to identify creditworthy applicants.
  - External factors such as diversion of loan, willful defaulting and poor project management capability of clients are identified additional major factors that affect loan recovery performance of the Banks. Granting loans by acquaintance to the loan granting board has also effected in disbursing the loan to undeserving clients or applicants.

### **7.3 Recommendations**

Based on the forgoing findings and conclusions, the followings are recommended for users of this research or perhaps for the managements so as to help the two Banks to improve their loan recovery performance.

- ❖ The long outstanding non-performing loans (inactive loans), which affected the loan recovery performance of the two Banks, well in the books but empty in reality, should be written off from their respective balance sheet.
- ❖ In order to improve the quality of project appraisal reports and to provide sufficient technical assistance to borrowers, the two Banks should allocate sufficient budget or find funds to upgrade the knowledge and skill of its staff.
- ❖ In order to select potential and creditworthy applicants, both Banks should have adequate applicant screening criteria. Criteria such as credit discipline or repayment history, current capacity to repay loan, personal spending pattern behavior and business experience should be considered at the time of applicant screening. Moreover, operational units of the Bank should create a good working relationship with concerned organizations so that they can get enough information about prospective applicants.
- ❖ Similarly to promote the creditworthiness of clients after the project appraisal the banks have to continue providing sufficient technical assistance to borrowers. This can be done by the two banks through training the borrowers' managements, assistance and guidance in market assessment, demanding an annual business plan submission and follow-up of business as per the plan.
- ❖ The two Banks should set conditions that enforce and encourage clients, especially clients with big projects. They should include project execution contract documents and to recruit skilled, professional, managerial and technical staff.
- ❖ Finally, the two Banks should make loan rescheduling to their clients when only it is based on detail assessment, strong justification and convincing cases are presented to the managements and mutually agreed by the client and the banks.

## References

1. Mauri A., Masini M., & Garvello O. (1996). *Saving and Development*: Quarterly Review Vol. XX , No.1, Felicia Tambussi,, Milan.
2. Mauri A., Masini M., & Garvello O. (1998). *Saving and Development*: Quarterly Review Vol. XXII , No.2, Felicia Tambussi, Milan.
3. Mauri A., Masini M., & Garvello O (1986) *Saving and Development* Quarterly Review Vol. X , No.1, Felicia Tambussi, Milan.
4. Awash International Bank (2004). *Annual Report*. Addis Ababa :Ethiopia
5. Awash International Bank (2005). *Annual Report*. Addis Ababa :Ethiopia
6. Awash International Bank (2006) *Annual Report*. Addis Ababa :Ethiopia
7. Awash International Bank (2007) *Credit Policy Training manual*. Un published manuscript. Addis Ababa :Ethiopia
8. Development Bank of Ethiopia (2004). *Annual Report*. Addis Ababa: Ethiopia
9. Development Bank of Ethiopia (2005). *Annual Report*. Addis Ababa :Ethiopia
10. Development Bank of Ethiopia (2006) *Annual Report*. Addis Ababa :Ethiopia
11. Mengistu Bediye (2002) *Determinants of Industrial Loan repayment in the case of Private borrowers around Zeway area*. Unpublished Master Thesis. Addis Ababa :Ethiopia
12. National Bank of Ethiopia (2002) *Amendment of Provision, Director No SBB/32/02*. Addis Ababa. Ethiopia
13. NBE (2000). *National Bank of Ethiopia Memorandum Ref No SD/ 290/04*. Addis Ababa. Ethiopia
14. ----- (). *Non Performing Loans*. Retrieved from <http://www.Wikipedia>, the free encyclopedia, Retrieved on June 2009.
15. ----- (). *Unpublished graduates model research papers*. St. Mary's University College, Addis Ababa.
16. Development Bank of Ethiopia Brochure.
17. Development Bank of Ethiopia, Credit Policy.
18. ----- (1993). Encyclopedia of Banking & Finance.

# **Strategic Planning and Management Process: The Case of St. Mary's University College**

**By**

**Woyneshet Nigatu**

**Faculty of Business, Department of Accounting, SMUC**

## **1. Background of the Study**

Achievement of organizational goals and objectives is mainly dependent on the strategic management process. Strategic decisions and their subsequent implementation process affect the long-term well being of the organization. A right implementation enable the organization to translate it vision into reality; a failure will result in total damage to the organization. Strategic decisions, characteristically, have a direct bearing on the well being of the organization. Strategic decisions are irreversible, require commitment of huge amount of resources, build core values and signify long term commitment. Strategic decisions also involve significant changes in the composition of the firm and go beyond the creation of a sustainable competitive advantage. (Thompson and Strickland, 2003).

Cognizant of the fact that an effective strategic management process determines the overall organizational success, the researcher believes that it should be done in line with the theoretical framework. Deviation from the theoretical framework while planning and executing the plan may threaten the success of any organization in a competitive environment. The student researcher, therefore, is highly interested to conduct a research on the strategic management practices of the case organization- St. Mary's University College. By doing so the researcher tried to evaluate the strategic planning, implementation, control and evaluation practices of SMUC against benchmark theories.

Following the issuance of the Education Policy and Strategy Document and after the assessing societal and market needs, SMUC was founded in 1991 E.C. as an outgrowth of St. Mary's Language School, which has been in operation since 1991 E.C. At the



beginning, the college has its head office in Awassa and a branch in Addis Ababa. With only the three study areas of Accounting, Marketing, and Law, a total of 70 students were registered at the two branches. In the same year (1991 E.C.), the college admitted more than 300 students in Addis Ababa and 25 students in Dilla.

Envisaging the trend of development of the conventional mode of learning, the college moved its head office to Addis Ababa in 1999 and opened the Departments of Secretarial Science and Office Management (SSOM), and the Department of Computer Science. In 2003, the college expanded its services and started offering degree programs in Marketing Management and Accounting programs. In the same year it also started new diploma programs in teacher education. After a year it launched a degree program in Computer Science.

## **2. Statement of the Problem**

Among all the things managers do, nothing affects a company's ultimate success or failure more fundamentally than how well its management team sets the company's long-term directions (vision), develops competitively effective strategic moves and business approaches, and day out strategy execution. In the process of evaluation and control the corporate activities and performance results are monitored so that actual performance can be compared with desired performance. Timely and recurring evaluation practices clearly reveal the performance gap –under performance or over performance- for immediate action.

The rational for using the twin standards of good strategy making and good strategy execution to determine whether a company is well managed is, therefore, compelling. The better conceived a company's strategy and the more competently it is executed, the more likely it is that the company will be a stand out performer and exhibit enviable business practice.

Tersely, effective strategic management process is the principal determinant of organizational success. To the contrary ineffective strategic management process will

certainly result in organizational failure. Knowing the tremendous effect of strategic management on organizations' performance, the researcher tried to make preliminary assessments on the strategic management process of SMUC-interviewed some employees, students, and student parents. As a result, among others the following problems are identified at this stage:

- Participation of stake holders, i.e., government authorities, employers/industry, students, students' parents, the community, and others during the preparation of the strategic plan was minimum;
- The vision and mission of the organization are communicated to the staff but not sufficiently communicated to the public.

### **3. Research Questions**

The study will try to give answers to the following basic questions:

1. Is the strategic planning procedure in compliance with theoretical framework/suggestion?
2. How does the management respond to make adjustments in strategic management process?
3. Are there adequate organizational policies to support the execution of SMUC's strategies?
4. Are the strategies crafted taking the available resources of the organization?
5. Does the organization have a well established system of monitoring and evaluation of the strategic plan implementation?

### **4. Objectives of the Study**

The research was conducted with intention of achieving the following specific objectives:

- To review the strategic plan of SMUC;
- To assess the strategic planning, implementation, monitoring and control practices of the organization and;
- To come up with valuable suggestions meant to rectify the outstanding weaknesses in the overall strategic management process.

## **5. Research Methodology**

Descriptive research method was used for the study. The total working population consists of 305 employees of the University College, among which 168 were academic staff and the rest were administrative staff. The researcher took 90 (about 30% of the total population). Questionnaire and interviews were used to collect the primary data. Secondary data was obtained from the strategic plan document covering the years 2007 to 2012. Of the total questionnaires distributed only 72 (80%) were completed and used for analysis.

The data collected using the questionnaire and interview, were categorized, tallied and tabulated. Then, on the basis of the data, the researcher made descriptive analyses. In some cases the researcher made a mere description of facts-descriptive analysis and some other times the researcher made inferences about the population based on the data collected from sample respondents.

## **6. Summary of Findings, Conclusions and Recommendations**

### **6.1 Summary of Findings**

The major findings of the study are presented as follows:

- ↳ Regarding to awareness of employees about the strategic plan, 67 (93.06%) of respondents know the presence of the strategic plan and 48 (66.67%) know the strategic objectives of the University College.
- ↳ Participation of employers, students, and government officials in the strategic planning process was rated as 2.97, 3.08 and 3.42 respectively on a 5 point rating scale. An interviewee also indicated that some stakeholders such as HERQA, Abyssinia Bank, Addis Ababa Education Bureau participated in conducting SWOT analysis
- ↳ About the extent of objectives in meeting the SMART criteria, respondents rated as 4.08, 3.88, 3.97, 3.78, and 3.58 for Simple, Measurable, Achievable, Realistic and

time bound respectively. Interviewees also indicated that they tried to make the objective SMART as they used the government guidelines while setting the strategic objective

- ↗ Concerning environmental analysis, about 39 (54.17%) of the respondents revealed that SMUC has conducted environmental analysis. Interviewees also stated the same.
- ↗ Regarding top managements' commitment, it was rated high as it stands 4 out of 5.
- ↗ Pertaining to the communication system, respondents rated it as 3.51 on a 5 point Likert scale i.e., it is above average.

Relating to Pitfalls in the strategic management process, the following data have been obtained:

- ↗ In aggregate, 46 (63.89%) of the respondents strongly agreed that the strategic planning is done to satisfy the requirements of regulatory bodies.
- ↗ Significant percentage (41.66%) of respondents indicated that the vision and mission are not well communicated to employees.
- ↗ Considerable number of respondents 23 (31.94%) disagreed and strongly disagreed on the top management's intuitive decisions that conflict with the formal plan.
- ↗ Large numbers of respondents, 36 (50.00%) agreed that the top managements uses the strategic targets as basis for measurement of performance.
- ↗ In aggregate, 41 (56.94%) of the respondents agreed that top management is supporting the strategic management process.
- ↗ Participation of key employees is not sufficient as confirmed by significant percentage of respondents. Similarly, considerable number of respondents affirmed that the participation of students' parents is not up to expectation (62.50%).
- ↗ Nearly half of the respondents indicated that the reward system is inadequate. Contrary to this respondents showed that SMUC has a proper organizational structure as confirmed by 52.77%. Interviewees replied that there are good numbers of organizational policies that support the implementation of strategic plan.
- ↗ The interviewees reflected that each and every academic and administrative office in the SMUC prepares and sends annual plan to the top management and CEIRQA.

Performance of each and every department is evaluated against the operational targets that are part and parcel of the strategic targets.

- ↪ With regard to the availability of resources, it was indicated by the interviewees that the institution is in short of resources although the plan is prepared taking the available resources into consideration.
- ↪ About adjustments made on the strategic plan, it was said that under compelling situations changes are allowed to be made.

## **6.2 Conclusions**

On the basis of the findings the researcher draws the following conclusions.

- ↪ The awareness of employees about strategic objectives is less.
- ↪ Participation of students, employees and government officials while planning the strategic plan was strong while participation of employers, the community and students' parents was low.
- ↪ The strategic objectives meet the SMART criteria. This indicates that objectives are not defective and serve the institution as valid performance targets, motivate employees and are used as evaluation standards.
- ↪ SMUC has conducted sufficient environment analysis. This enables the organization to know the potential success and failure factors during the implementation period.
- ↪ Top management's commitment is promising. The top management plays important role in the implementation of the strategic plan.
- ↪ Communication system of SMUC is above average, where as, in the open ended question, respondents have firmly stated that the communication system is not up to expectation.
- ↪ Some of the pitfalls in the strategic management process of SMUC are failure to communicate the vision, mission, and the strategies to the employees; insufficient participation of key employees in all phases of planning; and lack of proper reward system.
- ↪ SMUC has a good number of organizational policies. This implies that the activities in the organization are aligned with the strategic directions and are not random.

- ↪ SMUC regularly compares actual performance of its units and departments against the strategic targets. This implies that it promptly identifies performance gap and take remedial actions to fill the gap.
- ↪ SMUC has faced shortage of resources in general. However, while planning resources were taken into consideration.
- ↪ The strategic plan can be considered as flexible because adjustments are possible in the course of action as changes occur in the internal and external environment.
- ↪ Forum/workshops are not sufficiently arranged for employees whereby they comment on the strategic plan before implementation.

### **6.3 Recommendations**

Based on the findings the researcher forwarded the following helpful recommendations.

- ↪ Strategic vision and mission are adequately communicated to the SMUC community. However, the strategic objectives are not adequately communicated to employers. Thus the institution is advised to further aware all employers its vision, mission and objectives.
- ↪ The participation of employers, community and students' parents is minimum. Thus the institution needs to improve the involvement of stakeholders by arranging a focus group discussion, round table discussions, etc with stakeholders.
- ↪ SMUC shall make rigorous environmental analysis while preparing the strategic plan and its implementation.
- ↪ The top management's commitment is admirable, as stated by the respondents. Therefore the management shall sustain this quality for its super performance. The top management shall work hard to create sense of ownership to all employees in order to get the best contribution from them.
- ↪ The University College should involve employees in the strategic management process and reward them on the basis of their performance. The management may think of providing non financial rewards as career development, education opportunities and the like.

- ↳ SMUC has to expand its resource base by searching for sponsors and donors for its resource requirements for the strategic planning, implementation, and evaluation.
- ↳ Forum/workshops shall be arranged to create awareness about strategic issue and deliberate on the entire process.

### References

1. ACCA (2005). *Strategic Business Planning and Development, Financial Training Company*. Great Britain: Kaplan Publishing Company
2. David F.R., (2005). *Strategic Management: Concepts and Cases*. (10<sup>th</sup> edn). India: Prentice-Hall
3. David, F.R. (1997). *Strategic management* (6<sup>th</sup> edn). India: Prentice-Hall Inc
4. Dess, G. et al. (2007). *Strategic Management: Text and Cases*. New York: McGraw-Hill
5. Fitzroy, P. & Hulbert, J. (2005). *Strategic Management: Creating Value in Turbulent Times*. India: John Wiley and Sons Inc
6. Glueck, W.F. & Jauch, L.R. (1984). *Business Policy and Strategic Management, fourth edition*. United States: McGraw-Hill Inc.
7. Gregory, D.G., Lumpkin, T. & Taylor, M.L. (2005). *Strategic Management*. (2<sup>nd</sup> ed.) New York: McGraw Irwin
8. Hill, C.W. & Gareth R. (2007). *Strategic Management Theory: An Integrated Approach*. Boston New York: Houghton Mifflin Company, USA
9. Hitt, M.A et al (2005). *Strategic Management: Competitiveness and Globalization*. (6th edn). India: South Western.
10. Rao, M.P., and Jain, T.K (2003). *Strategic Management: Current Trends and Issues*. India: DEEP and DEEP Publications Pvt Ltd.
11. Singh, Y. P. (2002) *Effective Strategic Management*. India: Anmol Publications Pvt Ltd
12. Solomon Gera (2007). *The Strategic Planning and Implementation Practices of Ministry of Energy*. Unpublished BA Senior Research Paper: Addis Ababa
13. Thompson, A.A. & Strickland, A. J. (2003). *Strategic Management*. India: Tata McGraw-Hill Publishing Company Limited.

14. Wheelen, T.L. & Hunger, D.J. (2004). *Concepts in Strategic Management and Business Policy*. (9<sup>th</sup> edition). India: Pearson Education, Inc
15. Wit, B.D., and Meyer, R. (2002). *Strategy Process: Content, Context*. (2<sup>nd</sup> edn.) United States: West Publishing Company.