

Management Control System in Manufacturing Companies: A Case of BGI Ethiopia

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Abstract

In general, business environment is becoming more complex and competitive in nature. Companies in different industries are upcoming with a number of differentiated products and characterized by high quality with the level best required level of innovative skills. These all devotions and efforts are aimed of existing successfully in the industry they belong. Walsh et al, (2005) argue that, appropriate design and use of Management Control System (MCS) elements have a direct relationship with the success of the organization in competitive market environment. This paper is aimed at assessing BGI Ethiopia on three selected elements of management control system specifically, result control group, evaluating the practice through identifying and relying on theoretical propositions derived from the literature and finally, to recommend on how to improve these elements in their organization. In this research, an exploratory case study approach along a qualitative research method for collecting and analyzing the data are used. The case chosen in this study is BGI Ethiopia which is one of the brewery companies in the country. The empirical findings were analyzed through identifying themes from the data, by relying on theoretical propositions derived from the literature. The results show the following facts: Strategy Planning:: the strategic planning practice being used by BGI Ethiopia is in line with the theoretical propositions derived from the literature and control by using goals is highly emphasized. Performance Measurement and Evaluation: The new performance measurement literature indicates, performance measurement system should in corporate any financial and non-financial measure that provides incremental information on managerial efforts. However, BGI Ethiopia's approach to performance measurement is supplementing extensive traditional financial measure less mix of non – financial measures. The reward and incentive are not used very significantly. The system in use extensively consists of monetary rewards; both short term and long term incentives and do not use non-monetary incentives in greater extent to motivate its employees and the system seems incapable of achieving result control, since they influence employees' actions by taking rewards to desired results.

Keywords: Management Control System, Performance Measurement and Evaluation, Strategic Planning, financial incentives, non – financial incentives

1. Background of the Study

In today's manufacturing industry, customers are becoming more and more demanding on timely deliveries, zero defects and short-lead times which are becoming the norm in almost all industries. Furthermore, market environment has come to be competitive; markets are becoming more international, dynamic and customer driven. According to Krumwiede, et al, 2007, pp 45-62, customers are also want more variety, better quality goods and services, including both reliability and faster delivery. Technological developments are occurring at a faster pace, resulting in new product innovation and improvement in manufacturing industry processes. The resulting competitive environment requires low cost and high quality products in increasing varieties. Walt, 2004, argue that, one way to achieve this is when well defined and integrated management control system constituting proper basis of result control is established.

Management control system is a concept that got attention for the past two decades. Several scholars in the field of management science have been writing more on the essence of management control system in various perspectives. According to Otley et.al [1995, pp.55-60], MCS is processes that embody the techniques and mechanisms which companies' employ to pursue objectives, accomplish goals and successfully pursue strategies. It also integrate motives assist decision making, communicating objectives and provide feedback. 'Anthony and Govindarajan, [2000] have defined, management control system as the process by which managers influence other member of the organization to implement the organization's strategies and can therefore be perceived as the link between strategy formulation and task control to truly achieve success of the organization.

Management control system is represented by its mostly used elements. These are strategic planning, budgeting for internal reporting and decision making; incentives and motivations; performance measurement and evaluations; product costing, pricing and cost control; and waste minimization. These techniques are not mutually exclusive, rather may complement and reinforce each other in an effective management control system.

This paper considers the three elements of management control system stated above; strategic planning, performance measurement and evaluations and incentives including motivations which are major variables of

result control. According to Merchant and Van der Stede [2003], result controls are an indirect form of control issue, since they influence employees' actions by taking rewards to desired results. In addition to monetary compensation, the rewards include job security, promotions, autonomy and recognition. Merchant and Vander Stede argue that result controls are essential prerequisite for employee empowerment since they provide a substantial amount of autonomy to the employees.

2. Statement of the Problems

In general, business environment is becoming more complex and competitive in nature. Companies in different industries are upcoming with a number of differentiated products and characterized by high quality with the level best required level of innovative skills. These all devotions and efforts are aimed at bringing success to the industry they belong. According to Walsh et al, [2005], appropriate design and use of MCS elements have a direct relationship with the success of the organization in competitive market environment.

According to Hopper et al [2004], by setting proper management control system, the firm can gain coupled economic rewards, more efficient allocation of resources supplemented by new initiative such as total quality management, continuous improvement and enhanced benefits to employee. Moreover, internal control become more sensitive in adjusting operation to market information and communication would improve along with advance in information technology, relatively transparent, modern market oriented accounting system would be established in order to assist firms in the decision making process, reporting and overall achievement of its objectives. But, the design, application and existence of better management control system is aggregate contribution made by commonly used elements. Since, the late 1960's *strategy planning* has become topical with an ever increasing interest in the subject. This is due to a rapid change in business environment in both public and private sector (Bedford et al 1989). The *strategy planning* that is appropriate for one environment setting may be inappropriate in subsequent time periods and the statements of goals need to be clarified and restated in times of rapid changes (Bedford et al, 1989).

Thompson and Strickland [2000] also argue that, good strategy is the one well matched to a company's external and internal situations; as the company's situation changes in a significant ways, then adjustment in a strategy typically are needed. According to Bedford et.al [1989], without constant clarification and reformulation, statement of plans [strategy] becomes ambiguous and there is always a danger that planning can end up becoming a "form filling", bureaucratic exercise, devoid of strategic thinking.

The effectiveness of *performance measurement system* is also an issue of growing importance to industrialists and academicians. Many organizations are investing considerable amount of resource in implementing a measure that reflects all dimensions of their performance [Adam & Baile, 2002]. Different literature generally classifies *performance measure* in two broad categories: *Financial* and *Non-Financial*. The financial measures have been criticized because they provide a picture that is too narrow and have tendency to manipulate data. Moreover, factors such as non-Financial measures are not taken in to account [Shield & Kaplan, 1997]. According to Anthony & Govindarajan [2001], The financial measures encourage a short term action that are not in the companies' long term interest; the pressure to meet current profit level, the more likely the unit manager will be to take short term action that may be wrong in the long run.

Many companies do not have a formal mechanism for updating the measure to align with changing in strategy. As a result, most companies continue to use measures based on yesterday's strategy [Anthony & Govindarajan, 2001]. Furthermore, a various performance measures that have been developed over the years, creates difficulties for firms to actually understand and know the right performance measures that fit their operational activities [Jonson & Lesshammar, 1999].

According to Bonner & Sprinkle, 2002 cited in Steven J. Condly, et al [2003], *Reward* and *compensation* control intends to motivate and increase the performance of individuals and groups within organizations by attaching rewards to the achievement of goals or task. Various incentive programs target either the individual or the group. Brickley et al [2007] summarized the four potential problems with subjective performance evaluation: shirking among supervisors, forced distribution, influence costs, and renegeing. In other words, supervisors may shirk on performance evaluations, for instance, by rating all employees about the same, overstating the poor performers, compressing ratings around some norm rather than disentangling good performers from bad performers, or ranking employees based on personal likes and dislikes. Forced distribution refers to an allotment where a fixed fraction of employees is assigned to specific categories. This can also lead to inaccuracies – especially if applied to small groups. Influence costs include those unproductive activities employees engage in order to influence outcomes. Renegeing refers to the potential that a firm will break a promise to reward superior performance, since the subjective measures are not verifiable.

In addition, Condly, et al [2003], argues that, an incentive targeted to team of employees is less powerful than individual incentives. Some incentive programs last only for a few days or weeks while others go on for years. The duration of an incentive program might influence their effect and the long run and intermediary incentives are less effective than short term incentives [Steven J. Condly, et al 2003]

In Ethiopian manufacturing enterprises management control practice is not well developed. Since, the manufacturing sector is a nascent industry; no sophisticated system may be expected. Yet, in this global world of trade and industry, where customers have several choice, competitive products and services only are destined to succeeds As indicated above[Welsh et.al, 2005] success of the business organization in competitive market environment is directly related to design and use of the elements of MCS. Due to the yet nascent manufacturing industry of the country, case study or survey of MCS practice may not as such be of interest. However, we can not deter study of MCS and its application in Ethiopia industries.

BGI Ethiopia is an international company engaged in the brewery business for years operating in several countries, and it s now operating in Ethiopia. It is one of the companies that introduced competition in the country breaking the traditional consus building approach on pricing and distribution of goods. This study, therefore, takes BGI Ethiopia as a case study to demonstrate the design and the use of elements of MCS.

2.1 Research Questions

So as to evaluate the elements of management control system the following research questions are formulated in order to conduct the study.

- What are strategies being pursued by BGI Ethiopia in producing and marketing its product? [Both business level and manufacturing strategies]
- Is BGI Ethiopia's strategies being used are subject to adjustment as change occurred in the business environment (internal and external environment)?
- Which performance measures techniques are being used by BGI Ethiopia? (Financial / non-financial / hybrid)
- How does BGI Ethiopia measure performance? The process [Both at entity and individual level] and how often measured?
- What is the purpose of reward and motivation plans of BGI Ethiopia?
- What types of incentive and motivation system are being used by BGI Ethiopia? (material/ non-material, monetary/ non- monetary, group/ individual based, the time pattern and how it is used [the process]
- What is the extent of employees' benefits in the designed incentive and motivation system of BGI Ethiopia?

3. Objectives of the Study

3.1 General Objectives

The objective of this study is to assess BGI Ethiopia's on selected elements of management control system specifically, result control group.

3.2 Specific Objectives

The specific objectives of this paper are:

- To assess whether BGI Ethiopia's strategies are well designed and adjusted to accommodate changes in the business environment.
- To investigate what methods of performance measurement and evaluation used framework are used in MC and task control (financial, non-financial or mixed measures, individual or team based performance measure).
- To analyze reward, incentive and system of motivation used by the company to motivate its employees.

4. Significance of the Study

It is stated in the problem discussion that, the current growing business environment is becoming more complex and dynamic in nature. Several improvements in quality of goods and services, innovation skills have been observed. In a normal circumstance, these features are demanded by almost all companies. In other term, it will lead to successful existence in the today's competitive market environment. The role of well defined MCS tools has been undoubtedly argued by various management science scholars.

This paper tries to bring to light the experience of one of the internationally experienced company to demonstrate the practice of MC. Practice of the company is evaluated against the theoretical principles and any gap is reported. It is hoped that the study shed light on important aspect of MCS practice and will also provoke future research on the subject in connection to enterprises in the country.

5. Scope of the Study

In conducting this study only one company is selected for the assessment. Since, it is a case study; the findings cannot be generalized to all manufacturing companies. Among management control system tools, planning,

performance measurement and evaluation, reward, incentive and motivation are selected to be analyzed. The need to focus on one company alone arose from the fact that BGI Ethiopia has international experience to work in competition environment.

6. Methodology of the Study

The methodology of the study aims to describe the methodological approach of the study, and the research process as well.

6.1 Research Design

The exploratory research design is used which is aimed at investigating/evaluating the case on management control system environment based on the research questions. In preparing this paper, the researcher also used a qualitative method. The qualitative method is much about interpreting information of different kinds and it is engaged with the main emphasis to gain insight of the organization's operations and to construct explanations. The reason for choosing qualitative approach is due, to the aim of receiving in depth information regarding how the management control elements are practiced and used in BGI Ethiopia.

6.2 Data Collection Techniques

In this research, the major methods used for data collection are interview, and questionnaire. The items are aimed at obtaining information about different aspects of the selected management control system tools. Apart from these tools, some secondary data are used. The questionnaire included open ended and close ended items structured into three sections. The sections include:

Mission, Vision, and Strategic Planning: This section seeks to understand what are the key strategies that are central to the organization's overall future success, and how the company evaluating its achievement for each of these objectives.

Performance Measurement and Evaluation: This section is structured to investigate the kind of performance measurement framework being used by the organization. The recent performance measurement literature suggests, that organizations must use new performance measurement approaches such as the balanced scorecard and that measures should be aligned with contextual factors such as strategy and organizational structure. This section is aimed at evaluating the measures being used by the organization and individual or team based performance measure are being used by the case enterprise.

Incentives, Reward and Motivation System: This section is aimed to investigate how employees are evaluated and rewarded, and the type of reward and motivation system being used in motivating employees: material and the non-material. This section also includes a pattern of time the reward and motivation process is taken place.

6.3 Types of Data and Methods of Collection

Primary Data

For this research, the primary data was collected through an interview and self administered structure questionnaire. The questionnaire included open ended and close ended items; the respondent provides answers for the close ended items. Then an interview was conducted, the purpose of the interview was to get a picture of the current situation of the company and to answer the open ended items on the questionnaire. The interview was analyzed on the basis of the notes to be written during the interview.

Secondary Data

In addition to the interview and questionnaire, secondary data was collected from the company's operating manuals, policy manuals, strategic plan document and reference to performance report to investigate the strategic plans and for performance measurement and evaluations system.

6.4 Methods of Data Analysis

For this study, the researcher used the theoretical propositions analytical data analysis. The original objectives and design of the case study is based on each propositions, which in turn reflected a set of research questions, views of the literature and propositions. The empirical evidences are analyzed through identifying theme from the data. The interview, questioner and other data transcript will be carefully identified to find the points that match with the conceptual framework.

7. Selection of the Companies

To conduct this study, the manufacturing company BGI Ethiopia is selected. This is due to:

- BGI Ethiopia is one the successful manufacturing company in the brewery industry. Selecting a successful company has a merit of asking about the contribution of the management control system to the success of the company.
- BGI Ethiopia has international experience in operating brewery beyond Ethiopia

with sufficient experience to competitive environment.

- It is believed that BGI Ethiopia has standard system of management information and control system as compared to many of our brewery companies that were operating and are more uniform pricing of products instead of competition.

*** Summary of Theoretical Propositions

For analyzing the selected elements of management control system specifically, result control group, reviewing the present practices being used and then comparing those practices with the theoretical frameworks, the theoretical proposition that state what MC elements should be in practice are used. These are the major theoretical proposition:

Strategic Planning: In evaluating this element, theoretical proposition by Anthony and Govindarjan, [2001], Simons [2002], Fin and Hax [1998], for business and manufacturing level strategy, Thompson and Strickland [2002] and Bedford et.al. [1989] are used to analyze the strategy and change in the environment.

Performance measurement and evaluation: In analyzing the choice of performance measure Felltham and Xie [1994] and Fitzgerald et.al 1995, to evaluate performance measurement process and Bernalak [1997] for the process in measuring individual performance are used.

Incentives and motivations: To evaluate the incentives and motivation system, theoretical proposition by Condly [2003], Jeffrey and Shaffer, [2007], Hewitt Associates [2006] and Scott & Shaffer [2007] are mainly used.

8. Empirical Findings and Analysis

8.1 Background of Company

In 1922, Addis Ababa was just beginning to see the first sparks of technology when Saint George the nation's first brewery was founded. The founder was Mussie Dawit Hale from Belgian and latter sold it to a German company. The brewery stand near the Mexico square, Addis Ababa and occupies an area of 20,000 square meters of land on the same site it was 80 years before. It was a fine and a big building and it started off as one of the pioneers in the Ethiopia's industrial development.

The factory started with 300 employees who worked in two shifts for 24 hours. They started with machine that operates by hand and foot and were done by direct human labor. Transporting of raw materials to the silo, fermenting of the malt, boiling the barley, filtering the beer and filling the bottles and other were done manually. The management staffs and leading technicians were all were foreigners. During its first year of operations 200 bottles which were half liter size were produced daily.

In 1952/3, an Ethiopian company took over the brewery and was organized as a share holding entity, with the larger share owned by Emperor Haile Silasse. In 1970's the name of the brewery was changed to "Pilsner Brewery" and later as "Addis Ababa Brewery". Saint George brewery is once again privatized. The factory is now owned by BGI an internationally acclaimed brewing company that operates in many countries all over the world. It has excellent reputation in producing quality beer and brought Saint George to the same standard.

BGI invested 700 million birr in restructuring Saint George brewery factory. Currently it has \$162 million capitals. In 1989, BGI Ethiopia opened the sister company in Kombolcha. As of 2010 [2002 EC] data, it has 784 permanent employees in both st. George and kombolcha divisions. St. George division has 507 employees, 74 females and 433 men. Besides, this division has 240 temporary employees paying 25 birr per day. Kombolcha division, employees 277 permanent employees. The head quarter is in Addis Ababa, the Saint George division and the kombolcha divisions are administered under the Saint George division.

8.1.2 Product

BGI Ethiopia Currently is producing bottled beer and un bottled beer. These products are almost the same except their alcoholic content and price difference. Under the bottled beer it produces, three type of beers; st.George, Castle and Bati. Each beer is expressed as Regular larger beer, Draught fresh beers [which are fresh and pasteurized].

8.1.3 Target Market

There is a potential local demand for the products in beverage industry. Even though this is the case, BGI Ethiopia exports significant quantities of its product to the rest of the world. It exports to Europe; London, Rome, Parries, Frankfurt and Sidney, Washington and other African countries. For the domestic market, it divided the country in to 8 zones to distribute its products. The division is based on potential demand. This are, central, Addis Ababa, west1, west2, east, south, north, and north east and the Addis Ababa division constitutes 45% of all the domestic markets.

8.1.4 BGI Ethiopia's Organizational Structure

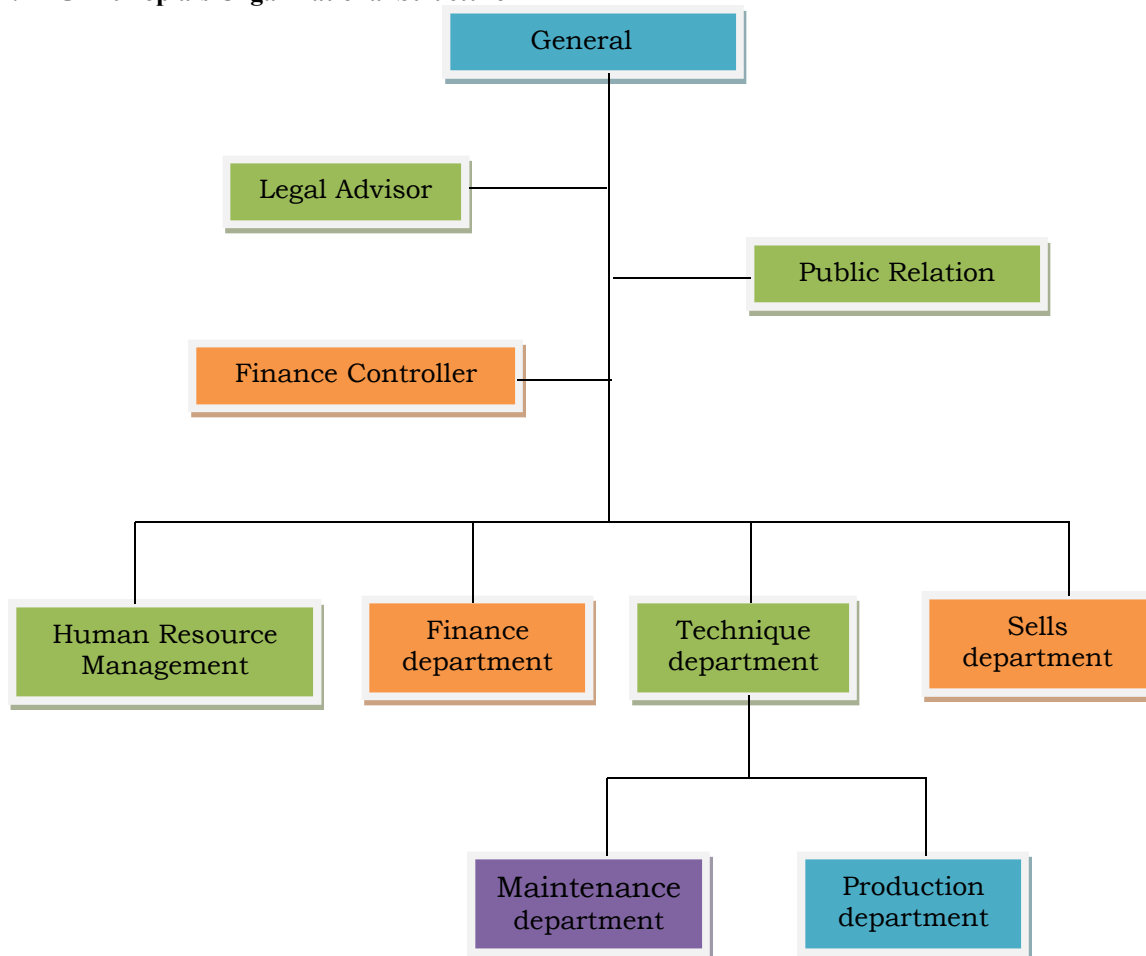


Figure 1

8.2 Strategy Planning

8.2.1 Business Level Strategy

BGI Ethiopia has a formal statement of plans about how to get the future competitive position. BGI Ethiopia has a general business strategy that is continuously increasing quality of its product and market share through customer satisfaction to get higher financial profits. As it is stated in their vision statements supplying quality beer along increasing, dependable customer service to achieve higher customer satisfaction is the core value of the company. The company uses quality products and customer satisfactions as the core weapon to be differentiated from other competitors and it is a customer oriented company.

BGI Ethiopia is a customer based company. It had various actions in creating long term intimacy with its customers. As per the interview held with newly assigned sales and marketing manager of castle wine, who has worked in different position in sales department, BGI extends various kinds of support to beer sellers in order to guarantee the safe delivery of beer to customers and to increase its customer satisfaction. BGI Ethiopia is the only and first enterprise to offer such service free of charge which has a significant role in creating strong customer intimacy. Beer and cooling go hand - in - hand, But most of its customers refrigerators' are very old, so the brewery allocates a large amount of budgets every year for the purchase of refrigerator that are distributed to customers. It also gives a refrigerator maintenance services. CO₂ gas is paramount to serve draught beer and is other cheap means that can damage the quality. Therefore, the factory covers the expense of CO₂ gas for those customers who cannot afford it.

Apart from the training at the brewery a mobile professional group gives cleaning service to beer selling out lets. The company provides modern washing machines to its customers with the necessary training so that they could join the cleaning process. The brewery demonstrates its dependable partnership with its customers by furnishing their shops with neon lights donating professional devices and by extending its assistance to those who require it.

8.2.2 Manufacturing Strategy

The empirical evidence has shown that, BGI Ethiopia has no a clearly stated manufacture strategies. However,

the interview held with the technical and production department head, claimed BGI Ethiopia is using the widely used manufacturing process strategies. Reducing the production cost, increasing quality of products and reducing production waste are core components of company’s manufacturing process strategy.

8.2.3 Strategy Vs Change in the Environment

Interviews held with the regional sales manager of BGI Ethiopia claimed that, the business level strategy has been changing due to deliberate and emergent change in internal and external environment. The most significant driver is the dynamic nature of the business. The regional sales manager said, “We do have personnel in a regional level who are responsible in evaluating each major activities of the business environment, i.e. competitors, customers and then report to the management staffs”.

Through this process when there is a change in the business environment, the strategy which copes up the new emerged environment. The manager extends, “We are not operating as a company, rather we are a team” while asked about alignment of the news strategy with operating departments. Since, it is all about deciding the way to get the future position, in preparing the new strategy plan, all department are a member. But, the time pattern of reviewing its objectives and strategies is not clearly stated.

8.3 Performance Measurement and Evaluation

8.3.1 Entity Level Performance Measurement

To analyze the performance measures currently being monitored by BGI Ethiopia, the appropriate way selected is identifying the mix of financial and non-financial measures from performance measurement literature (from Anthony and Govindrajana 2000, Neely, 1995). Then, 64 performance measure consisting 48 non-financial measures and 26 financial measures are outlined. The non-financial measures are grouped in 4 dimensions and the financial measures grouped in 5 dimensions.

Three major departments that have exposure to those measures; production, sales and marketing and accounting department were given these measures and asked which measure they are considering for measuring the entity performance. The result showed, out of 38 non-financial measures the company uses only 17 non-financial measures and out of 26 financial measures identified, BGI Ethiopia is monitoring 25 financial measures. Thus, BGI Ethiopia is monitoring a traditional performance measurement with a mix of financial and non-financial measure relaying almost exclusively on the financial measure. The following table’s shows the non-financial measures and financial measures being used by BGI Ethiopia.

8.3.1.2 FRAMEWORK OF PERFORMANCE MEASURES CURRENTLY BEING USED BY BGI ETHIOPIA [Financial]

<p><u>A. FINANCIAL RATIOS</u></p> <ul style="list-style-type: none"> ○ Current ratio ○ Profit before tax ○ Return on sales ○ Total expenses ○ Total net cash flow ○ Operating margin ○ Total of cash receipts ○ Manufacturing cost ○ Running cost ○ Asset turnover ○ Total operating cash flows ○ Total costs by department ○ Total of cash disbursements <p><u>D. ACCOUNT RECIEVABLE</u></p> <ul style="list-style-type: none"> ○ Number of doubtful account receivable ○ Total sales per employee 	<p><u>B.VARIANCE OF LABOR, MATERIAL</u></p> <ul style="list-style-type: none"> ○ Labor efficiency variance ○ Materials price variance ○ Materials quantity variance <p><u>C. STOCK, MARKET SHARE</u></p> <ul style="list-style-type: none"> ○ Earnings per share ○ Price-earnings ratio ○ Stock price <p><u>G.REVENUES AND PROFITS</u></p> <ul style="list-style-type: none"> ○ Cost of goods sold ○ Gross profit margin ○ Total sales of revenues ○ Net profit
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Table 5: Financial performance measures being used by BGI Ethiopia

8.3.1.3 FRAMEWORK OF PERFORMANCE MEASURES CURRENTLY BEING USED BY BGI ETHIOPIA [Non- financial]

<p>A. <u>QUALITY</u></p> <ul style="list-style-type: none"> ○ Cost quality ○ Cost reduction resulting from quality ○ Number of customer complaints <p>B. <u>CUSTOMERS AND SALES:</u></p> <ul style="list-style-type: none"> ○ Average sales order [booking] ○ Number of new customer contacts ○ Number of new customers ○ Number of warranty claims ○ Total sales per region ○ Total sales per sale representation ○ Customer satisfaction ○ Number of new products ○ Back orders ○ customer retention ○ customer loyalty 	<p>C. <u>TIME</u></p> <ul style="list-style-type: none"> ○ Manufacturing lead-time ○ Deliver lead time ○ Due-date performance ○ Frequency of delivery <p>D. <u>PRODUCTION</u></p> <ul style="list-style-type: none"> ○ Inventory turnover ratio ○ Number of units produced ○ Number of production waste ○ Amount of finished goods inventory ○ Amount of material scrap produced ○ Amount of raw material inventory ○ Amount of work in process inventory ○ Quantity of energy consumed ○ Number of production waste
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Table 6: Non- financial performance measures being used by BGI Ethiopia

8.3.2 Process of Measuring Entity Performance

8.3.2.1 Financial Measure

BGI Ethiopia measures its entity level performance annually. At the beginning of each year entity wide financial plan that to be achieved with in that period will be prepared and distributed to each department aimed at creating alignment. This financial plan contains extensively financial or accounting measures such as, profit before tax, return on sales, total expenses, total net cash flow, operating margin, total of cash receipts, manufacturing cost, running cost, asset turnover. Then, at the end of the period, plans will be compared with the performance (outcomes).

8.3.2.2 Non-financial Measure

BGI Ethiopia is using the non-financial measures as indicators of performance. According to sales and marketing department head, for instance “backorders” which is a non-financial measure, is used as an indicator of imbalance between sales and production department and suggests customer dissatisfaction. Customer satisfaction is also measured by the number of complaints letter and customer survey made once year for major customers. Customer loyalty is also used as an indication of their performance and measured in terms of repeated purchase made by customers.

8.3.3 Individual Measure of Performance

The interview held with the vice human resource manager showed that, BGI Ethiopia has individual performance measurement system that is integrated with incentive and motivation plan. The company measures its employee performance twice a year. The first measurement is held on July each year and known by employees as "short term" performance measure. This measure is aimed at alerting employees to the second phase of performance measurement which held on December 31st. The purposes of these measures are, determining the value of all employees, improving employee’s performance and identifying the need for trainings. In all these process if any default is identified, employees will be communicated by direct letter. The immediate boss is responsible to measure its employee’s performance and later the result of employees in all departments will be given to the human resource department.

Table below shows the level and a group of employees whose performance is measured.

<i>S.NO</i>	<i>CATEGORIES</i>	<i>EMPLOYEES MEASURED</i>	<i>LEVEL</i>
1	Ordinary Employees	All Employees	1
2	Sales Employees	Direct sales staffs Sales management Staffs	2
3	Management Staffs	All department heads Top management	3

Table: 7

For all categories, BGI Ethiopia use the most commonly used rating reference in measuring its

employee's performance. These include unsatisfactory, Average, Good, Very Good and Excellent and the following definitions are attached with.

- *Unsatisfactory*: Refers individuals constantly, doesn't meet the job requirements.
- *Average*: Individual sometimes doesn't meet the job requirement.
- *Good*: refers individual meet the job requirement and sometimes exceeds the requirements of the job.
- *Very Good*: Individual consistently exceeds the requirements of the job.

These rates of references identified above are attached with the following values:

UNSATISFACTORY	AVERAGE	GOOD	VERY GOOD	EXCELLENT
0.01-1.0	1.01-2.0	2.01-3.0	3.01-4.0	4.01-5.0

Table: 8

8.3.3.1 Ordinary Employees

The company uses measuring form which contains various core criteria and key performance indicators. For all the three categories identified above, form that are different in content are used. All employees are subject to the first performance indicator which is known as "*General*". This indicator contains five criteria; Punctuality, Quality of work, Volume and swiftness, Team work and safe guarding of company assets. Under these five criteria there are different items aimed at measuring the real achievement of employees.

Punctuality measures the time lines and the ethical state of employees. Quality of work is designed to measure the jobs knowledge and quality of work done by employees. Under team work and company spirit indicators, both the external and internal environments are considered.

The internal factors measure employee's ability to work in team and to cooperate with others workers within the company. The ability of employees in giving good image of the company to third party through its behavior is measured under external factor. Safeguarding of companies assets uses to measure employee's performance in protecting and maintaining company's assets and properties. Finally, criteria's and core indicators will be correlated with value given above along the rating references given to each employee.

8.3.3.2 Sales Employees

Since, BGI Ethiopia is a customer based company; it had another parameter to measure its sales department employee's performance.

8.3.3.2.1 Direct Sales Staff

In addition to "*general*" performance indicators used for all employees, the company uses two performance indicators to measure its direct sales staffs that have direct contact with its customers. These are customer relationship and company image. The first indicator is aimed to evaluate the sales man skills in maintaining good relationship with customers even in adverse condition, finding solution for customer's problems and even anticipating customer problems and taking sound decisions. The later criteria measures ability related with companies position in whatever and whenever conditions.

8.3.3.2.2 Sales Management Staffs

Apart from indicators that used to measure direct sales staffs, sales management staffs are subject to indicators that aimed to measure management competency skills. These are communication, initiative and judgments. Communication indicators measures the skills in communicating with subordinates, appearance and politeness, writing and oral expression assertivitiy (skills of arguing someone), coordination with other departments, ability in making sound decisions and recognizing significant deviations from standards. Searching for new ideas, supporting creative effort are issues under initiative and judgment indicators. Flexibility and adaptability indicators used to measure skills of sales management in adapting to change in work conditions and working methods, readiness and eagerness for training and related issues.

8.3.3.3 Management Staffs

BGI Ethiopia uses three performance indicators for measuring employees of management staffs. The first indicator is "*General*" that used for all employees. Second, it uses "self management" indicator which include three factors to measure their competency in different dimensions.

These are communication, initiative judgment and flexibility. Communication indicators measures the skills in communicating with subordinates, appearance and politeness, writing and oral expression assertivitiy (skills of arguing someone), coordination with other departments, ability in making sound decisions and recognizing significant deviations from standards. Searching for new ideas, supporting creative effort are issues under initiative and judgment indicators.

Flexibility and adaptability indicators used to measure skills of sales management in adapting to change in work conditions and working methods, readiness and eagerness for training and related issues. The third is "supervision of man power". It measures ability of leadership, stimulating effective work, commands, confidence and respect and controlling work done. For these all performance indicators using the value attached with rate of reference the result is computed and communicated to employees.

For all the above groups, criteria's and core indicators will be correlated with value given along the rating references given to each employee and given to the human resource department which finalize the results

and communicate to each employees. The company attaches letter permanently for those employees who got unsatisfactory aggregate status. Furthermore, the company has a system through which immediate discussion is held with employees with average aggregate status. As we have seen above, BGI Ethiopia uses various criteria and performance indicators in measuring its employee performance.

8.4 Incentives and motivations

8.4.1 Purpose of Incentives

BGI Ethiopia uses reward system for different purpose. Primary, it uses to motivate employees to greater performance. As far as concerning the interview held, the reward system is also used to inform employees about which parameters are important and where they should put their focus at the future time. Furthermore, it also used to retain key performers as well as to attract competent employees used to employees and it way for the company to share profits with the employees and making them feel appreciated.

8.4.2 Group vs. Individual Incentives

The discussion about group or individual based incentives, BGI Ethiopian is currently using a combination of these two modes of incentives. But, it ought to prefer more individual based rewards since; they are supposed to be more independents.

8.4.3 Current Reward System

BGI Ethiopian has a reward and compensation system that integrated two groups within the company. The first, Category contains the management staff and the second is for remaining employee.

In order to analyze, the types of incentives and reward being used by BGI Ethiopia, which is the relevant question in the study, 49 types of incentives and rewards which contains monetary, non- monetary intangible and non monetary tangible that has been used by different companies were identified from the literature [Pattanayak, 2005]. These 49 types of incentives were given to the human resource department and they are asked to choose incentives that are being used by the company. Table 3, shows the 49 incentives type identified.

The empirical findings shows, the reward and incentive system in use extensively consists of monetary rewards. The only thing that could be seen as non-monetary incentives is that, the festive basher, coffee breaks, Job rotation, training and growth. In general BGI Ethiopia do not are non-monetary incentives in greater extent to motivate it employees. The following table shows types of incentives and reward being used by BG1 Ethiopia

8.4.3.1 TYPES OF INCENTIVES AND REWARDS BEING USED BY BGI ETHIOPIA

MONTARY INCENTIVES	TANGIBLE NON –MONTARY INCENTIVES	INTANGIBLE NON-MONTARY INCENTIVES
<p><u>DIRECT COMPENSATION:</u></p> <ul style="list-style-type: none"> ○ Base salary ○ Commission ○ Bonus <p><u>IN DIRECT COMPENSATION:</u></p> <ul style="list-style-type: none"> ○ Insurance for health/disability/life ○ Profit sharing plans ○ Retirement plans ○ Educational ○ Overtime policy ○ Paid leave ○ Unpaid leave ○ Subsidized utilities ○ Travel expenses 	<p><u>TREATS:</u></p> <ul style="list-style-type: none"> ○ Festival bashes ○ Coffee breaks 	<p><u>TASK RELATED REWARDS:</u></p> <ul style="list-style-type: none"> ○ Meaningful work ○ Job rotation ○ Training ○ Representing the company at public ○ Promotion ○ Flexible hours

Table 7: Incentives and reward types being used by BGI Ethiopia

8. 4.3.2 Monetary Incentives

As we can see from the above table, out of the 16, monetary incentive identified the company exclusively relied on 13 monetary incentives to motivate its employee. The major monetary incentives include performance based salary, short term incentive plan and long –term incentive plan. The short term incentive plan is usually received in the form of cash bonus and commission. This type of incentive is given to employees based on the performance result of each employee that is done twice a year. The long-term incentive plan is defined over periods greater than one year. It is given to employees for specified years mostly 3 to 4 years. The company assesses the cost of living and inflation level each year and provided increment in salary to enhance the level of living for its employees.

8.4.3.2.1 Short term Incentives Bonus

BG Ethiopia uses a different manner for paying bonus to its employees. There is no specified percentage of profit to be paid in the form of bonus. The criteria being used to pay or not to pay bonus is the yearly budgeted sales and performance of sales. The company pays bonus if the yearly sales grew at 50 percent. The payment is based employee performance measured and it ranges from 0 to 3 month salary. The following table shows the scale being use for baying bonus.

<i>Status</i>	<i>Points</i>		<i>Bonus [salary] Monthly salary]</i>
	<i>From</i>	<i>To</i>	
Unsatisfactory	0.0	2.0	0.5
Average	1.01	2.0	1.0
Good	2.01	3.0	2.0
Very Good	3.01	4.0	2.5
Excellent	4.01	5.0	3.0

2. Commission on Sales

The company pays commission on sales based on performance of employees at different levels .Among these levels sales coordinators, sales officers, sales drivers and sales department wage based employees are the major one .As it is presented is performance Measurement discussion, the amount of sales performed will be compared with the budgeted one. These are the scales, for paying commissions.

1. For Sales coordinator level 3

Basis: 75% of salary

<i>PERFORMANCE [% OF BUDGETED]</i>	<i>COMMISSION [% OF SALARY]</i>
Up to 84.9	0
85 - 89.9	10
90 - 94.9	15
95 – 99.9	25
100 – 109.9	35
110 – 119.9	50
> 119.9	70

2. For Sales coordinator level 1 and 2

Company’s sales coordinators with level 1 and 2 are eligible to get sales commission based on their achievement of budgeted sales. As it is summarized below, the basis for computation of commission is 80 % their salary. For instance, if he/she achieved 85 - 089.9% of the budgeted sales, he/she will have 15%, of 80% of their salary. The following table shows the scales for sales coordinator level 1 and 2.

Basis: 80% of salary

<i>PERFORMANCE [% OF BUDGETED]</i>	<i>COMMISSION [% OF SALARY]</i>
Up to 89.9	0
85 - 89.9	15
90 - 94.9	15
95 – 99.9	25
100 – 119.9	30
100 – 109.9	35
≥ 120	50

3. For Junior and Senior Sales Officers

Company’s junior and senior sales officers are eligible to get sales commission based on their achievement of budgeted sales. The following table shows the scale for paying commissions.

Basis: 80% of salary

<i>PERFORMANCE [% OF BUDGETED]</i>	<i>COMMISSION [% OF SALARY]</i>
Up to 89.9	0
85 - 89.9	15
90 - 94.9	10
95 – 99.9	15
100 – 119.9	20
110 – 109.9	35
> 120	50

4. For Sales Department Drivers

Based on the following scales, drivers in the sales department will have commission based on their performance of sales against the budgeted figures.

Basis: 100% of salary

<i>PERFORMANCE [% OF BUDGETED]</i>	<i>COMMISSION [% OF SALARY]</i>
Up to 99.9	0
100 - 109.9	5
> 110	10

8.4.3.2.2 Long – term Incentives

BGI Ethiopia is monitoring the long - term incentives as main motivation factor. Considering the country’s economic situations, inflation, BGI Ethiopia pays incremental salary to enhance the living level of its employee which mostly lasts to three years. This payment is based on the following criteria:

- If sales within the year increases by 20% than the budgeted amount, 2% of salary increase will be paid. In addition, 3% of total last year salary will also be paid.
- If sales increase by 50% than the budgeted one, additional 2% of their salary will be paid.

This long term incentive is based on the result obtained from individual performance measure which held each year and uses the following scale:

<i>STATUS</i>	<i>POINTS</i>		<i>SALARY INCREASE % OF MONTHLY SALARY</i>
	From	To	
Unsatisfactory	0.01	1.0	0.5
Average	1.01	2.0	1.5
Good	2.01	3.0	3.0
Very Good	3.01	4.0	4.0
Excellent	4.01	5.0	5.0

8.4.4 Non – Monetary Incentives

In today’s workplace, the use of tangible non-monetary incentives to motivate employees and boost performance is ever increasing. The 2005 Incentive Federation Study of the top 5 most frequently used tangible non-monetary incentives are gift certificates, plaques/trophies, apparels, cameras and watches. Tangible non-monetary incentives are as important as monetary incentives.

However, BGI Ethiopia does not use tangible – non monetary incentives as main tool to motivate its employee. As it is shown in table 7, out of 20 tangible – non incentives identified, the company is using only 2 incentives. There for, one can say that, BGI Ethiopia does not give emphasis for tangible – non monetary incentives.

8.4.5 Intangible Non- Monetary Incentives

It is widely believed that Praise and recognition boost employees’ morale as it allows employees to think better of themselves and their ability to contribute to organization goals. Employees with high self-esteem are more intrinsically motivated, optimistic, willing to work harder, participative at work, work efficiently, have lower absenteeism rate and are generally more satisfied with their jobs [Scott & Shaffer 2007].

BGI Ethiopia has given a less attention to motivational value that can be achieved by intangible non – monetary incentives. As it is shown in table 3, out of 16 intangible non – monetary incentives identified, the company is monitoring only 6 intangible non – monetary incentives to motivate its employees.

As it is discussed in BGI Ethiopia’s short – term incentive practice, bonus has been used as a form of profit sharing to employees. But, employees stock ownership plan has not been an issue and are not used as a motivation factor.

9. Summary, Conclusion and Recommendation

The intention of this study was to assess BGI Ethiopia on selected elements of management control system specifically, result control group, reviewing the present practices being monitored, comparing those practices with the theoretical frameworks and research findings, then to recommend on how to improve these variables to give strength for organization’s management control system in general and result control variables in specific. A qualitative research method was chosen with the main emphasis to gain insight of the organization’s operations and to construct explanations. The findings of this study provide useful information in this regard. Based on the findings and the information gathered in the process of this study, the following conclusions and recommendations are drawn:

Most competent managers spend considerable time thinking about the future. The result may be an informal understanding of the future directions the entity is going to take (or) it may be formal statements of specific plans about how to get future position. Such statement of plans is known as a strategic plan [Anthony and Govindarjan, 2001]. Accordingly, BGI Ethiopia has a general business strategy that is continuously increasing quality of its product and market share through customer satisfaction to get higher financial profits.

According to Simons (2002) business level strategy is about how to compete in defined product market. Question such as “how we can differentiate ourselves from competitors to create value in the market place?” and

“How can we offer something unique and valuable to our targeted customers?” are typical business level strategy. BGI Ethiopia uses quality products and customer satisfactions as the core weapon to be differentiated from other competitors.

BGI Ethiopia is customer based company. According to Neely et.al (2005), companies which are customer based, does whatever it takes to provide products for unique customers needs and do not look for one time business, instead focus on long term customer relationship built through responding to unique customer needs. Accordingly, BGI Ethiopia is extending various kinds of support to beer sellers in order to guarantee the safe delivery of beer to customers and to increase its customer satisfaction. BGI Ethiopia is the only and first enterprise to offer such service free of charge which has a significant role in creating strong customer intimacy.

As per Fin and Hax (1998), for most of industrial companies, the manufacturing operations is the largest the most complex and most difficult to manage components of the firm. Because of this firms must have comprehensive manufacturing strategies. Major strategies at manufacturing process includes, reducing production cost, improving product quality and reducing amount of production waste. Even though it is not clearly stated, BGI Ethiopia is monitoring the widely recommended manufacturing process strategies. Reducing the production cost, increasing quality of products and reducing production waste are core components of company's manufacturing process strategy.

Thompson and Strickland (2002) argues, good strategy is the one well matched to companies external and internal situations and as the company situation changes in a significant ways, adjustment in a strategy typically are needed. Bedford et.al. (1989), also argues, without constant classification and reformulation strategy become ambiguous. Accordingly, BGI Ethiopia's business strategy has been changing due to deliberate or emergent change in the environment. For instance, in the last periods, its strategy has changed due to the dynamic nature of business environment mainly, customers and competitors. The company has regional experts who are responsible in assessing the overall business environment which has been core input in designing new strategy. However, the period of reviewing the existing strategy is not clearly stated.

Felltham and Xie [1994], in analyzing the choice of performance measure, the new performance measure indicates performance measurement system should in corporate any financial and non-financial measure that provides incremental information on managerial efforts. Despite this model, firms traditionally have relied almost exclusively on financial measures such as budgets, profits, accounting return stock return for measuring performance [Balkony et al, 1997]. BGI Ethiopia's approach to performance measurement is supplementing extensive traditional financial measure less mix of non – financial measures. As result showed, out of 38 non-financial measures the company is monitoring only 17 non- financial measures and out of 26 financial measures identified, it is using 25 financial measures. The company gave very less emphasis for the real performance measuring variables.

When we look the practice of performance measuring process for both entity and individual level, BGI Ethiopia has been extensively using the one that relate financial performance to the planned one giving less importance for quality, flexibility resource utilization and innovation which referred to us non-financial measure. For measuring individual's performance, BGI Ethiopia is using various criteria and performance indicators in measuring its employee performance which is not recommended.

Generally, in performance measurement practice assessed, there are some practice that been used with little modification in theoretical principles and many of the practices are in line with theoretical principles. Apart from this the system being used has various best practices that should be kept up. These include, conducting twice a year performance measurement for favoring poor performers, adopting close supervision in measuring process, quick communication of result to employees with the necessary feedback and training for poor performers.

According to condly, 2003, people can either work as individuals or as part of units and various investives incentives programs target either the group or individuals. Presumably, individuals have more control over the outcome, when it's more under their individual and in fact put considerable effort and incentives targeted to individual employees would be more powerful than team incentives. The empirical findings are in line with most of the expectation out lined from the literature, BGI Ethiopia is using both group and individual based incentives giving higher emphasis on individual based incentives.

The reward and incentive system in use extensively consists of monetary rewards; both short term and long term incentives and do not use non-monetary incentives [both intangible and tangible non-monetary incentives] in greater extent to motivate it employees. The only thing that could be seen as non-monetary incentives is that, the festival basher, coffee breaks, Job rotation, training and growth. According to Shane et.al [2001], Employees whose efforts relate closely to key performance result such as executives, production and sales workers may benefits the most from monetary incentives. Nevertheless, organization cannot rely solely on monetary incentives to motivate the diverse work force due to limitation it brings. First, According to Mintezberg's theory money can prevent employee's dissatisfaction but does not necessarily motivate. Second, while employees see bonus payments in positive light, these are however, negative impacts on motivation if the

incentives plan is not carefully designed.

According to research findings by Condly et al [2003], of all adequately designed field and laboratory research on the use of incentives to motivate performance on approximately 600 studies, 45 were qualified and has discovered that long - term incentives generate higher performance out comes than short- term incentives programs. BGI Ethiopia's incentive and motivation plan has also long- term incentive to motivate employees.

10. Recommendation

Strategy Planning: the strategic planning practice being used by BGI Ethiopia is in line with the theoretical propositions derived from the literature and control by using goals is highly emphasized. Its business strategy has been changing due to deliberate or emergent change in the internal and external environment.

However, the period of reviewing the existing strategy is not clearly stated. As it is argued by different authors, strategy should not only be reviewed when the pressure comes from both internal and external environments, rather it should be reviewed continuously. BGI Ethiopia must adopt a pro active system with proper revision period for its objectives and plans so as to achieve its objectives.

Performance Measurement and Evaluation: The new performance measurement literature indicates, performance measurement system should in corporate any financial and non-financial measure that provides incremental information on managerial efforts. However, BGI Ethiopia's approach to performance measurement is supplementing extensive traditional financial measure less mix of non – financial measures. As it is argued by different scholars, the non-financial measures are the real measure of performance and they are less exposed to data manipulation as financial measures. Therefore, BGI Ethiopia should make a tradeoff of using between financial and non- financial measures and extend to the emerging widely recommended performance measurement system such as BSC.

Fitzgerald et.al 1995, suggest two types of performance measurement process for both entity and individual level. These are those relates the result, i.e. financial performance, competitiveness to the planned one and that focus on the determinants of the results i.e. quality, flexibility resource utilization and innovation. BGI Ethiopia has been extensively using the one that relate financial performance to the planned one giving less importance for quality, flexibility resource utilization and innovation[non-financial]. It must also explore the other side, because it is proved that, they tend to provide real information about firms performance for managers.

Bernalak 1997, in measuring individual performance important attention should be given in limiting the data requirement and to both necessary details and frequency because it sometime take long time in analyzing those data and can lead to move harm than good. However, the empirical findings showed BGI Ethiopia using different various criteria and performance indicators in measuring its employee performance. Thus, these indicators must be limited in number and comprehensive in nature to alleviate those problems.

Incentives, reward and motivations: The reward and incentive system in use extensively consists of monetary rewards; both short term and long term incentives and do not use non-monetary incentives both intangible and tangible non-monetary incentives. However, when carefully designed and implemented, tangible non-monetary incentives pegged to performance can be a very effective tool for motivation and to increase productivity. Since tangible non-monetary incentives are often less expensive easily administered and more personal, it can be used to consistently reward employee's excellent performance, the company should consider these types of incentives to motivate its employees.

Showing appreciation to employees often goes beyond friendly social gestures. Employees want to feel appreciated and valued by the organization. This is where recognition comes in. Employees whose efforts are recognized feel good about themselves and hence a strong mental link between their actions and the positive emotional reward is formed. The in tangible non-monetary incentives does not cost the company, rather it need only commitment and have a significant value in motivating employees. Therefore, the company needs to adopt these incentives for motivating its employees in achieving the organization.

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