1. Introduction

It is widely known, that the manager, as a decision-maker, has four major roles: planning, leading, organizing, and controlling. This paper is concerned with the controlling aspect of management and more specifically with management control systems (MCSs).

The literature review found several definitions of MCSs. The term management control was first introduced by [2], who defined it as the process of assuring that an organization's resources are obtained and used effectively and efficiently in the accomplishment of its objectives. This definition is in line with those developed later, which include financial, strategic and operational metrics and information to improve decision-making and planning [3–6]. According to other researchers [7], MCSs consist of systematic use of management accounting to achieve some goals and other controls such as personnel and clan controls.

Management control is the back end of management process and its failures can lead to large financial losses, reputation damage, and possibly even to organization failure [1]. [1] give a broad definition for MCSs: MCSs are defined broadly to include everything managers do to help ensure that their organization's strategies and plans are carried out or, if conditions warrant, that they are modified". Knowledge of objectives (quantitative or qualitative) is a necessary prerequisite for the design of any CMS because in any organization, however, the employees must have some understanding of what the organization is trying to achieve [1].

Various frameworks have been introduced regarding MCSs. This paper will introduce the frameworks, proposed by [1].

Object of Control framework [1] consists of three components: results, actions and personnel/cultural controls.

Results controls are preventive-type controls that can address each of the major categories of control problems. Well defined results inform employees as to what is expected of them and encourages them to do what they can to produce the desired results. In this way, the results controls alleviate a potential lack of direction [1, p. 28]. Results controls are an indirect form of control because they do not focus explicitly on the employees' actions. Pay for performance is an example because it involves rewarding employees for generating good results.

Action controls are the most direct form of management control because they involve taking steps to ensure that employees act in the organization's best interest by making their actions themselves the focus of control. They take any of four basic forms: behavioral constraints, pre action reviews, action accountability, and redundancy" [1, p. 76].

MANAGEMENT CONTROL SYSTEMS CASE STUDY FROM THE NATIONAL COMMERCIAL BANK IN ALBANIA

Elda Dollija¹

eldacollaku@yahoo.it

Marinela Teneqexhi¹

marinelapt@yahoo.com

Eva Dhimitri¹

evadhimitri@yahoo.co.uk

¹*Department of Management
University "Fan S. Noli"
Korçë, Albania*

Abstract: This paper analyzes the Management Control Systems (MCSs) of the National Commercial Bank (NCB), operating in Albania, through the relevant framework of Object of Control [1]. The aim of this paper is to examine whether the MCSs help in aligning the actions of the management and employees with the strategies of this bank. Semi structured interviews were conducted to the managers of two branches of NCB in the city of Korça in order to understand the presence of this approach. The results of the interviews confirmed the presence of the components of the object of control (results, actions and personnel/cultural controls) in NCB. The bank controls the results of its employees and managers through the Performance Appraisal Systems. Employees' and managers' performance evaluation is the instrument, through which the bank plans their career and bonus. The budget constitutes the financial results control system. NCB has well-defined action controls through strict written rules, procedures and policies that restrict its employees' actions. Personnel controls are exercised selection, training, evaluation, sustainability and development of human resources. Cultural controls are created through codes of conduct, ethic codes and socialization among employees at various events and parties, organized by the bank. **Keywords:** Management Control Systems, National Commercial Bank, object of control, results control, actions control, personnel control, cultural control.

Personnel control aims to control and motivate the employees. Three major methods of implementing personnel controls are through:

1. Selection and placement of employees – finding the right people to do a particular job and giving them both a good work environment and the necessary resources can obviously increase the probability that a job will be done properly. Organizations invest considerable time and effort to employee selection and placement.

2. Training – can provide useful information about what actions or results are expected and how the assigned tasks can be best performed. It can also have positive motivational effects because employees can be given a greater effect of professionalism.

3. Job design and provision of necessary resources – employees act properly if their job is designed to allow motivated and qualified employees a high probability of success [1, p. 83].

Cultural controls are designed to encourage mutual monitoring; a powerful form of group pressure on individuals who deviate from group norms and values" [1, p. 85].

[8] considered the above framework in his master thesis about the PMSs in the Albanian mobile operators.

2. Methodology

The research question of this study is: What are the components of management control systems (MCSs) currently in use in the National Commercial Bank in Albania.

The purpose of this research is to identify the MCSs of National Commercial Bank (NCB) through [1] framework of Object of Control in order to examine whether the MCSs help in aligning the actions of the management and employees with the strategies of the companies.

This study is qualitative in nature. In order to fulfill the aim of this study, semi-structured interviews are thought to be the most appropriate technique because the interviewer has a series of questions that are in the general form of an interview guide, but is able to vary the sequence of questions" [9]. This interviewing method offers the flexibility to ask for more detailed responses, clarify them, while the structured interviews are more rigid and [10] argue that they are more appropriate for gathering quantitative data, and in fact call them quantitative research interviews whereas the semi-structured ones as qualitative research interviews. Managers of two branches of NCB bank operating in Korça are interviewed. The questions of the semi-structured interviews were built upon the MCS frameworks by [1].

3. Results

3.1. Results Controls

NCB appreciates the efforts, time and commitment of employees to achieve success. The bank truly believes that rewarding for excellent work is quite important. Performance appraisal is essential for effective management and staff appraisal helps the development of individuals and the bank, too. NCB uses well-defined Performance Appraisal Systems. It pays for performance and measures the performance of its managerial and non-managerial staff on well-defined, measurable objectives, which are linked to the bank's objectives. The performance appraisal is mainly measured on an individual basis, but since branch results are essentials, teamwork is evaluated as well. Employees' and managers' financial compensation are directly linked to the bank's performance assessment. Furthermore, the data system for staff performance creates the basis for career advancement, bonuses, attributes, training abroad and other benefits for employees. The performance appraisal is normally evaluated once a year, but if one's performance is under the standards it is revised after six months. NCB's staff benefits from the Bonus System: individual target and branch performance bonus for every trimester. The bank offers other benefits for its employees such as: supplementary holiday salary; life insurance; other paid vacations, etc.

Managers are expected to have good communication skills and more leadership skills than the specialists. Social connections are very important for branch managers. They must have contacts and networks with both private and governmental entities in order to attract more clients for the bank. Employee empowerment is low because banks have formal organization and rules. Managers make decisions and the employees have to implement them. So, the employees have to strictly follow the procedures and rules and their managers have to control them.

Companies use strategic management models to progress toward success. Management by Objectives (MBO), proposed by [11], is one of these strategic management models. Management by objectives uses the top company goals to determine employee objectives. MBO allows everyone in the company to see what they have accomplished, pertaining to the top goals and priorities of the company while they perform tasks. This shows how activity and outcome go together and may drastically increase productivity. NCB uses MBO to set objectives and therefore control the results of their employees. Objectives and targets are individual for every employee as well as for the whole branch.

The budget constitutes the financial results control system. At the end of the year, the branch proposes some voices of the draft budget, which are revised and approved from the top management.

3.2. Action Controls

NCB makes use of different formal elements that direct and control its employees' actions. These documents help employees align their actions with the organization's goals: Albanian labor code, bank's ethical code, and the labor legal contract between the employee and the employer. NCB uses different forms of action controls such as: behavior constraints, pre action reviews, action accountability, and redundancy [1].

Behavior constraints make it impossible, or at least more difficult, for employees to do things that should not be done. The constraints can be applied physically or administratively. NCB uses *physical constraints* such as personal account and password, personal access cards, security cameras, limitations to some information and systems access, etc. Managerial and non-managerial levels have *administrative controls*, which limits their abilities to perform some specific acts. So, each managerial level has a certain limit, up to which it can approve a loan with-

out asking for consent from higher managerial levels. As the amount of loan increases many revisions are made before taking the final decision of approving it at higher levels.

Pre-action reviews are used as well, especially when the actions involve financial expenses. For example the branch proposes some voices of the draft budget, which are revised and approved from the top management.

Action accountability means every employee and manager is accountable for the actions they take. The bank has strict written rules, procedures and policies that restrict its employees' actions. Every employee and manager has been notified about the above constraints since the beginning of working in the bank. They have accepted and signed the obedience of the strict rules in their working contracts. Employees are initially informed about all the constraints through formal meetings with their supervisors and training programs. The desired actions can be better communicated face to face in meetings or in private. Employees and managers' actions are controlled by their supervisors and expressed in their performance appraisal.

Redundancy of employees involves assigning more employees to a task than necessary. It increases the probability that a task will be satisfactorily accomplished. The bank considers continually employees' turnover by training and rotation processes. The staff is always trained and available to support every position.

3.3. Personnel Controls

According to [1], selection and placement of employees, training, and job design and provision of necessary resources are three major methods of personnel controls. NCB invests a lot of time in the selection and recruitment of employees. The slogan of the bank is: "We deal with human resources as a factor in conducting our business and therefore we systematically invest in selection, training, evaluation, sustainability and development of our Human Resource".

The selection process is formal and well defined. The first selection is based on the CV. Only selected applicants are informed about the selection steps. Candidates are included in the written test, related to general knowledge of economics. Candidates, who successfully pass the written test, and all other candidates with banking experience are included in the oral interview. The interview is done by the interview panel. During the interview, the required skills for the position and work, for which the interviews are conducted, are evaluated. Skills and competencies are essential criteria to perform on the job. Candidates, who are selected by the Interview Committee, go through the recruitment phase. The application for employment can be made only through the online application form.

Promotions are decided on the basis of job vacancies in higher level positions, as well as the demonstrated ability for a higher level of work. New job openings within the bank are initially made known to potential in-house candidates. As employees climb the ladder in the bank, a Development Management Program ensures that the person has the skills, knowledge and opportunities, needed to achieve the bank's strategy objectives.

Learning and Development is essential for individual performance, personal and professional development, as well as for the success of NCB. Investing in Human Capital Development is the focus of the bank's management policies. Learning is an integral part of NCB's strategy. The in-house training includes banking, management and personal skills training programs, lectured by experienced employees in the banking field. Employees have the opportunity to increase their performance through courses and programs that are effective in their jobs. Over the years, NCB has established fruitful relationships with

national and international institutions, which have a very high reputation in the field of training. Many employees have participated in training abroad, which shows the importance that NCB attaches to integrating staff with the developments, products and challenges of the international banking market.

3. 4. Cultural Controls

Organizational culture is an important control mechanism as it affects the employees' behaviors. According to [1], there are several ways cultural controls, can be implemented in organizations, e.g. through codes of conducts, group rewards, physical arrangements, employee rotation, etc. NCB has its code of conduct and ethic code. Internal mobility is encouraged in the bank. The values, beliefs and norms are clear. They constitute the informal controls, which guide the employees. Employees are encouraged to work in group. The shared values are reinforced through social activities and events such as the party of the end of the year and the children's party on 1 June.

4. Discussions

The aim of this paper was to understand the components of the MCSs in use in two NCB's branch, operating in Korça, Albania. Object of Control framework, proposed by [1] was used. The results of the interview with the branch manager of NCB in Korça confirmed the presence of the four types of control, proposed by [1]: results, action, personnel and cultural controls. The bank controls the *results* of its employees and managers through the Performance Appraisal Systems. Employees' and managers' performance evaluation is the instrument, through which the bank plans their career and bonus. The budget constitutes the financial results control system. NCB

has well-defined *action controls* through strict written rules, procedures and policies that restrict its employees' actions. *Personnel controls* are exercised selection, training, evaluation, sustainability and development of human resources. Cultural controls are created through codes of conduct, ethic codes and socialization among employees at various events and parties, organized by the bank.

This study is limited to identify the use of the components of MCSs only in two branches of NCB in Korça. The knowledge and perceptions of their branch manager may be subjective because of their distance from the head office and the head of departments. Furthermore, NCB is one out of 16 commercial banks, operating in Albania. Therefore, we would recommend expanding the survey to the other commercial banks, operating in Albania, by doing a comparative analyzes.

5. Conclusions

This study confirms the presence of the four types of control, proposed by [8]: results, action, personnel and cultural controls. The NCB uses the Performance Appraisal Systems to control the results of its employees and managers. The Performance Appraisal Systems is based on merit and it is the instrument, through which the bank plans its employees' and managers career and bonus. The budget constitutes the financial results control system. NCB controls the actions of its employees and managers through strict written rules, procedures and policies that restrict their actions. Personnel controls are exercised strict policies and practices of selection, training, evaluation, sustainability and development of human resources. Cultural controls are created through codes of conduct, ethic codes and socialization among employees at various events and parties, organized by the bank.

References

1. Merchant, K. A., Van der Stede, W. A. (2007). *Management Control Systems: Performance Measurement, Evaluation and Incentives*. Pearson Education. Essex.
2. Anthony, R. (1965). *Planning and Control Systems: a Framework for Analysis*, Division of Research. Harvard University Graduate Business School of Business Administration, Boston. (1990): *El control de gestión*. Marco, entorno y proceso. Bilbao Ed Deusto.
3. Akroyd, C., Maguire, W. (2011). The roles of management control in a product development setting. *Qualitative Research in Accounting & Management*, 8 (3), 212–237. doi: <http://doi.org/10.1108/11766091111162061>
4. Nielsen, L. B., Mitchell, F., Nørreklit, H. (2015). Management accounting and decision making: Two case studies of outsourcing. *Accounting Forum*, 39 (1), 66–82. doi: <http://doi.org/10.1016/j.accfor.2014.10.005>
5. De Harlez, Y., Malagueño, R. (2016). Examining the joint effects of strategic priorities, use of management control systems, and personal background on hospital performance. *Management Accounting Research*, 30, 2–17. doi: <http://doi.org/10.1016/j.mar.2015.07.001>
6. Carenys, J. (2012). Management Control Systems: A historical perspective. *International Journal of Economy, Management and Social Sciences*, 1 (1), 1–18.
7. Lopez-Valeiras, E., Gonzalez-Sanchez, M. B., Gomez-Conde, J. (2015). The effects of the interactive use of management control systems on process and organizational innovation. *Review of Managerial Science*, 10 (3), 487–510. doi: <http://doi.org/10.1007/s11846-015-0165-9>
8. Pone, D. (2012). *Performance Management Systems in Albanian Mobile Operators – Two Case Studies*. INDEK 2012:67, KTH Industrial Engineering and Management, Industrial Management. Stockholm.
9. Bryman, A., Bell, E. (2007). *Business research methods*. Oxford: Oxford University Press, 786.
10. Saunders, M., Lewis, P., Thornhill, A. (2007). *Research methods for Business Students*. Harlow: Pearson Education Limited.
11. Drucker, P. (1954). *The practice of Management*. New York, 404.

Received date 11.02.2021

Accepted date 16.02.2021

Published date 31.03.2021

© The Author(s) 2021

This is an open access article under the Creative Commons CC BY license

How to cite: Dollija, E., Teneqexhi, M., Dhimitri, E. (2020). *Management control systems case study from the national commercial bank in Albania*. *Technology Transfer: Innovative Solutions in Social Sciences and Humanities*, 4, 9–11. doi: <http://doi.org/10.21303/2613-5647.2021.001651>