



Banking Management Control Systems in Greece – a case study

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ABSTRACT

Aims-This paper aims to explore the way the management control systems(MCSs) work in the Greek banking sector. It also gives us a comparison between what is currently known and what the findings of the research indicated. **Methods-** The method used for this case study research is described in the book “Case study research, Design and Methods” (Yin Robert K., 2014). **Research questions:** **Major Findings-** The major findings of this case study research are indicating the way banks exercising their management control. The findings are giving us a clue of how the MCSs are working in the bank from the bottom to the top management level. They are a combination of bank’s papers research, interviews and in the field observations.

Key Words

Balanced Scorecard; Management Control Systems; banking system; Economic crisis; Corporate Governance.

Academic Discipline and Sub Discipline

Strategy; Management; Banking

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1. INTRODUCTION

The contemporary banking system in Greece is trapped in the vortex of the worst economic crisis in Greece's modern history. After two recapitalizations within a market that suffocates due to the lack of cash flow, and in a very antagonistic global environment, Greek banks are struggling to survive. In that new and extremely uncertain environment the new roles of the banks had enforced them to alter in many ways in order to adapt to the new economic culture that has been implemented in the country.

The purpose of this study is to describe the Management Control System (MCS) in Greece's banking sector, by using the Robert K. Yin's (2014) model of case study research, in order to exploit in the best possible way the results of the research findings. The author will also try to reflect upon his findings by compare them to the theoretical models described in the literature, in order to determine if there is congruence or a deviation between them.

2. LITERATURE REVIEW

2.1. Management Control Systems (MCS)-Definition and control categories

A very interesting definition of how management operates, is the following "management is getting results through the work of others for the benefit of the client" (Shenhar and Renier, 1996 cited in Catusus et al., 2007, p.507). This definition is giving us the idea of how management works in the banking environment. It is important to have that in mind while we exploring the banking MCSs. MCSs, are devices or systems, which function via the use of resources (humans, financial etc.), ensures that the company's objectives are carried out, by controlling, encouraging, enabling or forcing employees, in order to perform accordingly to these objectives (Merchant and V.D.Stede, 2012). Managers also have the tendency to investigate and intervening in several ways when they think that their subordinates' performance is deviating from the set targets. This is the essence of the "management-by-expectation" approach of management as Merchant K.A. & V.D.Stede W. in "Management Control Systems" indicates (2012, p.32).

The management control systems consist of four main categories of controls, which according to Merchant & V.D.Stede (2012), are: results control, action control, personnel control, and cultural control. The **Results controls**, motivates employees in an indirect way, with a kind of reward (Merchant & V.D.Stede, 2012, pp.29,40). **Actions controls**, in a direct way, taking certain steps ensuring the right actions of the employees. **Personnel controls** ensures that employees will control and motivate themselves by introducing specific behaviors which makes the employees to act in an aligned way with the interests of the organization, and **cultural controls**, encourages employees to monitor and influence each other thru a specific cultural framework that is implemented in the organization (Merchant & V.D.Stede, 2012, pp.88,81).

There are also several steps the organization takes in order to achieve a more tight result in the MCSs that are implemented. These steps are different for the different forms of the MCSs. Tight Personnel/cultural controls, exists when we have congruence between organizational and individual goals. Tight cultural controls can be achieved via a strong organizational culture, which inspires and motivates employees towards the common goal which is the achievement of the organizational targets (Merchant & V.D.Stede, 2012, p.131). Tight Result controls need specific performance targets, managers who understand well the organizational objectives, performance targets to be communicated effectively to the employees who are responsible for the implementation of the MCS, and measures to be complete in a specific area of measurements. Action control systems are tight when all employees consistently engage in all critical actions demanded, towards the company's success (Merchant & V.D.Stede, 2012, pp.123, 126).

2.2. Implementation, evaluation and design of MCSs

It is very important here one to notice that MCSs cannot be designed and evaluated if the objectives, and foremost, the organization's strategies are derived from a good understanding from the employees that are having the responsibility to implement it (Merchant & V.D.Stede, 2012, pp.209).

MCSs are a type of a communicating language throughout the organization, which creates a unifying way of thinking, and helps the organization to manage the potential interdependencies that arise between several parts of the organization. It also helps in several ways the organization to evolve and to make possible the planned organizational changes (Chenhall R.H. & Euske K.J., 2007). It is important to notice that the MCSs in the banking sector are a combination of profitability growth and risk taking (Zoltan Zeman et al., 2013).

The use of a MCSs must be interactive, in order to achieve communication between managers and subordinates in different organizational levels. In this way it can be possible to debate or even to challenge the underlying assumptions and action plans that drive the organization's activities. Subordinates and managers who attained different sets of information, can come together and by combining their knowledge can manage to be more productive in terms of achieving organization goals (Abernethy & Lillis, 1995; Spekle, 2001 cited in Mundy J., 2010, p.501). This interactive use of MCSs represents the opportunity seeking and learning throughout the organization (Henri J.F., 2006, p.533). The use of MCSs has also a very important role in the implementation of strategies (Henri J.F., 2006, p.548). With the term strategy implementation we mean the managerial activity by which the chosen strategy is being translated into actions (Johnson & Scholes, 1989, cited in Langfield-Smith, 1997, p.210).

Measurements: Measurement as a results control type of management, springs from the active idea that we have to measure what ought to be important to the organization (Catusus et al., 2007). Managers in order to accomplish their targets, something that will usually lead them to a bonus or a promotion, they tend to do their best in areas that measured and monitored, instead of those areas that are not (Ullrich and Tuttle, 2004 cited in Catusus et al., 2007, p.516). We must



underline here the importance of the indicators (a number that management is interested in, due to its efforts to manage the organization), in the process of the management control systems, in terms of results controlling, as a central component of the MCSs, as pointed out by Catusus et al (2007, p.517). Indicators are trying in general to be truly representative of the phenomenon they intended to characterize (Spangenberg, 2002, cited in Catusus et al., 2007, p.508). Indicating is an act of measuring in terms of management in order to attend to important issues for the organization (Catusus et al., 2007, p.508).

It is important to underline that usually, numbers are the ones which are measured and not the underlying activity or situation (Emiliani, 2000 cited in Catusus et al, 2007, p.507). This incentive method, in many cases, is driving the upper managers to judge their subordinates on a number-target basis and not on the basis of their effort in general. Also because it exercises a lot of pressure on managers, they tend to manipulate the performance of their subordinates in order to accomplish their very stressful targets. As we can see in the Catusus et al. paper (2007, p.507) "all that is managed is not necessarily measured and, all that is measured is not necessarily managed". We must underline here that interdependencies between corporate and lower level managers can affect the lower managers' performance, thus their reward (Merchant & V.D. Stede, 2012, p.507).

The board of directors: The board of directors has the responsibility, among others, to implement Strategic Investment Decisions (SID). In this way they can achieve company's long term goals, and reinforce its competitive position in the market (Marsh et al, 1988; Butter et al., 1991, cited in SlamulderRegine, 1997, p.103). In order to implement the overall company's strategy they must use the right MCSs and align their operation with the firm's strategy (SlamulderRegine, 1997, p.103). The board of directors is fully responsible and has the ultimate control over management. They are responsible for the selection and evaluation of the CEO of the company and the implementation of the company's strategy, thus for the major management decisions, such as design of equity and compensation plans (Merchant & V.D. Stede, 2012, p.561).

A good MCS must be implemented from managers that have the qualified leadership abilities to do so. Their own values will make them able to articulate and communicate the businesses vision to the employees in the right thus effective way. They must act like role models and make sure that their subordinates will be inspired and acquire the confidence needed in order to achieve organization's goals (Robers, 2004 cited in Abernethy M. et al., 2010, p.3). The leadership style, the manager who is responsible for the planning and-or the implementation of the MCS has, is a crucial paragon responsible for its success. Leadership traits of higher management, which are following the intercommunicating direction from top to the bottom level, create a path which provides the MCS with the power needed to succeed (Abernethy A.M. et al., 2010, p.12).

Audit committee: Audit committees are very important in a MCS, because they provide an oversight on the entire company in terms of financial processes, internal controls and independent auditors. One very important aspect of audit committee's role is to handling complaints or even impeachments of employees regarding accounting, auditing and internal control matters. They also provide independent oversight over companies, internal controls, financial processes, and helps the board in an inexpensively way to focus on financial-related reporting functions (Merchant & V.D. Stede, 2012, p.563).

Banking MCS ethics: It is very often argued that the banking sector, especially in the way it exercises its MCS nowadays, create an unjust system. That means that banks by giving incentives to their managers and them accordingly to their subordinates, i.e. to sell mortgages or credit cards or loans and to be rewarded for these sales no matter if the customers can pay back the money they have lend, creates an unstable social environment (Cuguero-Escofet N and Rosanas J.M., 2013, p.24).

On the other hand the bank "golden boys" who gained a lot of money in terms of bonuses and more, never pay for any of the consequences of their actions. Also, the banks which in a degree created the economic problem, and had (in Greece) twice been recapitalized with state's money which means with tax-payer's money, continue their policies with minor consequences due to the threat of their eminent bankruptcy. This behavior makes a lot of people today to argue about the ethical way banks uses their MCS through incentives given to its managers-employees (Cuguero-Escofet N and Rosanas J.M., 2013, p.24). With the term ethical, we mean a morally acceptable behavior which provide us methods of distinguishing between what is right and what is wrong and giving us guidance as to how groups and-or individuals should behave (Merchant & V.D. Stede, 2012, p.656).

Incentives: Incentives are a crucial paragon in the design of a complete and effective MCSs. We can also refer to them as "performance- dependent" rewards, which can provide to employees the impetus needed in order to be aligned with the organization's objectives (Merchant & V.D. Stede, 2012, p.368). It is important to notice that there are several purposes the incentives serve, such as to inform employees for the performance area they must focus, to motivate them to perform better, to attract and retain high quality employees, and to serve non-control purposes like correlating compensation with firm performance (Merchant & V.D. Stede, 2012, pp.368-369). Here we must add that in terms of plans and budgets, they become targets that effect the manager's motivation because the targets are linked to performance evaluations and various incentives (Merchant & V.D. Stede, 2012, p.309).

MCSs in uncertain environments: In terms of implementation controls, one can argue that if MCSs are used in an uncertain environment, then it is very likely that a combination of both formal (i.e. tight financial controls) and informal (i.e. flexible, interpersonal interactions) controls will be used (Chenhall, 2003 cited in Eldridge et al., 2014, p.68). Uncertainty, has some potent effects on MCSs, such as the difficulty in implementing action controls (Merchant & V.D. Stede, 2012, p.686). So if managers want to use action controls in uncertain environments, they must use some extra tools in order to proceed, such as: more intensive pre-action reviews, get involved in more face to face meetings with the employees they



want to control, and use more observation and supervision (Merchant & V.D. Stede, 2012, p.686).When we refer to uncertain environments, we refer to the difficulty one organization faces in order to predict the future because of incomplete information and-or changing conditions(Germain et al,2008, cited in Eldridge S. et al, 2014, p.67).

The BSC: A way the top management implements its MCS is the Balanced Scorecard (BSC).The BSC, aims to solve the problem or strategy implementation from the higher levels of management throughout the organization (Norreklit H., 2003).Although the BSC, is a strong “weapon” the top managers have in hand in order to implement the company’s strategic objectives and to solve any problems that will occur in the way, it appears to have, in many cases, some shortcomings, such as it doesn’t monitor the competition or technological developments and that the senior managers in most cases do not involve in a personal way to the whole communication with the lower levels of hierarchy, about the strategies they want to implement (Norreklit H., 2003, pp.616,617).

3. DESCRIPTION AND EXPLANATIONS OF THE METHODS USED IN THE CASE STUDY

This paper tries to investigate the contemporary management control system in the Greek banking sector. In order to achieve such a goal was established a case study design and the data collection features (Yin, 2014).The case study design is a kind of a “blueprint” for the research which deals with the following: what questions to study, what data is relevant with these questions, what data to collect, and how to analyze the results of the research(Philliber, Shhwab&Samsloss, 1980, cited in Yin, 2014,p. 29).

*What questions to study:*Case study according to Yin (2014, p.9), is the right method of research when we can form questions such as “how” and “why”, and when we also focus on contemporary events. In that terms the questions this research poses are the following:

- How the Management Control Systems help Greek banks to achieve their goals, and how they are implemented?
- Why Greek banks have to implement a MCS?

A case study is a research method which tries to determine why decisions were taken, how they were implemented and what were the results of such implementation (Schramm, 1971 cited in Yin, 2014, p.15), so by having in hand the above mentioned definition, we are going to illuminate this decision taking in terms of Management Banking Control.

*What data is relevant and what data to collect:*The sources of evidence that was used in this case study were multiple. In fact the sources used were: 1. **Documentation** from several banking papers,2.**Interviews**, as the author interviewed many banking employees from three banks in Greece (in total twenty people from several levels of hierarchy). 3. **Direct observations and participant’s observations**. After twenty years of working in the banking sector, the author has several experiences in different positions and branches in two banks. (Yin, 2014).

The multiple case study sources of evidence were used due to the fact that as Yin poses “a major strength of case study data collection is the opportunity to use many different sources of evidence” (2014, pp.118,.119).In this case study it was of great importance the triangulation of the data collected. As the author had multiple data sources, as described above,he tried to achieve a convergence of the evidence provided in order to support his case study in a stronger way.(Yin, 2014, pp.120,121)

Questions in terms of how the MCSs are implemented throughout the bank were the main subject of the interviews. The formation of the questionnaire, the author used, to the interviews is available at the appendix at the end of the paper.

The data collection was difficult when it came to the high ranking managers. That means that it was very difficult to gather information from the high management officers as it was almost impossible to reach them and having their answers due to the centralized model of the banking system which has almost every central management division in the headquarters, usually in Athens. In order to deal with this shortcoming, the author tried to collect as many information as possible from the managers/ employeeshe interviewed, due to the fact that they were familiar with the way the upper management levels are functioning.

How to analyze the results: The general analytical strategy-method used for the analysis of the findings of this case study research was the “Relying on theoretical propositions”. (Yin, 2014, p.136) In these terms, the theoretical orientation of the study, from the beginning, guided its analysis and helped to organize it, as the whole study was based on the theoretical propositions-frameworks which were the main pillars of the study. (Yin, 2014) The main theory used was the theory of MCS as described in Merchant & V.D. Stede (2012) and other scientific journal articles that were used.The analytic technique that had been used in this case study is the “pattern matching”, as the author tried to compare the empirically based pattern (the findings of the case study research), with a predicted pattern that had before the collection of the data, which I took from the prior literature(Yin, 2014, p.143). In that way,the author tried to compare his findings with the prior literature and find and underline where there was congruence, or a deviation between them.

The structure used for this case study was the “Linear- analytic structure” as described in Yin. This is a standard approach for the case study which follows a standard pattern. This standard pattern consists of the following steps: 1. An introduction about the issue that is studied in this research, 2. A review of the relevant prior literature, 3. The methods used in this case study, 4. The data collected(empirical findings), 5.The analysis of the data findings, 6.Conclusions and their implications for the original issue that had been studied (Yin, 2014, p.188).



4. EMPIRICAL FINDINGS: A DESCRIPTION OF THE STUDIED MANAGEMENT CONTROL SYSTEM IN USE

Whatever MCSs we use, the right implementation of them depends a lot in the leadership traits of the manager who implements them. In several occasions a good manager makes things work in a better way and on the opposite, a bad manager can't implement even the best ever MCSs in the right way. So, one important observation is that good MCSs need good managers to implement them. It is important here to notice that an instrument the upper management levels uses in order to implement the company's MCSs, is the Human Resources (HR) department, which is responsible for every problem and evaluation springs from employees performance, and which take the decisions for the training of the employees via the educational department of the bank.

4.1. Internal control systems in a vertical way

This system involves the financial, operational and other control systems the bank uses in order to have a timely report to the management when activities or performances are not in accordance with current policies, methods and limitations posed (Anon., 2001). One of the mechanisms this internal control system uses in order to achieve its goals, is a team of internal auditors, which has the purpose to ensure that all the bank's procedures, limitations, and regulations are in conformity with the laws and the restrictions that are posed by the Bank Of Greece and the Greek state, and thus they are followed by the employees and managers of the bank. This team of auditors is a part of an internal mechanism which is called **internal audit system** (Anon., 2001). The internal control system is an **inner control mechanism**.

The audit system: In this first level, the main tool for auditing, in order to ensure that every action is aligned with the rules and regulations of the bank, is **the internal audit system**. This system is being implemented by the **internal audit committee**, which usually consists of a number of non-executive members. One of them is a non-executive independent member with strong accounting and auditing knowledge. This committee has an appointed Chairman of the Committee and the remainder, are appointed Members of the Committee. The general meeting of shareholders is responsible for the composition of the committee.

The internal auditing sector is a directorate of the upper level of directors, and has the difficult task to execute the internal audit controls, and to communicate the results to the external audit committee member, the regulator authorities (Bank of Greece, Greek state) and the board of directors. In that sense the internal audit committee uses a team of internal audit inspectors whose duty is to visit surprisingly several branches or divisions of the bank all over the country in order to search for anything, i.e. suspicious transactions, transactions which did not occur accordingly to the regulations of the bank etc., that did not happen the way it should.

This **audit system** consists of a certain number of inspectors (usually about 10-15, depending on the bank), and headquarters with the manager in head, and has the obligation to inform the CEO when something that is against the regulations and/or limitations happens. With the use of the internal audit system, the upper level of management has an eye on the web of the bank branches in order to ensure that everything is executed in the way the strategic goals of the bank needs, which are the equilibrium between profit and safety. After the inspection of the branch, the inspector delivers to the branch manager a report about the findings of his inspection. In a more intimate way, the inspector delivers the same report to the Regional Director after a brief meeting with him, and finally to the headquarters. The manager of the branch has the obligation to reply to all the notes the inspector wrote to his report. If the report didn't indicate something strange or something of vast importance, the obligation of the manager of the branch is to take a good notice of the inspection notes and to ensure that when the next inspection will come it will not find the same errors-omissions again.

After the inspection, and the handling of the information from the manager of the audit group, and the Regional Director, when is needed, the HR department is informed in order to proceed, if that is necessary, to the actions needed. That is to pass the certain case to the disciplinary board or to the promotions board which both are parts of the HR departments and have as a head, the general manager of the HR.

The BSC: Managers in branch level try to communicate the company's goals via an informal BSC (Balanced Scorecard) in their meetings. Of course as Norreklit (2003, p.591) indicates, the BSC is "a tool of strategic control", and this is how the managers try to use it. The BSC, the manager uses in branch level, usually refers to financial targets only. All the other strategic goals, the bank want to implement, are only communicated verbally in terms of given directions for daily work and not in an overall way, but mostly partially. This BSC is given to branch managers every year and is indicating via specific financial indicators the partial strategic targets for the specific branch. Every indicator has a merit coefficient and counts in different way from other indicators in the overall target setting. It is important here to notice, that every years targets are set on the basis of the last years targets, especially if they were fulfilled by the branch manager.

Greek banks are a bureaucratic organization, so all decisions are taken from the top (board of directors) and follows a way down to low level managers and finally to the front line employees in branches (top-down way of management). The Balanced Scorecard (BSC) the bank uses in high level managers in order to evaluate performances and to communicate and implementing strategy justifies this top-down management control the bank implements (Norreklit H., 2003), as with the use of it, the bank tries to communicate its goals in managerial level in a top-down way.

Cultural Controls: One cultural control the Greek banks use in this vertical (top-down) way is the dress code and the vocabulary (Merchant K.A. and Stede V.D., 2012, p.93). The dress code is a written code which is not implanted in a very strict way throughout the branches. This code creates the obligation to the employees to wear shirts and ties while working, to be saved and in general to have a good appearance on a daily basis. As for the vocabulary, every employee



addresses to his colleagues in a formal way by calling him with his surname. By this way they intend to create graveness in the branch in order to give the right image of the bank to the customers.

Another way of implementation of cultural controls, is the frequent intra-organizational transfers. In terms of managers, the bank has an unwritten rule, which says that a branch manager cannot stay over a certain number of years, usually about three or four, in the same branch. The same rule exists for employees but in this occasion the years are more, commonly about six to eight. In this way the bank tries to avoid fraud incidents which might occur due to the fact that an employee who stays many years in the same branch becomes “too familiar” with certain activities, colleagues and transactions (Merchant K.A. and Stede V.D., 2012, p.93).

In certain banks in Greece, we can find the “whistle blower” paper, which tries to implement in a formal way, a cultural control in terms of letting the employees to monitor each other and even report misbehavior or anything they feel is strange or against regulations. The “whistle blower” paper is a form that the employees can submit and send without sign it, as it can be completely anonymous, to the HR department. In this paper the employee reports anything about his colleagues that he believes is strange or suspicious by even name the suspect. He also can suggest solutions to the potential problem that occurred. In this way the bank tries to implement a culture inside every department-branch, which is the culture of mutual monitoring.

Action Controls: An important tight action control the bank uses is the pre-action control (Merchant & V.D.Stede, 2012, p.127). Many times, especially the years after the economic crisis, the Greek banks, have set specific targets in order to reduce the overall operational costs. In this way the Greek banks try to tighten their action controls in order to decrease their overall expenses. This kind of control is used by the bank in many other ways, such as by reducing the compensation for out of town travelling due to educational reasons etc.

The upper levels of management have a simple and quick way to ensure that every single employee in every branch is up to date with every new directive or change that occurs in terms of new transactions, alterations in rules and restrictions that existed etc. This is achieved through the intranet banking systems which every employee has installed to her computer. With this system every employee has the obligation on a daily basis to be informed with all the new directives that the upper levels of management has send to every branch.

Financial Controls: An important part of financial control systems is the planning and budgeting. This planning all these years (even the years after the break out of the crisis) in the Greek banking sector, was on an annual basis. This is a very common planning in the majority of the “for-profit” organizations (Merchant K.A. and Stede V.D., 2012, p.309).

4.2. Internal control system in a horizontal way

In this way of controlling, which mainly focused in action controls taken on a branch level, the manager of the branch during the day, due to the regulations of the bank and the limitations posed by the Greek authorities in every transaction, has an electronic transaction authorization system. This system gives to the manager the right to approve or to disapprove every single transaction that is over a certain amount or that it is been characterized as important. If a transaction exceeds a limitation, which depends on the merit of the transaction and the responsibilities assigned to the employee, an authorization from the manager must be granted in order to proceed. In that way, the manager can examine any “suspicious” transaction it may occur and has the ability to stop them before it will be too late.

Of course the branch manager, has the obligation to execute several other ways of controlling, such as sudden counts of the cash amount every teller has in his safe, every day counting of the central money reserve of the branch, and of course to examine and sign every day all the transactions occurred in the branch the previous day. Also there are other management control measures that are taken place in a branch, such as the signatures. For example, whenever a check needed to be issued or a transaction above a certain amount of money has to be done, has to have the authorization of the manager and the second in the hierarchy in the branch. In this way becomes more difficult to commit a fraud as many responsible employees are involved and inspect the certain procedure.

Another strong MCS tool which the branch manager has in hand is the meetings after the working hours. In these meetings the manager who has every single day the responsibility to inspect the way her subordinates work, has the opportunity to enlighten her employees of the targets that are set for the specific branch from the strategic plan division of the regional management. These targets for the specific branch are one of the partial targets set in every branch and regional directorate all over the country. With these meetings also, the manager can intervene in the way the employees perform if he had noticed something that deviates from the expectations.

Other action control systems Greek banks use on a branch level, are the passwords the tellers have in order to open their safes, the combinations of the safes, the safety doors the bank uses in order to reach the central safe department, the safety doors for the personnel and the customers etc.

4.3. Internal IT based control system

Technology involves in the bank’s overall MCSs in many ways. In this IT way of action control, the bank handles to every employee a unique authorization for certain jobs to be done from a specific computer. In this way, everybody is responsible for any transactions that occur from her computer, as she is the only one who knows the specific password. Other relevant IT systems are the customer data systems, which gives the right to the manager to authorize specific tasks the employee do in terms of client archiving, or the system which gives to the manager the authorization to check upon employees’ actions in terms of money laundering. Also every day after the end of the working hours, a backup system is



in use in order to protect all the transactions made during the day in a specific archive that is kept in the branch's server in order to be accessible from the head- quarters when and if needed. Also the bank has a system of cameras inside and outside of the branch for safety reasons.

It is important here to notice that the majority of the banks in their internet pages have a fully procedure in reach for every customer who wants to make a complaint about a misbehavior of an employee or to judge a product, or even to write down some good words for a good employee as a reward. This is a very sensitive area, which Greek banks take under great consideration. There is a whole department which deals with customers' complaints and has the full responsibility to answer to these complaints under a strict time limitation which is usually from twenty to forty days after the complaint was received by the bank.

4.4. Incentives as a MCS

The employee grading system: This is a system for grading the employees' performance every year on the basis of several factors, such as knowledge of the work assigned, collaboration with colleagues towards the organizational targets, communication with the customers, working performance etc. This grade sheet is signed by the manager and the junior manager of the branch and finally from the employee involved. The feed- back then is headed to the HR department, and remains in the personal folder of the employee with the remarks of the HR head manager. This evaluation of the employees acts as a strong incentive. It is important here one to notice that there is a grading sheet for managers too. This sheet contains different, but in a degree, relevant data with employees' grading sheet, with comments about knowledge, quality of work, quantity of work, leadership, character, incentives, creativity etc. The branch managers are judged and assessed by the peripheral manager who has the task to assess the managers of her division.

Every employee is managed and thus evaluated via her performance that is measured. So every branch manager has every year her targets on a branch level, and the same goes for the upper management levels. Everybody has her targets, personal or divisional. It is very important here one to notice that incentives like a better compensation do not exist, at least on employees' level. Due to the vast economic crisis, salaries, after a deduction that occurred about threetimes the last three years, yield a total deduction of about 20% of the bank employees' income. That means that every year the employees are trying to achieve their goals, without any bonuses, and in most of the cases with a deduction in their compensation which comes with an increase of labor hours at about 10-15% on a daily basis.

Personnel control: An important personnel control that is used in order to make employees perform in a better way, thus to be more effective and aligned with the bank's goals, is the seminars-training. The seminars are a part of an overall function which is carried out by the educational department of the banks. When the HR decides that an employee must be promoted or transferred in a new position of responsibility, it tries throughout certain seminars to prepare him for that new position. This acts as an incentive to employees in terms of motivating them to learn more things and build a better career.

4.5. The risk management system

This system involves the senior management group (risk management group), which has the responsibility to implement new policies and to define the new financial goals of the bank in terms of investments, and has the authority to take the decision whether a specific strategic investment or a merger etc. has acceptable risk in order to be implemented by the bank (Anon., 2001). The risk management system is a *peripheral one*, which means that it covers the upper banking functions and that the decisions taken are for the whole bank as an entity. It is being implemented in the bank by the Risk Management Committee, which has the responsibility to recommend straight to the Board of Directors, the risk undertaking and the capital management strategy to be implemented in order to correspond with the banks' objectives and the best interest of the share- holders. In that way it has the responsibility to monitor and check the implementation of such strategy.

This committee consists of a number of the Members of the Board of Directors of the bank, including the Chairman. It is important here to add that one of the Hellenic Financial Stability Fund representatives in the Board of Directors participates in this committee. This is the "long hand" of the Greek state in the bank's internal strategy design. This participation is the result of the recapitalization of the Greek banks, which amongst other things, left the management to the bank, but appointed a member of the state to guide bank's decisions in terms of strategic investments. The bank is private but guided by the state which has to be aligned with the three members committee from EU and I.M.F. which is generally known as "troika".

The responsibilities of the committee are:

- To formulate the risk undertaking and capital management strategy that meets the business objectives of the bank. Also has the responsibility to ensure the adequacy of the technical and human resources available, and to make proposals to the Board of Directors, for corrections in the planned strategy.
- Ensures the development of an in-bank risk management system and its integration in the process of operational decision making in the whole banking activities, i.e. decisions in the introduction of new banking products the pricing of them in terms of risk adjustment taking etc.
- Determines what will be the principles that govern the risk management, in terms of forecasting, controlling, monitoring, and handling risks in line with desired bank's strategies. Also receives and validates the monthly reports from the Banking Credit Risk, Retail Banking, Market and Operational Risk Divisions and any other suggestions in order to implement the right techniques for the adjustment of risks to a level that is acceptable for the bank



- Taking into account the reports of the Internal and External Auditor (mainly a delegate from the Bank of Greece) in order to ensure that the risk management is effective above the desired standards. Also, evaluates, usually in annual terms, the models implemented for the execution of stress tests for market risk, liquidity risk, credit risk, operational risk by taking into account macroeconomic parameters. Has the vast obligation to calculate the ability of the bank to absorb, in terms of capital, the impact of such tests.

It is obvious from the above that the risk management system is a very crucial pillar of the MCSs in general, and especially in terms of strategy implementation. With the appropriate use of this MCSs, the banks make sure that their strategic goals are to be carried out in the proper way.

5. DISCUSSION OF EMPIRICAL FINDINGS AND REFLECTIONS

In this section we will discuss about the congruence or the deviation of the empirical findings with the given literature, but firstly we will answer the two basic questions upon which we have built the whole study, the “who” and “why” questions.

5.1. The answer to the “how” and “why” questions

From the above mentioned empirical findings we can understand the way the MCSs helps the banks in Greece in achieving their goals. They ensure that everything is going to work properly, that no monetary scandals will arise because of the internal control function and that the state regulators will not have to impose any fines due to a bank malfunction. Also, the complaints department ensures that stakeholders and customers will not leave unhappy the bank and that there is going to be a better collaboration in the future. The risk management department ensures that the money of the shareholders and of course of the clients will be invested to the right place. If we add to all that the Board of Directors who have the responsibility to take the right strategic decisions, in order to serve the banks, thus the shareholders' best interests, we can have a clear picture of the first fundamental question of our case study, which is “*How the Management Control System helps the bank to achieve its goals?*”

In terms of the implementation of the MCSs (the second part of this first question), we can see from the empirical findings that the MCSs are being carried out via the managers in both vertical and horizontal way by the use of several management control mechanisms, such as results controls, cultural or action controls etc.

As for the second question “*Why the bank has to implement a MCS?*”, we must say that without that mechanism the banks wouldn't have the ability to ensure that everything is going according to the strategic plan, because the whole system of the bank is very sensitive in terms of accounting, product selling, financial analysis etc. Only if everything is being thoroughly scrutinized banks will achieve their proper function. Another important reason, as mentioned above, is that the Greek banks have this period of time more complicated and extensive obligations due to the special economic circumstances of the country. In order to control all these activities and responsibilities in a way that the general goals of the bank and thus of the shareholders to be protected, the Greek banks had to use an extensive and complicated MCS system as described above.

5.2. Discussion and reflections on empirical findings

5.2.1. Results controls and incentives

The bank uses results controls mostly as incentives which are namely a promotion and a better compensation. The problem in the contemporary Greek banking system is that due to the economic crisis, the employees have an important salary reduction. Lowering salaries, especially to employees who are top performers, often leads them to think in a negative way about the bank in terms of inequity, demotivation, and increased turnover, things that have a negative impact in the bank's overall performance (Merchant and V.D.Stede, 2012, p.380). It is therefore inevitable that the employees, although they have personal goals to achieve, mostly in financial terms, will not be motivated enough by these goals. The only “real” motive they have is to achieve their personal goals or otherwise they would be fired. So in terms of incentives the MCSs of the bank are not working towards the right direction. It is not easy for an employee to work even harder for more hours every day in more stressful situations with less compensation and, in most cases, without the motivation of a promotion, only with the eminent fear of being fired or with the fear that the bank will bankrupt. On the other hand is quite remarkable one to notice, and in a degree quite oxymoron, that employees doing by far the best they can no matter the lack of incentives. It is the author's prevalent idea that this is the result of the employees' “*philotimo*”. According to Wikipedia, “*philotimo* is considered to be the highest of all Greek virtues which determines and regulates how someone should behave in their family and social groups. It is mostly about respect and doing the right thing”.

One problem that mainly occurs in the bank is that employees in many occasions are not familiar with the objectives and goals of the organization. That is why the managers have to organize all those meetings and to pass to the employees the informal BSCs with the financial goals. The BSC, is a way the upper levels of management use in order to communicate the bank's strategic goals to the lower levels of management, and finally to the employees. That is not happening in the bank, at least in the degree it should. As we going down the hierarchy ladder, managers are not quite familiar with the overall bank's strategic goals due to the upper management level centralization. This creates many problems, because although the bank in branch level, tries to be more decentralized in terms of giving many authorities in branch managers, is not communicating in depth its strategic goals to them. As a result the branch managers cannot focus on the right results and the employees cannot produce the desired results, as they must focus on what their managers guide them through the weekly meetings. This is a very crucial in terms of results controls, as it creates a lack of direction to employees (Merchant and V.D.Stede, 2012).



Another problem that springs from the use of this informal BSC, is that due to the fact that managers have specific goals to accomplish in order to get a promotion and-or a bonus, they tend to do their best in areas that are monitored and measured. This unfortunately leads to unpleasant results for the organization, because it derives the attention of the managers from their overall scope which is the best for the bank's objectives. This is one expression of operational myopia from the managers (Merchant & V.D.Stede, 2012, p.380).

Managers sometimes are very stressed in achieving short term goals, sometimes at "any cost". For example, when the manager of a branch is behind in one target, i.e. deposits, he won't hesitate to attract the client of another branch in order to achieve his goals. Of course there is a culture inside the bank in the managerial level which indicates that actions like that are prohibited, but that is only informal. This kind of attitude is common and sometimes leads to misunderstandings and to bad relations between managers of different branches, something that is not helping the overall goals of the bank. This is a myopic perspective of manager's performance, a kind of "operating myopia" (Merchant & V.D.Stede, 2012, p.380), which in long terms will cause problems to the bank, as in some cases ends with the loss of the client, as the client understands that he is being used and no one really cares about him.

Another thing that we must underline is that as we saw in the empirical findings section, the BSC indicates the next years or the quarter's targets in financial terms which are based on the last year's targets especially if they were been achieved. This creates a problem in terms of the not aligned way the targets follow with the potential problems or uncertainty of the society. In Greece the last years the uncertainty increases every year. In such environment with the targets every year to increase, branch personnel tend to work under vast pressure with minor opportunity for success. Of course, one can argue that if targets are perceived quite easy to be achieved, there is going to be a lower motivation to the staff. (Merchant K.A. and Stede V.D., 2012, p.313), but on the other hand impossible to achieve targets can yield a disappointment which can end to the same results, which means less motivation for the personnel.

It is important one to notice that corporate management creates problems to lower managers due to the centralized banking model that is adopted. That means that although the lower managers have to achieve a goal, i.e. to increase deposits, the corporate managers can decide to decrease the interest in deposits in order to achieve another overall goal, for example in terms of investments. By doing so they create a very stressful and difficult situation to lower managers who begin to realize that less customers will deposit their money due to decreased interests. That will make them to lose their rewards, as catching up with their goals is very difficult under the new conditions. This is an effect of the interdependencies that exist between lower and upper-corporate management (Merchant K.A. and Stede V.D., 2012, p.507),

The grading system, although the interviewed employees indicated that is good to be operational, in fact in many cases is not the way an employee can achieve a promotion. This happens because the Greek banks that examined although they are private organizations, they tend to operate in a way that do not serve their best interests, because the promotions, in many cases, are not aligned to a meritocracy standard all over the banks. The rewards-promotions, in several cases, are not given to employees who are the most talented and hardest working (Merchant and V.D.Stede, 2012). This creates a lack of competent employees in the right positions, and although it is not happening to all of the cases, inevitably creates to the employees a feeling of inequity which discourages them, and makes them perform in lower standards.

5.2.2. Action controls

Action controls are implemented in several ways, like with several IT systems and passwords, safety keys, time delays etc. These controls are in compliance with the theory in terms of ensuring that the right action will be taken from the employees in order to serve best the company's interests and goals (Merchant and V.D.Stede, 2012).

In terms of passwords, one can notice that the system the banks have created has a flaw. That is the problem of too many passwords. For example, a teller has a password for entering the windows from his pc, another for entering the teller's application, one for the ATM, one for his safe and one for each one of the windows application he is responsible for. In addition, almost all windows applications, for "better" safety, have the option every 1-2 months to make you change your password. So due to the big number of passwords, employees tend to create one password and to repeat it to every application needed, or to write down passwords in order to remember them. This fact per se creates a security gap, which sometimes can be bigger than the safety the passwords implement.

On the other hand, all these IT based measures- passwords tend to create accountability to employees, by holding them responsible for every action happened via their pc- position. This is an administrative model of communicating to the employees their obligations via work rules, policies and procedures (Merchant and V.D.Stede, 2012, p.83).

The banks try to communicate their strategy down the hierarchy ladder via the MCSs, by using i.e. the BSC tool in its different formations. In such an uncertain environment like the Greek one, the MCSs facing the challenge of their implementation via certain channels, such as the tight financial controls, which are implemented by the pre-action controls, the wage freeze and several other forms of financial tightness like the reducing of the resources needed by employees etc. Also interpersonal interactions from management to the employees are used on an almost daily basis in a way to align employees with the company's objectives and to create a better climate inside the bank and a better moral in order to motivate employees to work in a more effective way. This way of "management by approach" is very important as it tries to keep employees' behavior on track by the regularly intervention of managers to their performance (Merchant and V.D.Stede, 2012).

The meetings, the branch managers commit usually on a weekly or monthly basis, are a combination of results and action controls. This is due to the fact that they tend to create to the employees an action oriented accountability, as the branch



manager tries to make them understand in which area they must perform better, which goals to achieve and which obligations each one of them has. In that way the employees are responsible for acting in compliance with certain rules and regulations of the bank (Merchant and V.D.Stede, 2012, p.88). On the other hand, via meetings, the managers try to set performance targets to their subordinates by handling them the financial BSC. In that way they try to improve motivation to employees by providing them with clear goals and by letting them assess their performance (Merchant and V.D.Stede, 2012, p.34).

5.2.3. Cultural controls

One problem the Greek systemic banks are facing right now is that after their recent conglomerations with other smaller banks, their personnel became quite heterogeneous. That means that many employees who had different working cultures have to work together. So although the bank managers tried in the recent past to implement cultural controls in terms of making employees monitoring one each other (Merchant and V.D.Stede, 2012), now this is quite difficult because it tends to create the wrong climate inside the banks which struggle to homogenize their "new" personnel after the recent conglomerations. This happens because monitoring one another can create misunderstandings when the monitored and the monitors are coming from different banks with different cultures. In that direction, banks are trying to homogenize their personnel by mutual transfers from one branch to another.

The MCSs used in the examined banks are totally an internal kind of language which has the ability to make the upper levels of hierarchy to communicate with the down levels in order to accomplish the banks' goals. From the way it was designed, is an interactive way of communicating, but on the contrary of what we can see in the paper of Mundy (2010, p.501) in the majority of cases, there is not such a thing like the combination of knowledge of managers and subordinates in order to correct and enhance things in order to achieve organizational goals. This usually happens due to a general culture that is implemented in the Greek banking system, by which there is a specific distance between managers and simple employees. Also, due to their behavioral culture, many managers don't take under consideration the thoughts of their subordinates. This behavior holds on the theory X of McGregor (1960).

Also, the culture that is implemented, i.e. via the "whistle blowing" paper is not in the right way of implementing culture inside the bank in most of the cases. It creates a lack of confidence between colleagues and it can, under certain circumstances, weaken the team spirit that branch managers try to build inside the branch. In that way the effectiveness and-or the performance of the team may decrease.

5.2.4 Personnel Controls.

The HR department of the bank is responsible for every personnel issue arises. But its overall scope is to exercise a personnel MCS too. The HR department is responsible for the selection and placement of the personnel and for its training. So the HR department has the obligation to find the right people for the right job and to train them in order to be more efficient for the job they are assigned. In other words to implement the right personnel control system (Merchant and V.D.Stede, 2012, p.88).

Training via seminars is under the supervision of the Educational Department of the banks in cooperation with their HR departments. While seminars are very useful, the problem lies in the recruiting process. The Greek banks, due to the economic crisis, have frozen, except specific circumstances in some banks, all the recruitment procedures in employee's level and in low level managers, so the training has now another dimension. Due to the lack of "new blood" the bank has to train more efficiently and in more job aspects many employees in order to fill potential gaps by internal transfers. This fact indicates the important role the personnel controls have in the contemporary bank operation. Also, this becomes more important due to the fact that the majority of the Greek systemic banks during 2014, announced voluntary retirement procedures for thousands of their employees, something which increased dramatically their personnel.

5.2.5. Corporate Governance

The banks mainly use the "Continental European/Japanese system" of governance by which it ensures that the corporation is managed for the overall good of the enterprise, for its shareholders and the society at large (Merchant and V.D.Stede, 2012, p.554). The "head" of the MCSs and of the applied strategy in the bank is the Board of Directors which has the first and the last word about almost everything. This is something that is aligned with literature, but as the banks are legal entities, have to be subject to the Greek laws, and due to that fact, one can argue that the exercise of the bank's strategy from the board of directors deviates in terms of implementation due to the fact that the Greek state has the ability to exercise a veto whenever it thinks is right. This happens by the presence of an appointed member inside the board who is a person of higher financial knowledge and acts as delegate of the Greek state. Of course this parameter is crucial and has the result that the strength of the Board of Directors is less nowadays.

So the Board of Directors is not completely free to implement its Strategic Investment Decisions (SID), in order to be aligned with the goals of the bank. This is a deterrent paragon for future shareholders in order to invest to the banks. Also this is a very important problem in terms of antagonism in a very antagonistic global economic environment in which the Greek banks are called to play an important role due to their strong presence in the Balkan countries and in South-East Europe. In that way, their risk management systems do not operate in the best possible way in order to ensure that everything is executed in accordance with bank's goals. So the effectiveness of the risk management system- board of directors, due to the special occasions the economic crisis developed in Greece's contemporary financial environment, is not the expected one, in terms of implementing the right bank strategy due to severe restrictions implemented by the



regulators. In free economy an organization in order to evolve- expand, has to be independent in decision taking in order to secure its best interests, something that is not 100% happening in the contemporary Greek banking system.

The auditors, as members of the audit committee, have the obligation to investigate and control misbehaviors and to ensure that everything works in the proper way under the certain rules and restrictions applied. Frauds occur and go undetected due to poor or ineffective internal control systems, so effective internal control systems are necessary (Merchant and V.D.Stede, 2012, p.87). The internal audit system in the Greek banks is mainly refer to compliance and performance audits (Merchant and V.D.Stede, 2012, p.624). When it comes to financial audits, the auditors are external. Of course the whole audit system has flaws too. Due to the lack of time, auditors have to search all the branches or departments' paperwork and archives in a sampling way. This makes possible some frauds not to be discovered. This indicates the importance of the effective everyday control the managers perform, which can leave less work to the auditors. Also, internal auditors are employees too, something that makes them in some cases to involve in a sentimental way with their controlled colleagues. This potent intimate involvement with the controlled employees may decrease their effectiveness.

The employees, via the BSC on a branch level, have to achieve personal goals in terms of selling credit cards, loans etc. In this specific period of time when the whole Greek society has vast financial problems with almost every Greek family to have a very important decrease of annual income, it is easy to sell credit cards. But the question that arises from such implementation of the MCSs is how ethical this is? as according to Cuguero-Escofet N et al. (2013,p.24), MCSs have to be ethical implemented.

It is very important one to notice that the shorten given periods of target setting as a part of the whole banks' planning, usually happens in order to help banks to be protected of unforeseen, negative circumstances. (Merchant and V.D.Stede, 2012, p.314).

5.3. CONCLUSIONS ON THE DISCUSSION OF EMPIRICAL FINDINGS

From the above, we can understand how MCSs work in the contemporary Greek banking sector. Of course there is not a whole and detailed picture of every possible aspect involved in these MCSs due to the fact that these systems are huge and study them in a deeper way can be the aim of a future case study research. The findings in their majority are congruent to the given literature. When they deviate that, in most of the cases, is happening due to the special conditions applied in Greece this period of time, which is the vast economic crisis. In general we can conclude that the Greek banks use several MCSs which are very common nowadays in the majority of the for-profit organizations, although their implementation is the proper one in all of the cases encountered by this research.

Tight cultural and results controls are not easy to be applied nowadays in the Greek banking sector, because many employees, due to less incentives, find it difficult to be congruent with banks goals and on the other hand, the banks' overall culture has a lot of steps to do in terms of personnel homogenization. Also, the action control systems the banks use are quite tight and the personnel has a very active role, by using on a daily basis all the procedures required by the action control systems. This happens due to the nature of the banking job, which involves many precaution and safety measures.

It is the author's prevalent idea that the Greek banking sector need to re- consider its whole MCSs in order to provide to the banks a less bureaucratic and more effective system in terms of strategy communication and implementation throughout the company. The vase economic crisis in Greece the last years makes the findings of this research unique and important as they are the result of certain special circumstances that arose the last years in the Greek banking sector and can reveal the banks' need for change and improvement, something which we need to acknowledge that due to circumstances is quite difficult to be achieved.

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APPENDIX

Interview structure:

A) GENERAL INFORMATION ABOUT BANK'S MCS

- How do you believe, from your experiences, that the MCS is implemented in the bank?
- Which elements verify the MCS in branch level?
- Which elements verify the MCS in a peripheral level?

B) AUDIT CONTROL SYSTEM

- How the branch auditing system works?
- How the auditing system in general works inside the bank?
- Do you believe that the auditing control system is effective in terms of controlling?

C) ACCOUNTING CONTROL

- Give me some information you are familiar with, about the accounting control system in the bank.

D) IT INVOLVING IN THE CONTROL SYSTEM

- Which IT systems the bank uses in order to control?

E) EDUCATION-SEMINARS

- Do you believe that seminars are useful for the employees in terms of MCS?
- Do you believe that via seminars you can accomplish your goals?

F) GRADING SYSTEM

- What grading system the bank uses in terms to control the employees?
- How motivational can be the grading system in the contemporary banking situation?
- What is your general opinion of the grading system? Is it efficient enough? Are you satisfied with that and if no, what do you think is its problem?

G) GENERAL INFORMATION ABOUT THE RISK MANAGEMENT SYSTEM.

- Give me some general information you know about the risk management system in the bank
- Which are the obligations of the risk management committee?



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