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THE IMPACT OF COST CONTROL ON THE PERFORMANCE OF COMMERCIAL BANKS IN RWANDA: A CASE STUDY BANK OF KIGALI

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Abstract: **It is believed that cost control techniques and tools aim at improving business cost efficiency by reducing costs or at least restricting their rate of growth, to monitor, evaluate and ultimately enhance the efficiency of specific areas such as departments, divisions or product lines within their operations, preserve and boost corporate profits and maintain or gain a competitive advantage. However, it is a difficult task for managers to make sure that business operations are running in a well and organized manner due to inadequate measures to contain costs which will cause over budget which is a risk to the business. Cost control practice is considered to be a very important element to analyse the organization's performance while conducting day to day operations in order to improve its financial performance (Hansen). Cost control is of great value and importance on organizational performance in various ways and some of them are; it helps the organization to improve its profitability and competitiveness through reduced costs and expenses. It is indispensable for achieving greater productivity through investment of the acquired profits. Cost control helps to control all controllable labor costs, that is for example hiring enough employees for specific tasks .As an organization strives to reduce its costs, it helps it to reduce its prices. If the price of the product is stable and reasonable, it can maintain higher sales volume and thus employment of work force and as well more profits realized. The control of costs again leads to the control of risks, of which risks may include losses to the business and lastly, controlling costs stabilizes business life.The general objective of this study was to determine the impact of cost control on the performance of commercial banks in Rwanda. The research design used is descriptive. The target population of this study was all employees of Bank of Kigali at the headquarters. In carrying out this study, census technique was used to access the entire population, then data for this study were collected by use of questionnaires and the outcomes from this study are going to provide other commercial banks with the ideas on the factors that are needed to be focused on in order to improve their ways of controlling costs for better performance.Based on the information drawn from findings, the researcher concluded a significant positive correlation between operational cost control and performance of bank of Kigali and finally; the researcher concluded a significant positive relationship between administrative costs and performance of bank of Kigali. The management of Bank of Kigali should strengthen the production cost control measures since poor control of production and operation costs may negatively affect the financial performance of performance of Bank of Kigali by declining or reducing the profits of the bank of Kigali. The bank of Kigali should also strengthen the measure for effective administrative cost control since their poor control may affect the performance of bank of Kigali because if not well controlled they may increase the administrative expenses the bank incurs on daily, monthly and annual basis. Lastly but not the least, the bank of Kigali should remove the challenges encountered during cost control process like the way it takes too much time to get cost control measures to be established in the bank and finally, the bank of Kigali should adopt mixed methods for its costs control.**

Keywords: **commercial banks, organizational performance, financial performance, costs control.**

1. INTRODUCTION

Background to the Study:

Cost control refers to management's effort to influence the actions of individuals who are responsible for performing tasks, incurring costs, and generating revenues, by reducing expenses at acquiring the best for the business at the same time. Cost control is a continuous process that begins with the annual budget. As the fiscal year progresses, management compares actual results to those projected in the budget and incorporates into the new plan, the lessons learned from its evaluation of current operations. Through the budget process and accounting controls, management establishes overall company objectives, defines the centers of responsibility, and determines specific objectives for each responsibility center, designs procedures and standards for reporting and evaluation (Patterson & Wiley, 2002). According to Taylor (2007), Cost control also includes cost reduction which amounts to the efforts business managers make to monitor, evaluate, and trim expenditures. These efforts might be part of a formal, company-wide program or might be informal in nature and limited to a single department in the organization. In order bank managers to control costs effectively, they must have a firm grasp of accounting, marketing, and legal issues, as well as an understanding of commercial bank services, production, and service methods Dopson (2015). He continued to assert that cost control typically includes; investigative procedures to detect variance of actual costs from budgeted costs, diagnostic procedures to ascertain the cause of variance, and corrective procedures to effect realignment between actual and budgeted costs.

But the above comes after the following steps and aspects of management in cost Control: Planning: Initially a plan or set of targets is established in the form of budgets, standards or estimates. Communication: The next step is to communicate the plan to those whose responsibility is to implement the plan. Motivation: After the plan is put into action, evaluation of the performance starts. Costs are ascertained and information about achievements is collected and reputed. The fact that the costs are being reported for evaluating performance acts as a prompting force. Appraisal: Comparison has to be made with the predetermined targets and actual performance. Deficiencies are noted and discussion is started to overcome deficiencies Decision-making: Finally, the reported variances are received. Corrective actions and remedial measures are taken or the set of targets is revised, depending upon the administration’s understanding of the problem (Johnson, 2006).There are basic types of costs and these are; variable costs, and fixed costs. Variable costs vary per unit of production. Fixed costs, on the other hand, are incurred only once and as additional units of production are produced, the unit costs fall. Examples of fixed costs would be equipment move-in costs and road access costs (Cokins, 2001).Like elsewhere, Rwanda’s commercial banks ‘status is not very fraternal to other banks on the globe, A research by Perviz (2001) says that no matter what business setup an organization has, there are challenges organizations face but could be solved with cost control practice in place.

Technological advancements today are on the increase more in the previous century, for an organization to offer services which are relevant, cost effective and compatible with society’s needs, modern technology has to be employed. The initial cost of acquiring it, maintaining and running operations using the acquired technology is inhibitive. This is worsened by the short life span of most technological innovation which implies that organizations have to reinvest in current technology frequently so as to sustain their relevance (Mohammad, 2014).The second is the unskilled/inexperienced labor; Organizations are encountering a challenge of employees who are unskilled, with no experience in the fields that they are required to perform to their best, and that becomes an issue when they can’t produce as expected at the end of the month, term or year, This is mostly caused by recruitment done at the moment employees are badly needed to do the work, and by that they just give them a few days/weeks training of which much is not learnt and understood, thus a low yield at the end of the month (Piana, 2001).Over budget; another challenge that could be solved by cost control is over budget by most of the organizations; it is costing or being more than the amount allotted or budgeted. In other words, operations and expenditures will exceed what was fore planned because of various unexpected and urgent activity or small project that should also be included with in that period of time, and yet was not thought of at the time of budget building. Therefore, financing that budget becomes complicated to the management of the organization (Stouffer, 2001).According to analyst Tasha (2016), Fraud is one of the most critical problems that organizations face on a daily basis, and it is of different kinds; money laundering schemes, contract and procurement issues, Bribery and corruption, web, security and digital identity threats, conflict of interest, risk management challenges, IT infringement and theft and the need for vendor audits. Therefore, organizations without anti-fraud control suffer losses from this deficiency to mention but a few. Therefore, with the application of cost control, banks will be able to; improve its profitability and competitiveness, increase profits, increase sales volume, achieve greater productivity, reduction of prices due to reduced costs, and maintain higher sales and thus employment of work force among others.

On the other hand, the performance of commercial banks is an essential prerequisite of a competitive banking institution which is also a necessity for stimulating economic growth, especially commercial banks. Therefore, management has to achieve profit as essential requirement for conducting any business (Bobakova,2003). Commercial banks are financial institutions that provide services, such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investment products like savings accounts and certificates of deposit Peter, (2001) and performance is a measure of the results achieved. The financial performance of an organization can be best looked at from the profit point of view. Marshal, (1982) termed profit as the total net gains from the business, which to the accountant profit means simply the difference between total receipts and total costs (Harvey,1983). Bank of Kigali limited as one of the commercial banks in Rwanda which was established in the year 2007 when it fully gained its ownership without any shares of Belgolaise which was a subsidiary Fortis bank where each owned 50%. From then, the bank started advancing than before and up to date it has never reported backwardness or failures but always advancing. Bank of Kigali ltd financial reports (2013). It is called the leading commercial bank in Rwanda. This is because of its performance over years where in the year 2012, 2014 and 2015 received the award for being the best East African bank. In 2012 again was the best African listing bank, that is stock exchange markets, again in 2012 the bank of Kigali was awarded for being the financial reporting company in Rwanda, concerning euro money, Bank of Kigali received awards twice, 2013 and 2015. It became the best bank of the year and was awarded the best in the fields of innovation, technology and information management. Bank of Kigali financial reports (2014,2015). The bank of Kigali's crucial priority is regional integration which is enlarging the market in the country, regional and globally. The performances of banks are dependent more on the management's ability in formulating strategic plans and the efficient implementation of its strategies. Like other banks, Bank of Kigali has been trying by all means to improve and maintain its financial performance through formulating policies that will ensure sustainable growth. These strategies are; budgetary control system and standard costing systems which work alongside the following techniques; Planning, communication, motivation, appraisal, decision making to mention but a few. It brings challenges to the bank if the above are not considered or partially implemented and or even not enough for the bank's goals. These include the following; technological advancements, regulatory pressure; Regulatory requirements continue to increase, and the bank need to spend a large part of its discretionary budget on being compliant, and on building systems and processes to keep up with the escalating requirements, Over budget issues, fraud , unskilled labor to mention but a few. Therefore, bank of Kigali needs to constantly evaluate and improve its operations with the help and engagement of cost control measures and techniques and their related tools for solutions for these challenges in order to keep up with the fast pace of change in the banking and financial sector in the region and the globe today.The target population of this study will include all employees of BK headquarters in Kigali.

Statement of the problem:

Cost control practice is considered to be a very important element to analyse the organization's performance while conducting day to day operations in order to improve its financial performance. In any business one may undertake, it's vital to practice cost control on a daily basis Hansen, (2012).Cost control being of great importance and value to organizations in improving profitability and competitiveness through reduced costs, increasing productivity through investments of the acquired profits, reducing prices, controlling all controllable costs and many others, however, organizations today are facing challenges of which some are internal and others are external. Some of these challenges are global, national depending on the nature of operation of the organizations. And these include the following;

Technological advancements today are on the increase more than in the previous century; that means for an organization to offer services which are relevant, cost effective and compatible with society's needs, modern technology has to be employed. The initial cost of acquiring it, maintaining and running operations using the acquired technology is inhibitive. This is worsened by the short life span of most technological innovation which implies that organizations have to reinvest in current technology frequently so as to sustain their relevance (Mohammad, 2014).The second is the unskilled/inexperienced labor; Organizations are encountering a challenge of employees who are unskilled, with no experience in the fields that they are required to perform to their best, and that becomes an issue when they can't produce as expected (Valentino,2001).Over budget; another challenge that could be solved by cost control is over budget by most of the organizations; it is costing or being more than the amount allotted or budgeted. In other words, operations and expenditures will exceed what was fore planned because of various unexpected and urgent activity or small project that should also be included with in that period of time, and yet was not thought of at the time of budget building. Therefore, financing that budget becomes complicated to the management of the organization (Stouffer, 2001).According to analyst Bailey (2016), Fraud is one of the most critical problems that organizations face on a daily basis, and it is of different kinds; money laundering schemes, contract and procurement issues, Bribery and corruption, web, security and digital identity threats, conflict of interest, risk management challenges, IT infringement and theft and the need for vendor audits.

Objective of the Study:

1. To establish the effect of operational costs on the performance of bank of Kigali.

2. CONCEPTUAL FRAMEWORK

COST CONTROL **PERFORMANCE**

COST CONTROL

Operational costs

- Sales and Marketing expenses
- Office related expenses

→

- Return on Investment
- Return on Assets
- Market share

Research Design:

In this study researcher used descriptive research design. Descriptive research is the systematic empirical enquiry by three main ways; survey, brief interview, questionnaires or discussion with an individual about a specific topic a case study in depth study of an individual or group of individuals and observation which includes viewing and recording the participants so that a valid conclusion was drawn.

Target Population And Sample Size Determination:

The target population contains members of a group that a researcher is interested in studying. The population of this study was 305 employees of Bank of Kigali in Kigali. For the purpose of this study, a sample size of 75 respondents was determined from total population of 305 individuals used the formula.

$$n = \frac{305}{1+305(0.1)^2} = 75.3 = 75 \text{ employee of BK}$$

3. RESULTS AND DISCUSSION

To establish the effect of operational cost control on performance of bank of Kigali, respondents were asked to highlight how operational cost control is done in the Bank of Kigali. The findings are highlighted in the following tables.

Table 1: Bank practices about cost control

Agreement	Frequency	Percentage	Cumulative Percentage
Yes	51	68.0	68.0
No	14	18.7	86.7
Not sure	10	13.3	100.0
Total	**75**	**100.0**	

Source: Primary Data (2018)

The findings in Table1 demonstrated that the bank of Kigali practices cost control where 68.0% of all respondents confirmed that bank of Kigali practices cost control by responding yes, 18.7% of all respondents disagreed that bank of Kigali practices cost control by responding No while only 13.3% all respondents were not sure that bank of Kigali practices cost. The findings demonstrated that the bank of Kigali practices cost control as revealed by the majority of the respondents.

Table 2: The influence of cost control practice to the performance Bank of Kigali

	Frequency	Percentage	Cumulative Percentage
Very big	30	40.0	40.0
Big	23	30.7	70.7
Small	8	10.7	81.3
Very small	11	14.7	96.0
Not sure	3	4.0	100.0
Total	**75**	**100.0**	

Source: Field Data (2018)

According to Table 2 the majority responded very big 40% to extent is cost control to put in practice, 30.7% responded big , 14.7% responded very small, 10.7% responded small to this statement and 4% responded not sure to extent is cost control to put in practice.

Table 3: To what extent cost control is put in place in Bank of Kigali

Response	Frequency	Percentage	Cumulative Percentage
Very Big	9	12.0	12.0
Big	37	49.3	61.3
Small	14	18.7	80.0
Very small	11	14.7	94.7
Not sure	4	5.3	100.0
Total	**75**	**100.0**	

Source: Primary Data (2018)

The Table 3 illustrates the extent to which cost control is put in place in Bank of Kigali. The findings revealed that 49.3% of all respondents reported that the cost control is at a big extent, 18.7% of all respondents reported that the cost control is at a small extent, 14.7% of all respondents reported that the cost control is at a very small extent, 12% of all respondents reported that the cost control is at a very big extent while only 5.3% of all respondents were not sure to the extent of which cost control is put in place in Bank of Kigali.

Table 4: The most appropriate tool used for cost control in Bank of Kigali

Tools	Frequency	Percentage	Cumulative Percentage
Downsizing	17	22.7	22.7
Planning	44	58.7	81.3
Control	14	18.7	100.0
Total	**75**	**100.0**	

Source: Primary Data (2018)

As revealed by the findings in Table 4; majority of the respondents responded that planning is the most appropriate tool used for cost control in Bank of Kigali as confirmed by 58.7% of all respondents involved in this study, 22.7% responded that downsizing is the most appropriate tool used for cost control in Bank of Kigali while only 18.7% of respondents responded that is the most appropriate tool used for cost control in Bank of Kigali. From the findings in the above table; it is clear that the most appropriate tool used by the Bank of Kigali is planning.

Table 5: The person responsible for cost control practices in Bank of Kigali

Person Responsible	Frequency	Percentage	Cumulative Percentage
The top managers only	3	4.0	4.0
The board	21	28.0	32.0
The whole managers	51	68.0	100.0
Total	**75**	**100.0**	

Source: Primary Data (2018)

The findings from Table 5 revealed that, the person responsible for cost control practices in Bank of Kigali are the whole managers as confirmed by 68% of all respondents, 28% of all respondents confirmed that the person in charge of cost control is the board while only 4% of all respondents reported that the person responsible for cost control practices in Bank of Kigali are the top managers only. As it is confirmed by the majority of the study respondents; the persons responsible for cost control in bank of Kigali are the whole managers as proven by 68% of all respondents. To establish the effect of operational cost control on performance of Bank of Kigali.

Table 6: Establish the effect of operational cost control on performance of Bank of Kigali

Response	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Strongly agree	57	76.0	76.0	76.0
Agree	17	22.7	22.7	98.7
Neutral	1	1.3	1.3	100.0
Total	**75**	**100.0**	**100.0**	

Source: Primary Data (2018)

According to the information from Table 6, 76% of all respondents strongly agreed that operational cost control affect positively the performance of Bank of Kigali, 22.7% of all respondents agreed that operational cost control affect positively the performance of Bank of Kigali while only 1.3% of all respondents were neutral to the statement.

Table 7: Correlation between operational cost control and performance of BK

Variable		**Operational Cost control**	**Performance of BK**
Operational Cost Control	Pearson Correlation	1	.736**
	Sig. (2-tailed)		.000
	N	75	75
Performance of B.K	Pearson Correlation	.736**	1
	Sig. (2-tailed)	.000	
	N	**75**	**75**

Source: Primary Data (2018)

The findings in Table 7 revealed that, the results of correlation between operational costs control and performance of bank of Kigali is at 0.736 which equals to 73.6% which prove a significant positive relationship between operational cost control and performance of bank of Kigali. If the researcher considers the level of significance which is 0.05, there is therefore a significant positive relationship between operational cost control and performance of bank of Kigali because their p-value (0.000) is statistically significant at 5% level of significance.

4. CONCLUSIONS

According to the interpretation of collected and analyzed data during the course of this study the researcher came up with the following conclusions: Based on the information drawn from findings the researcher concluded a significant positive correlation between operational cost control and performance of bank of Kigali and finally; the researcher concluded a significant positive relationship between administrative costs and performance of bank of Kigali.

5. RECOMMENDATIONS

Based on the findings from this study; the following recommendations are made:

The management of Bank of Kigali should strengthen the operation costs in order to continue affect the financial performance of performance of Bank of Kigali. Bank of Kigali should also strengthen the Sales and marketing expenses may affect the performance of bank of Kigali. Lastly but not least the bank of Kigali should remove the challenges encountered during cost control like the way it takes too much time to get cost control measures to be established in the bank and finally, the bank of Kigali should adopt mixed methods for its costs control.

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