

The evaporating cloud diagram: a tool to resolve conflicts in the Ethiopian Banks

Birhanu Beshah^{1*} Daniel Kitaw²

1. School of Mechanical and Industrial Engineering, Addis Ababa University, PO box 7754, Addis Ababa, Ethiopia
2. School of Mechanical and Industrial Engineering, Addis Ababa University, Addis Ababa, Ethiopia

* E-mail of the corresponding author: bireabesha@yahoo.com

Abstract

Project financing is the most important role and at the same time it is the most risky business in the banking industry. The purpose of this study is to analyse the difficulties and conflicts in the project financing processes of bankers by applying evaporating cloud diagram as a tool. The result clearly indicated that if the decision making process becomes improved then the risks of the business evaporates.

Keywords: project financing, multi-criteria decision making, evaporating cloud diagram

1. Background

The evolution of banking which lasted for centuries until two types of modern banking developed in the industry advanced economies in the late nineteenth century was an integral part of the expansion of capitalism. The techniques of banking developed in the 17th century which facilitated the industrial and territorial expansion that began about the same time. The two systems of banking are the market oriented financial systems characterized by a division of functions and the bank oriented financial system characterized by universal banking. In market oriented financial systems, specialized financial institutions including banks, financial markets and market intermediaries cater to the different financial needs. In a bank oriented financial system savings are largely directly transferred from those who generate them to those wishing to use them by the intermediation of banks (Machiraju, 2005).

The history of banking in Ethiopia dates back to the turn of 20th century when the Bank of Abyssinia was established in 1905 in Addis Ababa marking the introduction of banking in the country. Twenty six year later, Bank of Abyssinia was legally replaced by Bank of Ethiopia shortly after Emperor Haile Selassie came to power. The new Bank, Bank of Ethiopia (<http://www.nbe.gov.et/>), was a purely Ethiopian institution and was the first indigenous bank in Africa. These days Ethiopian banking sector comprises a central bank (National Bank of Ethiopia), three public and over ten private owned banks. Among them, Commercial Bank of Ethiopia (CBE), Development Bank of Ethiopia (DBE), and Construction and Business Bank (CBB) are government owned and Awash, Dashen, Wegagen, United, Nib, Birhan, Bunna, Zemen, Abay, Lion, Oromia, etc are privately owned banks.

Financial sectors of Ethiopia can play a major role in economic development of the country. Every sector like domestic trade, import and export trade, agriculture, agro-industries, hotel and tourism, manufacturing, construction, transport, services (education, health, etc) and others are un-imaginary to run with out finance. Fulfilling financial requirements of different sectors is the task of Ethiopian banks by financing projects and giving loans.

To carry out the multi faceted role of finance, banks, particularly those owned by the government, currently offer Medium-term and long-term loans (Project Loan). The purposes of the loan are: to finance new projects, to support the expansion of existing projects, to investments and to meet working capital needs. Eligibility of the requested loan is decided by the Bankers.

Since project financing mainly focuses on the project itself to recover its cost, the selection of project proposal or decision to finance a project or not is a crucial step. If infeasible projects are financed, the project itself, the bankers and the decision makers will be at loss. At large, the country's financial institutions will be in bankruptcy. To avoid the occurrence of such problem, banks use a lot of criteria and procedures to reach on decisions.

The bankers always strive to reduce the risk of financed project's failure by taking longer analysis and evaluation time. Due to this reason, the Financial Sector of Ethiopia is in a problem. There is unutilized (idle) cash on the one hand and cash hungry (starvation) economy on the other (paradoxical).

2. Problem Definition

The major project financiers Commercial Bank of Ethiopia, Development Bank of Ethiopia, and Construction and Business Bank decision making policy, procedures and practices are examined the basic problems for the accumulation of money in the banks identified. These are long decision making process and employees' fear to decide (CBE, 2005; DBE, 2006; CBB, 2006).

A project should pass the following processes to secure finance from the Ethiopian banks. These includes project proposal preparation by the client, pre-qualification of the project, pre-approval, appraisal of the project, decision by committee and finally the financing of the project.

From these decisions making processes the basic problem that contribute for accumulation of ideal cash in Ethiopian banks are project approval and project appraisal, and decision by loan committee stages.

On the other hand reaction of civil servants mainly at positions of managerial responsibility being observed nowadays is therefore to go after safeguarding themselves as much as possible. It is indeed an irony to see that people are holding positions and yet they are not willing to make decision and/or take actions. This state of paradigm in the behavior of the civil servants mainly at managerial positions leaves the economic sector suffering from inefficiency (indecision). Civil Servants endowed to make decisions at various levels, is observed either they do not make decisions (if they can) or they do not make decision on time (hesitating) or else may not make the best or even the right decisions but rather make the decisions which are safest for the decision makers; which is, not financing a project.

In order to solve internal problem of Ethiopian banks, the problem is modeled with evaporating cloud diagram as follows.

3. Evaporating Cloud Diagram

Once the causes of the problem are understood, its solution may not be obvious. The evaporating cloud diagram is useful technique to identify a solution (Goldratt, 1990; Gupta, 2011).

In order to construct the evaporating cloud diagram of Ethiopian banks internal problem; the first task is to identify the objective of the decision to be made. Ethiopian banks are in need of mobilizing their capital tide up. Therefore, the objective of the decision to be made is to mobilize idle (unutilized) cash in the banks. In order to mobilize the cash; it requires providing long-term loan (project financing) for the society or business man and the banks employee (decision maker) has to be safe and the decision making process should be simple. In other word to achieve the objective, the two requirements should be fulfilled.

To complete the evaporating cloud diagram, it is necessary to identify the prerequisites of each requirement. To finance a project, the bank should decide in a short period of time. To make the decision making safest and simple, a prerequisite is not to decide (not financing a project).

At this point a conflict exists because it is not possible to decide and not to decide, for financing a project at the same time. In short, this case is listed out as follows and represented on Figure 1;

- Ethiopian banks want to mobilize the capital tied up
- In order to mobilize the capital, their means is financing projects
- To finance a project, first the bank should assure the viability of the project and decide to finance.
- The decision making process should be safe and easy for the employee of the banks
- The simplest and the safest action for the employee is not to decide (not financing projects)

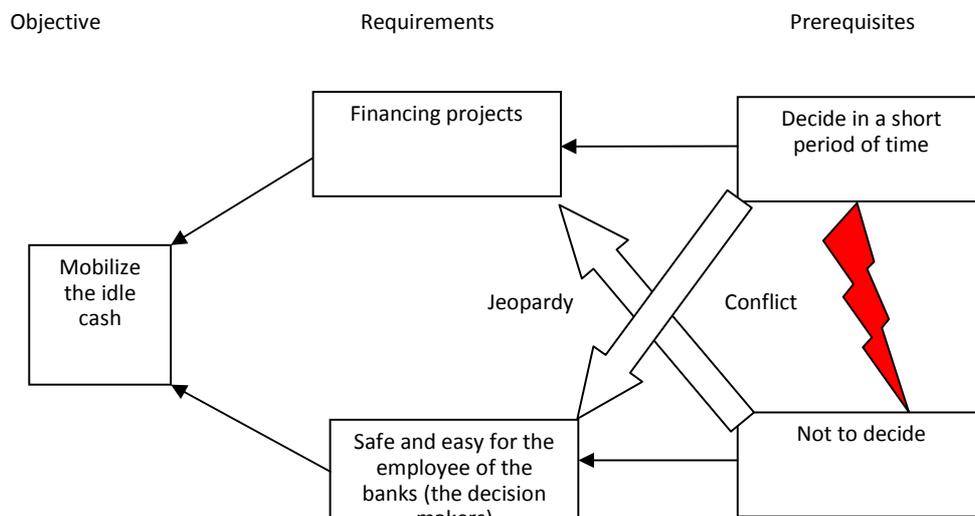


Figure 1. Evaporating Cloud Diagram

In order to identify the opportunity to evaporate the cloud (solve the conflict or the problem) the underlying assumptions for each of the five arc should be established. At least one assumption per arc should exist. If any of the assumptions can be shown invalid, the conflict disappears, and the problem will be solved. The evaporating cloud diagram with their underlying assumptions is shown on Figure2.

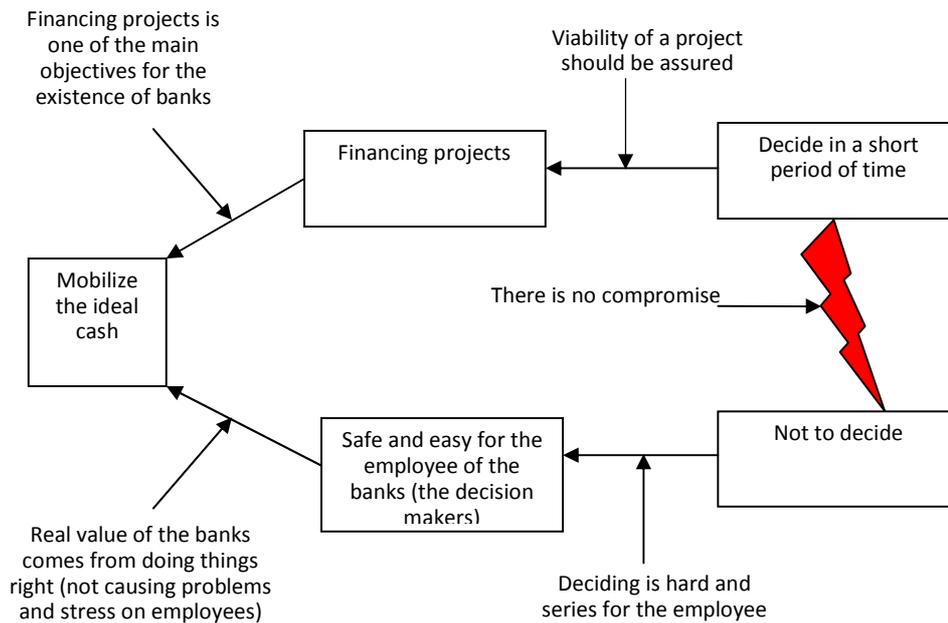


Figure 2. Underlying Assumptions for the Cloud Diagram

In order to evaporate the cloud or to resolve the conflict, breaking one of the arcs is sufficient. However, selecting the best or the simplest arc is important for the viability of the solution. For this problem the assumptions can be devalued through the following strategy as represented on Figure 3.

Changing the objective of the banks; basically banking services are categorized in to two; market oriented and bank oriented as stated above. This bank oriented banking service aim is to provide money for privet organization to facilitate development of a country. Therefore, if the banks eliminate this objective they can provide the money accumulated to government or they can use for other purpose. As a result, there will not be capital tide up and the employees of the banks can live safely and at ease. That means the cloud is evaporated or the problem is solved. However, it is not possible to change the objective of the banks.

Staying out of trouble is risk avoidance; this means if Ethiopian banks have employees who can take the risk and decide; the problem could be solved. However, it is difficult to find a person who can stay in trouble. Therefore, it is too difficult to break the arc at this point.

Outsourcing evaluation of project to other organization or to the government; if Ethiopian banks could have an organization which can evaluate and assure the viability of a project the cloud will evaporate. Because, if the project viability is assured the only task of the bank becomes financing the project and controlling the financial states of the project which is simple and the bank can mobilize the cash.

Forcing employees to decide will have little significance; by control and check of employee in the banks and forcing those to decide could have little impact on the capital tied up. This could not eliminate the problem as a whole.

Providing an efficient, scientific, and simple tool for employees to measure viability of projects and decide in a short period of time. Multi-criteria decision making tools including Analytic Hierarchal Process, Analytic Network Process, Technique for Order Preference by Similarity to the Ideal Solution (TOPSIS), Multi-attribute utility theory and Merit point system could be deployed to the project financing decision making process. These methods are efficient, scientific, and simple for decision making as well as for the decision makers. Therefore, if Ethiopian banks can use multi-criteria decision making techniques, then the decision makers can decide confidentially and at ease in a short period of time. As a result the conflict can be resolved and the cloud evaporates (the problem is solved).

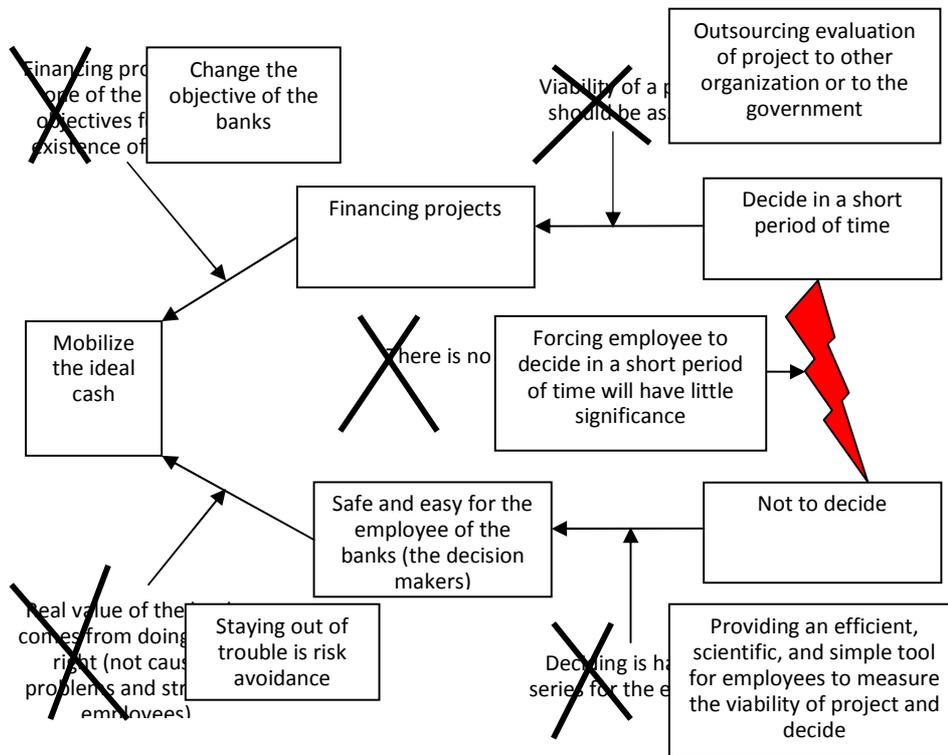


Figure 3. Proposed Solutions

5. Conclusion

This research aim was to solve accumulation of ideal cash in Ethiopian banks. From the preliminary analysis of the banks decision making processes, the research identified that the decision making process and the decision makers are the basic problems in the project financing success. Furthermore, examination of the problem by using evaporating cloud diagram proves that if the banks deploy decision making techniques then the problem would be solved. Therefore, the research strongly recommends the uses and application of decision making tools to ensure fast and sustainable development. The research also recommends that selecting project and financing only could not be a substantive for a project success – monitoring the project implementation and operation will make the relation win-win.

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