MANAGEMENT CONTROL SYSTEMS IN THE TRADITIONAL CLANNISH SOCIETIES: A CASE STUDY OF A TELECOMMUNICATION COMPANY IN SOMALIA

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ABSTRACT

Both traditional and contemporary perspectives of management control systems (MCS) failed to cope with the socio-cultural settings of the organizations operating in the traditional societies. The evolution of MCS in this socio-cultural context is an emerging research issue that has received less attention in the current MCS research. Therefore, this study attempts to understand, interpret and report the main MCS themes of organizations operating in the traditional societies of less developed countries. Based on the MCS literature, a conceptual framework was developed to better our understanding of the MCS forms that are practiced by the business organizations that are operating in the traditional clannish societies of Somalia. A qualitative case study was adopted to collect the field data from one of the telecommunication companies in Somalia. Similarly, the study uses semi-structured interviews with the executive directors, heads of divisions and some selected customers. To triangulate the data sources, observation and document analyses were employed. The findings of the study show the role of traditional clannish culture on the MCS development in Somalia. The prevalent MCS themes of the studied company include: clannish ownership, paternal leadership, collective responsibility, horizontal relationships, clannish customer recruitment/retention, clan-based selective employment of investors/staff, familial information sharing networks, friendship and personal trust, verbal communication, informal decision making process, centralized control practices, restricted information to specific groups and oral circulation of financial information. These control practices of the telecommunication company in the traditional clannish societies renders formal MCS to become less relevant. Therefore, the traditional clannish norms might play an important role in the emergence of specific MCS forms in the traditional clannish environments like Somalia. The outcome of the study calls for further researches to better our understanding of the MCS evolution, particularly that of the traditional societies in the developing nations.

Keywords: management control systems, business governance, traditional clannish societies

ABSTRAK

Kedua-dua perspektif tradisional dan kontemporari dalam sistem kawalan pengurusan (MCS) dilihat gagal menangani persekitaran sosio-budaya bagi operasi organisasi di dalam sebuah masyarakat tradisional. Evolusi MCS dalam konteks sosio-budaya ini merupakan isu penyelidikan baru yang kurang mendapat perhatian dalam penyelidikan MCS semasa. Oleh itu, kajian ini cuba untuk memahami, mentafsir dan menerangkan tema utama MCS bagi operasi sesebuah organisasi masyarakat tradisional dalam negara-negara yang kurang membangun. Berdasarkan maklumat pustaka tentang MCS, sebuah kerangka konsep telah dibangunkan untuk memperbaiki pemahaman terhadap bentuk MCS yang diamalkan oleh organisasi perniagaan yang beroperasi dalam masyarakat kesukuan tradisional di Somalia. Satu kajian kes kualitatif telah digunakan untuk mengumpul data lapangan daripada salah satu syarikat telekomunikasi di Somalia. Kajian ini turut menggunakan kaedah temu bual separa berstruktur dengan para pengarah eksekutif, ketua-ketua bahagian dan beberapa pelanggan terpilih. Untuk triangulasi sumber data, pemerhatian dan analisis dokumen telah dilakukan. Dapatan kajian ini menunjukkan peranan budaya kesukuan tradisional kepada pembangunan MCS di Somalia. Tema lazim MCS bagi syarikat yang dikaji adalah termasuk: pemilikan kesukuan, kepimpinan paternal, tanggungjawab bersama, hubungan mendatar, pengambilan/pengekalan kesukuan pelanggan, pelabur/kakitangan memilih pekerjaan berdasarkan kesukuan, perkongsian maklumat rangkaian kekeluargaan, persahabatan dan kepercayaan peribadi, komunikasi lisan , proses membuat keputusan tidak formal, amalan kawalan berpusat, maklumat terhad kepada kumpulan-kumpulan tertentu dan penyebaran secara lisan maklumat kewangan. Kawalan amalan syarikat telekomunikasi dalam masyarakat kesukuan tradisional ini menjadikan MCS menjadi kurang relevan. Oleh itu, norma-norma kesukuan tradisional mungkin memainkan peranan penting dalam kemunculan bentuk spesifik MCS dalam persekitaran kesukuan tradisional seperti di Somalia. Hasil kajian ini memerlukan kajian lanjut untuk memperbaiki pemahaman kita terhadap evolusi MCS, terutamanya daripada masyarakat tradisional di negara-negara yang membangun.

Kata kunci: sistem kawalan pengurusan, tadbir urus perniagaan, masyarakat kesukuan tradisional

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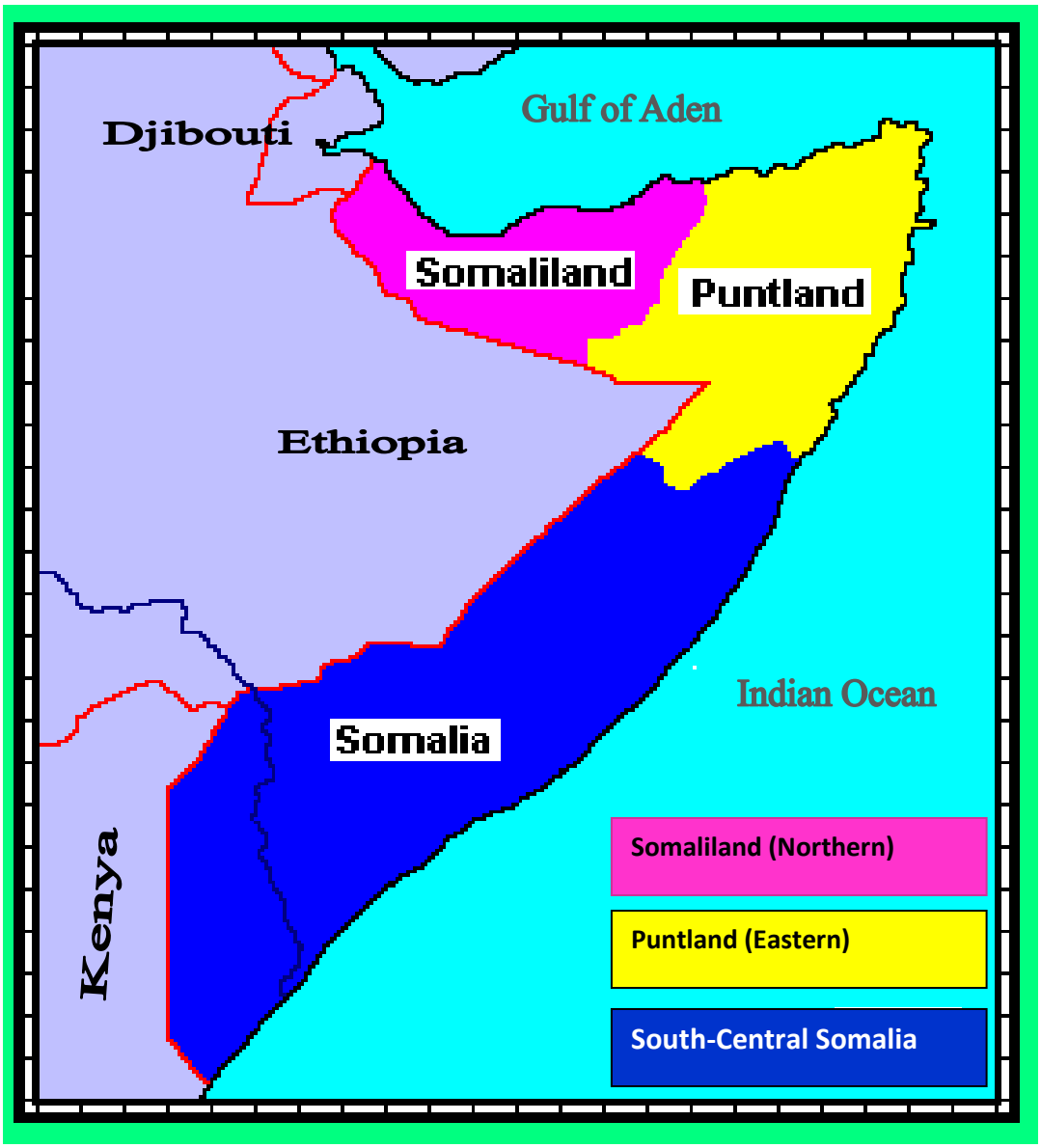
May Allah bless all of our efforts to uphold the true concept of knowledge, In Shaa Allah, and for His sake (SWT).

Current Somalia's Administrative map (after the collapse of the Central State in 1991, to this year of 2014)



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LIST OF ABBREVIATIONS

CEO	Chief Executive Officer
CIA	Central Intelligence Agency
e.g.	Example
et al.	And others
GM	General Manager
GSM	Global System for Mobile Communication
HR	Human resource
i.e.	That is
IGAD	Inter-Governmental Authority on Development
IT	Information Technology
KPIs	Key Performance Indicators
MCS	Management control systems
NIE	New Institutional Economic
NIS	New Institutional Sociology
OIE	Old Institutional Economic
SSA	Sub-Saharan Africa
TFG	Transitional Federal Government
TNG	Transitional National Government
TSOM	anonymous name for the case organization
UIC	Union of Islamic Courts

CHAPTER ONE

INTRODUCTION

1.1 Introduction

One of the main features of management control systems (MCS) in the developing countries is that MCS is an extension and a product of its social structures and norms that is constitutive in its social relations (Hauriasi & Davey, 2009; Uddin, 2009). The influence of societal systems on MCS design and use has been identified as an important determining factor that reveals the development of MCS patterns as social practices (Hauriasi & Davey, 2009; Hofstede, 1980, 1987; Wickramasinghe and Hopper, 2005; Uddin, 2009).

Previously there were questions on whether an MCS that is developed in certain social contexts is appropriate or valid to any other social settings (Hofstede, 1980, 1984; Jackson, Amaesha & Yavuz, 2008; Perera, 1994; Wickramasinghe & Hopper, 2005). Since then, there was a move to reconsider the socio-political and economic settings of the respective society as the main determinant of its socio-political and economic practices, including MCS patterns. Based on the socio-cultural factors of the respective society, various MCS themes, patterns and concepts may emerge. In response to such diversity and to understand MCS as a social phenomenon, numerous scholarly efforts have been offered recently (Efferin & Hopper, 2007; Mellahi & Wood, 2003; Tsamenyi, Noormansyah, & Uddin, 2008; Uddin & Choudhury, 2008; Uddin, 2009). These studies explored the forms of MCS embedded in its social systems and the results generally shown a lack of definitive conclusion.

However, there are a limited number of in-depth studies that have been devoted to understand the MCS of business organizations operating in the traditional clannish systems (see for example Efferin & Hopper, 2007; Tsamenyi *et al*., 2008; Uddin & Choudhury, 2008; Uddin, 2009). Thus, the main purpose of this study is to carry out an in-depth qualitative case study to understand MCS practice that is inherent to its social relations in a developing country; Somalia. In Somalia, the traditional clannish culture dominates all aspects of the socio-political and economic life.

This chapter presents a brief description on the traditional clannish norms and how these norms influence other socio-economic aspects of the people, including business governance and MCS. Then, the chapter offers problem statement, research questions and objectives and the significance of the study. The chapter concludes with the research methods and the conceptual framework of the study.

1.2 Background of the Study

Traditional clannish society is a type of community that is mostly found in developing countries, where the social connections are primarily defined by biological/ancestral associations or ethnic networks that also shape the other social affairs of the society such as political and economic relations (Lewis, 2004).

Traditionalism, *clanism* (tribalism), clan-family, clannish culture and clannish system are anthropological concepts that are used interchangeably to describe the traditional societies (in this study, these terms mean the same) that are organized in an ethnical or familial structure (Efferin & Hopper, 2007; Leonard & Samantar, 2011;

Lewis, 2004; Makinda, 1991). The main characteristic of a traditional clannish society is that it is constructed on ancestral (or ethnic) pride, chauvinism, favoritism, and privileges of certain groups over others because of their genealogical divisions (Lewis, 2004). According to the World Bank Report (1999/2000) ethnicity, traditionalism, *clanism* and kinship relationships play a primary role in structuring the socio-political and economic activities of the people in the vast majority of developing countries.

Even though ethnic and traditional clannish societies mainly exist in the developing countries, however, the traditional clannish system is perhaps the single most dominant factor that remains resistant to the development of political and economic conditions of many African nations in general and particularly in Sub-Sahara Africa (SSA) (Platteau, 2009) in many of SSA nations. The influence of ethnic, traditional clannish networks and kinship ties has weakened the development of public institutions, in many SSA nations, and led to never-ending hostilities of the different ethnics (or clans) over public interests for private purposes (Platteau, 2009). Similarly, in the vast majority of SSA nations, the traditional norms and customary laws determine the formation of political parties, professional associations and business structures (Easterly & Levine, 1997).

The traditional values, norms and customs are the unwritten rules and regulations of traditional societies that supersede any other regulatory system or body (World Bank Report, 1999/2000). These norms and customs are practiced to protect the clans' interests collectively and to share the burdens and difficulties (Jones, 2000). In this sense, individuals' interests are subjugated for the collective interests of the group. Moreover,

the collective culture of the traditional society is based on nepotism, favoritism, collectivism and interdependence that demonstrate the cooperation of the clan members rather than to compete (Little, 1996). In contrast, the traditional clannish systems may cause the dissociation of other societies outside the kinship network and create an environment of constant struggle and conflict between different societies (Lewis, 2004). Such behavior may lead to regular hostilities among different networks and ethnics in the same region.

The influence of traditional clannish cultures exist in many African[1], Middle Eastern[2], and Asian[3] countries (Hofstede, 1980), however, the traditional clannish cultures in those countries are either weakened by or coexist with the state institutions (Lewis, 2004). Unlike other traditional clannish societies, Somalia's traditional clannish system is a unique one that has attracted the attention of anthropologists, politicians and economists alike (see for example: Lewis, 1961, 1989; 2004; Little, 1996; Makinda, 1991; Powell, Ford & Nowrasteh, 2008; Samatar, 1992; Ssereo, 2003).

Somalia's traditional clannish system was, and still is, the central most important factor that shapes the entire social, political and economic aspects of the society. According to Makinda (1991):

> *"…the single most important factor in Somali society has been the clan. Although all Somalis enjoy a sense of common identity based on a shared culture, the clan loyalty often undercuts the sense of shared nationhood" (p. 112).*

[1] For example: Nigeria, South Africa, Sudan, Chad, Libya, Ethiopia, Kenya, DR of Congo and Uganda.

[2] For example: Yemen, Saudi Arabia and Jordan.

[3] For example: Pakistan, Afghanistan and China.

Recently, in the year 2012, traditional clan leaders approved the national constitution of the country, and in the constitution, the Somali major clans are recognized. The constitution defines explicitly how different clans should share the political powers of the country as well as the economic resources. The basis for sharing public interests is the "four point five formula" (4.5), which means that four major clans and a half clan are legally recognized by the constitution. The top official positions in the government are shared on the four-point-five (4.5) ratio. Therefore, even though names and titles of the government officials resemble that of the other countries in the world, however, Somali government leaders usually represent their respective clans (Hesse, 2010b; Lewis, 2004). Hesse (2010b) surprisingly remarked this scenario and stated that:

> "… and the President and Prime Minister vied openly to serve their Darod- and Hawiye- clan bases respectively". (p. 253).

For Somalis, one's clan identity is a prerequisite that should precede any other transaction. Hence, recognizing individuals' clan or genealogical affiliation creates an atmosphere for mutual trust between the contracting parties and facilitates other matters regarding social, political and economic activities (Lindley, 2009; Webersik, 2006). Despite the fact that clanism is the root of conflicts and the current instabilities, nevertheless, traditional clannish customary law is the instrument that is used to settle various disputes (Leeson, 2007). Through traditional clannish norms, all types of conflicts are resolved and agreements are enforced to secure the smooth run of the different transactions. Similarly, regarding business activities, the confidence that results from the traditional clannish norms give a feeling of security to the business owners from

the different clans, since every clan is supposed to take the responsibility of misbehaviors caused by their members (Adam, 1992).

In the last twenty years (known as the stateless period), traditional clannish system become an alternative agent for social controls (Lewis, 2004). Describing how Somalis believe and are loyal to their traditional clannish system, Lewis (2004) quoted an expression of a Somali interviewee who stated that: "there is only one loyalty all Somalis share. It is not Islam. It is not nationhood. It is not love of the country, it is *clanism*; a phenomenon I like to call the Hidden Religion" (p. 511).

In conclusion, Somalia's traditional clannish system is a complicated social construction which has been debated for over 50 years when I. M. Lewis started his study in 1950s to understand how Somali clannish culture works. It is a social phenomenon that has yet to be understood by scholars, however, it is not our concern to study the social aspects of the phenomenon or its political implications, but to understand the role of traditional clannish system on the business governance, and particularly management controls of business operations. The next section highlights the influence of clanism on business management and controls.

1.3 Business Management and Control in the Traditional Clannish Context

Similar to the other social and economic activities of developing countries, business formation, ownership and management practices are also established on the basis of traditionalism or clannish culture. Business organizations that are operating in the traditional clannish environments should comply with the local traditional clannish norms

and values that structure the type and function of management and control practices (Ansari & Bell, 1991; Uddin, 2009). In their study of business organizations' governance in the traditional societies, Uddin and Choudhury (2008) revealed that, under traditionalism, financial information and reports serve the family interests (clan members) rather than the shareholders. Similarly, Uddin and Choudhury (2008) added that such behavior has happened even if the family member's ownership is minor. This is also supported by Efferin and Hopper (2007), who revealed that business organizations operating in the traditional societies construct their own form of MCS that is based on informal, kinship ties, nepotism, personal trust and familial governance style that is developed by the members who descend from the same ethnic or clan.

In this regard, Efferin and Hopper (2007) reported that traditionalism has contributed to the emergence of new MCS forms that has been developed in their traditional societies, like Chines ethnic members (in Indonesia), to match MCS with their traditional values. An earlier study by Ansari and Bell (1991) also reported similar scenarios in a Pakistani traditional family. Exploring how members from one ancestral origin manage an international business organization, Ansari and Bell (1991) found that kinship ties strongly affected the decision making process, financial information preparation and dissemination, staff recruitment and motivation. Similarly, the traditional clannish practices powerfully shaped the informality of communication and control, procedures of recruitment, reward and performance evaluation and resource allocation (Tsamenyi *et al*., 2008).

Jackson *et al*. (2008) conducted a comparative study to understand the management styles of Kenyan Africans and Kenyan immigrants (Asians and British), and to understand how management practices from traditional clannish societies are different from Kenyan immigrants practices. Jackson *et al*. (2008) found that management practices of the organizations owned by Kenyan African is characterized by collective and mutual respects, with the local traditional values incorporated into their own management systems. Furthermore, Jackson *et al*. (2008) noted that informal communication and supportive management style is prevailing in the Kenyan African managers compared to the immigrant managers. For instance, consultative decision making process, personal trust to suggest without fear, friendly control, cooperative attitude of members and generally a team management style include the Kenyan African managers' style of MCS (Jackson et al., 2008). Similarly, in their analysis, Jackson *et al*. (2008) also indicated that many small business organizations in Kenya that are run by African managers have successfully developed their management styles. That success was attributed to the traditional-based management style that is constructed on harmony, generosity and collectivism of which public interests take precedence over personal interest.

Practicing clannish network in their daily activities is normal for the staff working in the traditional clannish systems. Jackson *et al*. (2008) observed that members of the case organizations researched demonstrated their *clanism* openly by employing only those belonging to the same clan of the managers, as well as in their daily practices. Employees from the same clan take care of their clan members by helping each other in the business operation, socialize with each other, share information more than other clan

members and provide work assistance to each other (Jackson, 2002). This caring type of management is what Jackson *et al*. (2008) perceive as a success factor that contributed to the growth of many small and medium sized enterprises of SSA nations. On the other hand, Jackson *et al*. (2008) criticized the western style of management systems for its lack of humanness and its inconsistency with the homemade traditional values of the respective traditional societies in Africa.

In the traditional clannish environment, personnel management practices is also much affected by the clannish culture. Mellahi and Wood (2003) found the role of *clanism* on the process of recruitment, training, reward and promotion in the Algerian context. Mellahi and Wood (2003) view that, during political instability, informal human resource management practices are used. Moreover, the study reveals that, during employment, managers narrow down their recruitment pool to their family or personal networks and they selected workers that they trust or those recommended by the people they trust. These results are in line with the findings of the studies conducted by Ansari and Bell (1991), Uddin and Choudhury (2008), and Uddin (2009) in the traditional societies, which highlighted the informal management practices used under the traditional clannish environments. In these studies, traditional clannish norms play an important role in structuring the form of MCS in the clannish contexts. Similarly, it is also reported that clannish norms overrule any other rules including state regulations. For example, elaborating the influence of traditional clannish culture on management and accounting control, Uddin (2009) noted that:

> *"…serving family's interest seems to be the natural course of action for employees at all levels (in the firm studied)" (p. 793).*

A review of the management accounting literature in developing countries, Hopper, Tsamenyi, Uddin and Wickramasinghe (2009), underlined that in the developing countries, informal and subjective management controls are the prevalent system of institutional governances. They noted that, in the developing countries, information is restricted to the family members and serves their explicit interests. Additionally, Wickramasinghe and Hopper (2005) noted that conventional western management accounting failed in many of the developing countries due to the traditional and rural cultural norms based on kinship obligations that have affected the organizational practices.

In Somalia, since the collapse of the central state in 1991, traditional clannish norms have been used alternatively for business transactions. *Clanism* represents the basis of business formation and governance which, according to Lindley (2009), enabled business owners to increase their profitability during the stateless period. Despite the fact that deep political divisions among the different Somali clans and their rivalry on the political and economic power, however, business owners from the different clans usually utilize *clanism* into productive ways, by initiating tribal business networks and they settle their contractual and business disputes through customary laws. Similarly, business owners from the different clans establish strategic alliance with the other (clans) business owners. Every business owner should be responsible for the business activities in his clan regions and should create customers from his clan area (Lindley, 2009). Through that approach, business owners collaborate and expand their agents, customers and business networks to reach the markets of the different clans.

Despite the fact that clannish system provides, sometimes, better protection of the business operation in Somalia, however, it has also its own negative implications. For instance, members who hail from some clans, who perceive their superiority to the other clan members, may protect their traditional values and dignity more than any other else (Ismail, 2007). According to Ismail (2007), their perceived superiority provides them a feeling of supremacy, pride and chauvinism towards the other clan members, which in turn, may create a problem of hierarchical decision making process in the organization. In other words, employees from the superior clans may be treated differently from the other individuals. Such culture, which is practiced informally, may affect the individuals' commitment to the work. As a result, such clannish behavior may contribute to the development of informal and subjective mechanisms for institutional governance, including management controls, which is determined by the nature of the traditional clannish settings (Hesse, 2010a).

In this sense, when recruiting employees for the business, clan members (of the same family) have the priority, because it is a mechanism to secure the business in the future. With the consideration of the necessary skills and other relevant criteria for the required employees, clan members will be given the priority to be employed first and then to the next of kin from the brother-sub-clan members and so on. Lindley (2009) quotes an interviewee commented on clan-business affiliation and mentioned how specific business organizations are affiliated to their respective clans and said:

> "*If you go to Kaah (Business Company) who is working there? The Ogaden (Darod sub-clan). And who is working in Amal? The majority is Magerten (Darod sub-clan). And who is working for Dahabshil? ..... if you have your own business,*

you bring your cousin, your uncle…members of my family first, and then my community (clan-family). That is the way of helping each other" (p.525).

The main reason for business and clan affiliation is the need to protect the business from the against-clans (if direct conflicts erupt) by depending much on the trusted people; clan members, under the hostile environment of Somalia. The protection of the business from the against-clan businesses is a clan matter that is the collective responsibility of the clan members. In the traditional clannish contexts, loyalty of the employees to the business is a way to protect the business because the business is regarded as part or extension of the clan and the protection of that business organization is a protection of the clan itself (Lewis, 2004; Makinda, 1991).

Although employees who are working for their clan-owned business might have the motivation to strive for the success of their clan-owned business, and that might be good for the business development, but the clannish connections among employees may lead to a situation where informal clannish procedures and personalized decision making dominates on the organizational operations (Leeson & Boettke, 2009). In the traditional clannish system of Somalia, employees consider themselves as owners of the business organization which may complicate the decision making and accountability process (Nevin, 2007). Furthermore, the decisions related to business formation, employees' hiring and firing, reward, punishments and evaluation, will certainly be affected by the traditional clannish system (Mellahi & Wood, 2003; Efferin & Hopper, 2007). Therefore, the important issue is how formal managerial process, including control mechanisms, can

be performed among blood-related employees and managers? This is what the study aims to understand and inform to the academic arena.

1.4 Motivation of the Study

The role of culture on management accounting and control systems has been given a considerable academic considerations since the emergence of Hofstede's theory of cross-cultural dimensions in 1980s (Chenhall, 2003; Efferin & Hopper, 2007; Hofstede, 1980; 1984; 1993; Jackson, 2002; Minkov & Hofstede, 2011; Uddin, 2009). Due to the fact that the global business operations have increased over the last three decades, the issue of culture and management accounting and control systems have emerged (Chenhall, 2003). The reason is that under the various cultural contexts of the different environments, the global businesses may face the question of whether to transfer its MCS to their subsidiaries or to redesign its MCS to fit to the domestic cultural characteristics of the affiliates (Chenhall, 2003).

There is quite a number of comparative management accounting and control studies that have been carried out across nations since 1990s. These studies mostly examined the influence of national cultures on the design of management accounting and control systems in different environment around the globe (Bhimani, 1996). For instance, Bhimani (1996) examined European management accounting, while Chapman, Hopwood and Shield (2007) also examined management accounting systems around the world as well as management accounting researches in the German-speaking countries; France, Italy, Portugal, Spain, China, Britain, Japan and U.S. Similarly, there are other researches

that have given insights on several aspects of management accounting and control systems across nations such as, India, Korea, Malaysia, Singapore, etc (Joshi, 2001; Sulaiman, Ahmad & Alwi, 2004). However, majority of these studies have been either conducted in advanced countries or in the countries that are of middle level income (Joshi, Al-Mudhaki & Bremser, 2003).

In the less developed countries, there has been a growth in the research of management accounting and control practices (Hopper et al., 2009; Joshi, 2001). Such increase of research in management accounting and control was attributed to the globalized business markets and competition (Hopper et al., 2009). The findings of these studies in the less developed countries frequently raised the possible difficulties and challenges of transferring western management accounting to the less developed countries. For instance, Sulaiman et al. (2004) highlighted that lack of the factors of: education, expertise, technology, new techniques, top management support and the potential high costs of implementing modern management techniques are the potential limitations of using western management accounting systems in these less developed countries.

Furthermore, in the most recent researches of management accounting have raised the role of traditional societies on the management accounting and control development in the less developed countries. Hopper et al. (2009) examined the state of management accounting in the less developed countries, and concluded that "Less Developed Countries are relatively distinctive as they have a larger residue of traditional cultures and their modes of production; … their poverty renders them more dependent on external

finance, ideologies and structural reforms, with lower institutional capacity to deliver change…." (p.496).

While majority of the less developed countries are in Sub-Sahara Africa (34 out 49), the current MCS researches, in the less developed countries, mostly focus on the Asian countries, while little is known about the MCS in the Sub-Sahara African countries. A recent survey of three prominent accounting journals namely: Accounting, Organization and Society; Accounting, Auditing and Accountability and Critical Perspectives on Accounting, Rahaman (2010) found that only 1 percent (24 out 2,374) of the accounting articles published in these three journals, in the last four decades, were about Africa. Moreover, these 24 papers published are mainly about the public sector, while there is a dearth of research in the private sector.

In addition, the most recent few studies encouraged to conduct further studies of understanding management accounting and control systems from its social settings (Efferin & Hopper, 2007; Uddin, 2009; Hopper *et al*., 2009). This was expressed appealingly by Hopper *et al*. (2009): "a primary MAS (management accounting systems) research aim must be to foster understanding to facilitate local choice rather dictating systems from rich countries premised on possibly alien values, to improve material conditions and quality of life, especially for the most disadvantaged" (p.496).

Furthermore, additional researches of the modest management accounting and control practices, rather than complex management accounting systems, were called for, particularly in those countries that have weak regulatory structures or that lacking rule of law, as Hopper et al. (2009) put it "also in poor countries greater consideration might be

given to simple MASs for control rather than complex long run planning systems… (Because) LDCs (less developed countries) often have weak regulatory structures…" (p. 496-497).

In this regard, as one of the Sub-Sahara African countries, Somalia almost lacks any type of regulatory institutions as well as public services. As previously mentioned in the background of the study, the entire life of the Somali society is based on the traditional norms that have been established by the Somali clans, which in turn, structures the socio-political and economic life of the people.

Although traditional norms are common in many Sub-Sahara African countries, however, Somalia's traditional culture is considered very unique one, where traditional system is recognized by the constitution and practiced openly with the visible daily practices in all aspects of the people's life (Hesse, 2010a; Ismail, 2007). Moreover, what is more important is that, under such traditional environment, business sector has flourished and achieved better performance during the stateless period (1991-present), when *clanism* is the only regulatory system that existed in Somalia for the last two decades (Little, 2005; Nenova, 2004). Therefore, the main purpose of the study is to provide further knowledge about how business organizations control their business operations under the traditional clannish environment of Somalia, where traditional norms supersede all other systems.

1.5 Problem Statement

Traditional clannish system is the top fundamental factor that frames the socio-political and economic aspects in many of the SSA nations in general and Somali society in particular. Somali traditional clannish system is a unique one, in the sense that all social aspects of the society, including business transactions, are clan matters. Business organizations in the traditional clannish environment of Somalia should comply with the traditional clannish norms and customs (informal) which undercut any other regulatory system in the country.

The limited literature in the area of MCS of the traditional clannish environment reveal that management decisions regarding business establishment and formation, ownership structures, business governance, and MCS are the products of the traditional clannish norms. Similarly, the daily MCS routines such as staff hiring, firing, performance measurement (PM), reward and reporting are also strongly affected by the clannish settings.

The research of MCS patterns in the traditional clannish environment is an emerging matter which has received less attention from the academics. To understand MCS forms and patterns that are constructed with its social setting is an important issue that demands further research (Hopper *et al.*, 2009; Rahaman, 2010; Uddin, 2009). Thus, the main purpose of this study is to explore, interpret and inform the forms of MCS that is designed and being used by the business organizations that are operating in the traditional clannish contexts of Somalia.

1.6 Research Questions

Based on the preceding discussion about the nature of clannish systems and problem statement, the study tried to answer the following research questions:

1. What are the various forms of MCS (cultural, administrative and control process), employed by the management of the organizations that are operating in the traditional clannish context of Somalia, in order to achieve organizational objectives?

2. How are MCS design, process and use influenced by the traditional clannish context of Somalia?

3. Why do organizations use the form of MCS practices that they employ to control its organizational business operation?

1.7 Research Objectives

The study aims to understand, interpret and inform the forms of MCS that is designed and used by the organizations operating in the traditional clannish environment of Somalia. Therefore, the study attempted to explore the MCS practices of business organizations in Somalia's context, through the following specific objectives:

1. To explore, understand and provide empirical evidence on the various forms of MCS (cultural, administrative and control process) that are employed by the management of organizations that are operating in the traditional clannish context of Somalia.

2. To explore, understand and report the influence of traditional clannish culture on the process of MCS design, development and use in organizations that are operating in the traditional clannish context of Somalia.

3. To explore, understand and report why organizations employ the forms of MCS, that they design, develop and use to control organizational business operations.

4. To contribute to the body of knowledge that concerns on how and why an organization (in the traditional clannish societies) designs, processes and uses MCS.

In this regard, the study does not focus on specific MCS techniques, rather it aims to comprehensively explore, understand and report evidences about the broader MCS themes of the business organizations operating in the traditional clannish societies like Somalia. The reason for studying the broader MCS themes is the lack of sufficient knowledge about MCS in such a social settings.

1.8 Contribution and Significance of the study

In general, the study contributes to the growing MCS research and particularly to the emerging phenomenon of MCS in the traditional societies. The study contributes to the knowledge of MCS design, process and uses in the different social contexts and particularly to understand MCS in the traditional societies. It also responds to the calls for further researches in MCS phenomenon in the traditional societies (Hauriasi & Davey, 2009; Efferin & Hopper, 2007; Mellahi & Wood, 2003; Otley, 1999; Tsamenyi et al.,

2008; Wickramasinghe & Hopper, 2005; Uddin & Choudhury, 2008; Uddin, 2009). Moreover, the study adopts the existing MCS themes and patterns and incorporates with cultural control elements in an attempt to provide further explanations about MCS in the traditional clannish context of Somalia.

Methodologically, the study aims to enrich the current trend of qualitative case-based strategies which have been promoted by the recent studies (e.g., Eriksson & Kovalainen, 2008; Ryan et al., 2002; Tsamenyi et al., 2008; Uddin & Choudhury, 2008; Uddin, 2009). Similarly, using exploratory-explanatory approach may provide us better understanding about MCS in the traditional clannish context (Ryan et al., 2002; Scapens, 2004). The very few studies that have been carried out in the context of traditional societies mostly used an exploratory approach to identify what is going on. However, this study adopts both exploratory and explanatory techniques. By using exploratory-explanatory data analysis might enable us to explain how MCS is designed and used as well as why such specific mechanisms are used by the organizations working in the traditional clannish contexts.

In this regard, the significance of MCS research in a traditional clannish context stems from the following general motives: First, according to the theory of cultural dimensions of Hofstede (1984), management system and control approaches that are developed in a certain social context may not be universally transferable to the other contexts which is different from that of the origin, on the one hand; and on the other different traditional norms and values may demand different designs of MCS. Noting on

the importance of researching management control in its social context, Otley (1999) concluded that:

> *"This makes it clear that management accounting and other performance measurement practices need to be evaluated not just from an economic perspective, but from a social, behavioral and managerial perspective, within an overall organizational context. It is these social, cross-national and cultural aspects that make the study of control systems such a fascinating topic for academic research and such a challenge to the practitioner".*

Therefore, to study the forms of MCS in the traditional societies is an academic matter that encourages us to further our understanding about MCS's design and use of the different social contexts.

Second, since the emergence of MCS concept, the vast majority of the current literature (as we will see in the literature review part) extensively focuses on the design of MCS in the western economic settings. While, very limited attention has been provided to the MCS in the developing nations as well how MCS is designed and used in the traditional clannish societies. Thus, by exploring how and why business organizations design and use the MCS forms that they use in the traditional clannish societies may enhance our understanding to MCS in such a traditional clannish context.

Third, the results of the study are specifically significant to the academic society to understand the clannish control regimes in the traditional clannish contexts. To comprehend and recognize different social cultural factors and its role on MCS development is one of the vital issues emphasized by the literature (Bhaskaran & Sukumaran, 2007; Uddin, 2009). In addition, with the effect of globalization, it may be essential to learn more about business organizations in the traditional clannish societies

which may be useful to the multinational business organizations, for more interdependence among different countries.

Fourth, as stated earlier, Somali individuals preserve the highest loyalty to their clans (Hesse, 2010a; Lewis, 2004). Academically, this issue is a significant topic that may call for further study to understand in-depth how management and accounting control systems work under such a clannish environment. Similarly, through an in-depth research, intellectual understanding of the *clanism* phenomenon and its role in business industry may be furthered. Finally, the results of the study may be utilized as guidelines for future advancement of the management and accounting systems in Somalia.

1.9 Research Methods

Because of the nature of the research issue, qualitative case study has been employed. The reason for using qualitative case study was to explore the subjective meaning of the actions, practices, routines, and habits of the people in order to understand the phenomenon under study and interpret it (Saunders, Lewis & Thornhill, 2007). Thus, for this study, case study research was used to collect firsthand data and to explain the MCS patterns that are designed and used by business organizations in the traditional clannish context.

One telecommunication company was selected to participate in the research project. The reason for selecting telecommunication industry is that services business is the most booming industry in Somalia (Nenova & Harford, 2004). Similarly, telecommunication industry was reported as the leading industry during the last ten years

(International Alert, 2006; Leeson, 2007). In this regard, two criteria were used to select the case organization from the telecommunication industry. First, the employees and owners of the case organization should be from the different clans/sub-clans of Somalia. Second, the case organization should have operating branches in the different regions of the major Somali clans.

To collect data from the field, semi-structured interviews was conducted with the functional managers of the largest telecommunication company in Somalia, which principally have accepted to participate in the study. The participants of the study are the functional managers comprising the CEO, seven executive directors, two branch managers, the internal auditor and three divisional heads. These functional managers are responsible for all organization's activities. In addition, three customers of the company were interviewed. As external stakeholders, the customers' interviews were used to triangulate the data collected from the company's employees.

Besides interviews, observation and document reviews were also used. Observation and documentary data were employed for triangulation of the data and to enhance the validity of the interview data. Observation was conducted within the interval periods between interviewees (Swanborn, 2012). Similarly, during the interview, the relevant document was requested.

For data analysis, MCS themes, patterns, and practices were attempted to identify and then interpretive approach was used. The reason for using such data analysis was to analyze the meanings, concepts and words that participants attached to the themes and to make sense of the qualitative data (Punch, 1998).

1.10 The Conceptual Framework of the Study

To understand MCS patterns and forms in the traditional clannish societies, the study adopts the two approaches of institutional theory; Old Institutional Economics (OIE) and New Institutional Sociology (NIS). OIE is employed to enable us to understand the role of internal factors; daily routines, habits and the other informal practices that are used to achieve organizations objectives. On the other hand, NIS is used to provide an understanding about the external factors that may have an influence on MCS development such as the traditional clannish norms, the political situation in the country, and the economic situation that are beyond the control of the organization. These internal and external factors are demonstrated by a conceptual framework which is adopted for the purpose of this study.

The conceptual framework is constructed from the most comprehensive frameworks in the contemporary MCS research (i.e. Ferreira & Otley, 2005, 2009; Herath, 2007; Malmi & Brown, 2008; Merchant & Van der Stede, 2007; Otley, Berry & Broadbent, 1995; Simons, 1995; Otley, 1999). The main reason for adopting the conceptual framework is to expand the scope of MCS and to include some cultural, administrative and control process elements that have been neglected by the current MCS literature. As a result, with the integration of the strengths of the existing contemporary frameworks, the major functions of MCS are categorized into: cultural, administrative and control process. Under these MCS categories, control areas, elements and the explanations of the control components for the framework are provided. It is hoped that

the framework offer a bigger picture about control themes, both formal and informal, for both small and large organizations and in the different social contexts.

1.11 The Structure of the thesis

The study is structured according to the following chapters:

1.11.1 Chapter One: Introduction

Chapter one introduces the social structure of traditional societies. The chapter briefly highlights the role of traditional clannish societies on the socio-political and economic aspects of the respective society. Similarly, the chapter presents the importance to study the issue of MCS practices in the traditional societies, followed by the research questions, research objectives, significance and methods of the study and an overview of the study framework.

1.11.2 Chapter Two: A review of MCS literature

In this chapter, a general review of the literature, both traditional and contemporary perspectives, are discussed. In this chapter, the two categories of traditional MCS views; control environment and control process is provided. Similarly, the various contemporary control typologies are highlighted. Strengths and limitations of each perspective are also emphasized, indicating the need to review the current status of MCS and hence, the thirst for new dimensions is also raised. This chapter is aimed to clarify the existing gap and

the rationale for doing research in this issue, i.e. MCS in the traditional societies, as well as the significance of conducting research in this area.

1.11.3 Chapter Three: A theoretical framework for MCS

This chapter outlines the underpinning theories and the theoretical framework that are intended to guide the study. The chapter discusses the control components of; cultural, administrative and control process, followed by the conclusion of the chapter.

1.11.4 Chapter Four: Theory and the Methodology of the Study

Chapter four outlines the philosophical positions, paradigms and research methods that are used for this study. The chapter also highlights the different paradigms in management accounting and control and clarifies the reasons for choosing interpretive research perspective. Additionally, the chapter argues how a qualitative research method is appropriate for researching MCS practices embedded in its social contexts. Finally, with the indication of the data analysis methods, the chapter is concluded.

1.11.5 Chapter Five: the Case Study Findings

Chapter Five offers the background of the case organization and provides the results of the study that have been obtained from the participants' interview. Similarly, the chapter presents the main themes that are developed by the case organization in its socio-cultural context.

1.11.6 Chapter Six: Discussion and Conclusion of the study

This chapter addresses the MCS themes that have been identified in the findings and presents according to the framework of the study. Similarly, the chapter explains the role of institutional factors on shaping MCS forms in the traditional clannish society of Somalia. Finally, this chapter concludes the study.

Table 1.1
Definitions of Terms

Term	Its meaning in this study
Business partners	Business partners are usually used for the main investors of the Northern and Eastern regions. They founded the company in their respective regions but they are originally not the founders of the company. The main partners usually enjoy, by agreement, the same privileges of "*foundership*" but in their respective regions.
Contemporary MCS view	It is an MCS view that believes an organizational system cannot be understood without the social and behavioral aspects; social norms and values, of that organization. These social and behavioral factors structure the design and use of organizational MCS.
Control framework, Control typology	It is a theoretical structure of the institutional mechanisms and measurements that an organizational employs for managing its organizational business operations
Developing countries/nations,	According to the United Nations Index, it is a country with a lower income, little industry, high dependence on foreign aid and a major borrower of the World Bank (UNCTAD, 2011).
Investors/ shareholders	In the study investors and shareholders are used interchangeably. They are those contributed to the company's capital after establishment
Management control systems (MCS)	MCS means to any practices and processes, formal and informal, that a particular organization uses to influence employees behavior so that it aligns with the organization's objectives. It includes all formal control techniques and informal process that an organization formally and informally uses to achieve its ultimate objectives.
Owners/ founders	Owners and founders are interchangeably used in the study. However, owners may be any business investor who was invited for clan power sharing purposes. Thus, by agreement an owner can enjoy "foundership" privileges.
Related employees	Related employees are those have blood connections with either of the CEO, the GM or any of the main founders.

Table 2.1 *(continued)*

Steering committee	This is the executive committee represented by the CEO and the Seven Directors of the Seven Departments as well as the Three Branch Managers.
Traditional MCS view	It is an MCS view that assumes that economic activities of organizations are carried out in isolation from its external social influence with less concern about the social and behavioral aspects of the organization's operations (Whitley, 1999).
Traditional society, Clannish society, clannish system, clanism, clannish culture/ environment	A type of community (or its traditional practices) that is mostly found in LDC, where the social connections are primarily defined by biological/ancestral associations or ethnic networks that shapes the socio-political and economic affairs of that society.
Traditional values and norms	Are the unwritten traditional procedures and practices that is adopted by certain societies as a tool for the governance and control of its members

CHAPTER TWO

MANAGEMENT CONTROL SYSTEMS (MCS): A REVIEW OF LITERATURE

2.1 Introduction

In this section, a general survey of management control systems (MCS) literature is conducted. The aim of the section is threefold. First, MCS evolution of control concept, definitions and dimensions of MCS are explored. Second, control environment and control process of operating activities are reviewed. Third, comments on the traditional view of MCS and its limitations are highlighted. Fourth, the emergence of contemporary MCS view, control typologies and frameworks are outlined followed by the major limitations of these contemporary typologies. The gap in the literature and the need for a new perspectives and dimensions are raised at the end of the chapter. Finally, the chapter is summarized.

2.2 Evolution of Management Control Systems

Since the control function is the foundation stone of the management controls concepts (Anthony, 1988), this section reviews the emergence of control concepts.

2.2.1 The emergence of "Control" Concept

In management literature, many definitions have been employed for the "control concept" which conveys different meanings to different people. However, in every organization, there is a type of "control" that matches to the organization's needs and environment.

Despite the fact that the “control” concept is as old as the management idea, still there is no one agreed upon definition.

According to the review of Giglioni & Bedeian (1974), the concept of “control” was synonymous to financial control in the early ages, where it was regarded merely as the main function of the accountant or controller to provide financial information for better decision making. Nevertheless, they confirmed that control was the “central idea” of the scientific management in the early times of the last century. Giglioni & Bedeian (1974) also asserted, in their review, that they identified the evolution of the “control concept” in the early works of Taylor, Emerson and Church who formulated the first principles of control theory in the first decade of the twentieth century. In this previous literature, control was used for creating conditions that motivate employees to attain the preset results of the organization (Carenys, 2010), and also as a tool for staff motivation, which is one of the main functions that the modern MCS has to provide (Anthony, 1988).

In those early stages, there was no clear demarcation line between the meanings of accounting and management accounting and control as these terms had been used synonymously. For instance, since accounting provides the financial information that is necessary for decision making in the organization, it has also been considered decision-making tool which was the function of management accounting (Otley, 1999). Similarly, management accounting has the attributes to provide information that is necessary for the evaluation of the organization’s achievement and such evaluation function constitutes the basis for “control function” (Carenys, 2010). In this regard, the functions of control,

management accounting and management controls might be integrated in the early time of control emergence.

Through the time, the "control" concept has been employed for different meaning and scope in the different organizations (Anthony, 1965; Giglioni & Bedeian, 1974; Herath, 2006; Carenys, 2010). In his classic works, Anthony (1965) defined the function of control as:

> *"…the process of guiding a set of variables to attain a preconceived goal or objective. It is a broad concept applicable to people, things, situations and organizations. In organizations, it includes various planning and controlling processes" (p. 17).*

Similarly, Merchant (1985) highlighted that control is:

> *"…the functions of management that involves influencing human behavior, because it is people who make things happen in an organization" (p. 4).*

These descriptions about "control functions" demonstrate that the scope of control has evolved into more social based system which interacts with the human behavior. Such integration with the social aspects of organizations' practices, has led to the heterogeneity of the control forms among organizations, which in turn created the lack of common definition for control functions in the literature. The control systems design and practices depend much on the contingent factors of the respective organization.

With the fact that control is a tool used by any organization to ensure that its people, within the organization, are doing what the organization desires to be done and in the way it wants to be done (Anthony, 1988), the function of "control" is a

comprehensive idea that encompasses all aspects of the organization's operation and implies that if control exists, plan and feedback system should also exist. Herath (2007) pointed out that as the function of "control" is the final task of management, it is "the function of keeping things in track", and an informational feedback that results in the implementation of corrective actions in the organization. It may create the linkage among the other functions of organizations such as planning, organizing, directing and staffing.

Depending on the contingent variables in any organization, different researchers describe the "control concept" in different ways. However, since the other management process cannot work efficiently unless an effective control system exists (Hoque, 2003), the function of "control" is the task that completes the management process, such as strategic planning, performance measurement, motivation and incentives management and communication (Anthony, 1988). It works as a tool of "keeping things in track" (Herath, 2007), and on the other hand, "management control" is the systematic way of managing "control" systems in the organization.

The concept of "management control" is considered one of the emerging issues, where its definitions, dimensions and scope has yet to be settled academically (Berry *et al*., 2009; Chenhall, 2003). However, before the emergence of management control idea, the concept of "control" preceded and has been built in the earlier literature (Anthony, 1965; 1988; Eilon, 1979; Giglioni & Bedeian, 1974; Koontz, 1958). These earlier works about "control concept" may have paved the way for the present "management control systems" which was developed in the midst of the twentieth century. Therefore, as MCS is broader and covers different functions of management systems, including the

approaches of control, the function of "control" is considered, in this study, as an essential part of MCS that is indispensable for the success of MCS environment and process, which will be discussed in the next sections.

2.2.1 The definition and Development of MCS

In the literature, the terms management accounting (MA), management accounting systems (MAS), management control systems (MCS), and organizational control are used interchangeably by the scholars (Chenhall, 2003; Hoque, 2003; Otley, Berry & Broadbent, 1995). However, Chenhall (2003) notes that MA refers to the practices of certain techniques such as budgeting and product costing, and MAS refers to the systematic use of MA techniques to achieve organizational goals, while MCS is a broader concept that uses MAS techniques and encompasses other control systems such as organizational control, personnel control and clan control. As it includes MA, MAS and other control systems, MCS is used for this study to refer to all the above mentioned control systems and processes of organization's short term and long term operations.

The definition of management control has developed over the last decades, from focusing on the accounting-based financial information, to becoming a tool that assists managerial decision making, and finally to a much broader and comprehensive system that concerns both internal and external information that is useful in performing organizational tasks (Otley, 1999; Chenhall, 2003; Anthony & Govindarajan, 2003; 2007). With the fact that "management control" was and still is in its infancy, Anthony's (1965) definition, which is criticized as being too restrictive, was the starting point of a

chain of scholars' research and explorations to further the understanding of MCS in the different social contexts. In the following table, different definitions that are proposed by popular scholars are demonstrated with the indication of the common elements:

Table 2.1
Definitions of MCS

Author(s)	Definition of management control
Anthony (1965)	"..the process of assuring that resources are obtained and used effectively and efficiently in the accomplishment of organization's objectives"
Lowe (1971)	"…a system of organizational information seeking and gathering, accountability, and feedback designed to ensure that the enterprise adapts to changes in the substantive environment and that the work behavior of its employees is measured by reference to a set of operational sub-goals (which conform to overall objectives) so that the discrepancy between the two can be reconciled and corrected for."
Otley and Berry (1980)	"…the process of ensuring that the organization is adapted to its environment and is pursuing courses of action that enable it to achieve its purposes."
Anthony (1988, 2001)	"The processes by which managers influence other members of the organization to implement the organization strategies"
Simons (1994)	''the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities"
Emmanuel *et al*. (1995)	"…processes by which organizations govern their activities so that they continue to achieve the objectives they set for themselves."
Anthony & Govindarajan (2007)	"The process by which managers at all levels ensure that the people they supervise implement their intended strategies".

Even though there is some differences in the abovementioned definitions, but the following issues and concepts are the common elements that these definitions share:

1. Information collection, processing and reporting tool.
2. Strategic process and implementation, planning and achieving organizational goals and strategies.
3. Influencing the behavior of organizational members.
4. Systematic and effective use of organizational resources, and

5. Interacting with the external environment.

Referring to these definitions given by the different scholars, MCS is the general management functions (strategic and operation, financial and nonfinancial, short term and long term) to achieve the ultimate goals of the organization. It involves both in control of strategy and operation and that it involve steering the organization towards the achievement of its ultimate goals.

For this study, MCS is taken to mean to any practices and processes, formal and informal, that a particular organization uses to influence employees behavior so that it aligns with the organization's objectives. It includes all formal control techniques (budgeting/planning, performance measurement, compensation and incentives management) and informal process (informal behavior related to recruitment, firing, rewarding, training, information sharing, etc), that an organization formally and informally uses to achieve its ultimate objectives.

2.3 The Evolution of Traditional Perspectives of MCS

2.3.1 Introduction

Quite a significant literature has been devoted to the management control approaches, concepts and systems in the last several decades. With the different results of the literature caused by the contingent variables of organizational context, a number of interrelated components of management controls are explored; control concept, strategies and strategic planning, corporate governance, performance measurement and

management, directing, motivation and incentives management. These instruments of management control are interconnected, where if any one of its parts malfunction, the other parts will certainly be impacted (Rotch, 1993). In addition, these techniques are considered almost as tools for formal control mechanism, which deals more with the material aspects of the organizations (Harrison & McKinnon, 1999), while informal control practices (e.g. traditional and cultural norms) are neglected.

Despite the fact that the concept of management control has evolved early in the last century, Anthony's work of 1960s laid down the central structure of management controls, while all other subsequent studies (e.g. Merchant, 1998; Otley, 1999; Otley & Ferreira, 2005; Simons, 1995) are either a critique of or an attempt to improve the framework of Anthony and those that he co-authored with his colleagues. Anthony's works and the works with his colleagues classified three main tasks of any organizations; strategy formulation, management control and tasks control. Strategy formulation is the function of setting goals, strategies, and policies of the organization, while strategic formulation is the process to decide the overall goals of an organization and how to accomplish these goals in the future. The tasks control is used to ensure that specified tasks are carried out effectively and efficiently. The focus of strategy formulation is on the setting of ultimate goals, whereas the tasks control focuses much on the control of specific units. In this regard, the considerable issue is that whereas strategic formulation and planning focuses much on only the design of the future activities and projects of the organization, tasks control also is confined on the routine parts of the organization. And that is why Anthony's works focused much on the management controls and avoided to deeply study operational aspect of the organizations. Both of these tasks (strategy

formulation and tasks control) deal with the material aspects of the organization though management controls is broader, and besides the material aspects of the organizational activities, it deals also with the human being within the organization. In other words, management control represents the linking point of the two, where it is concerned in the entire operational activities based on the strategic plan of the organization. Mostly, management control involves into the following activities (see for example Anthony & Govindarajan, 2007, and Merchant, 1998, for details): planning, coordinating, communicating, feedback/feed-forward, decisions and influencing people to achieve organizational objectives.

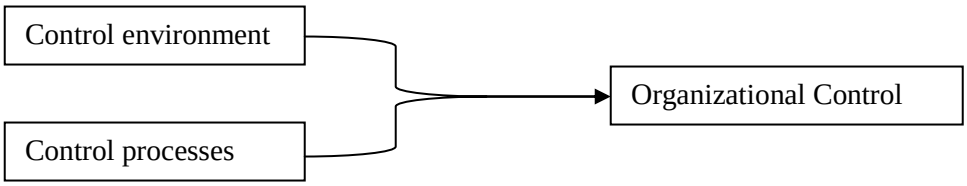

Figure 2.1

Traditional MCS View Main Focus

Therefore, according to the above activities, management control encompasses all aspects of organization's operational activities as well as strategic planning, on the one hand; and on the other, it incorporates into the other different activities of the organization such as communication, human resources and performance management.

In the traditional view of management control literature there are two main control areas; control environment (external factors, organizational structure, rules/policies and culture) and control processes (planning, budgeting, performance measurement, motivation management and information communication). These two main

control regimes are depicted in the Figure 2.1 and demonstrate the orthodox control mechanisms that dominated in the traditional view MCS to explain organizational control, which was perceived to lead to a better performance. These two control areas are reviewed in the next sections.

2.3.2 Management Control Environment

According to contingency theory, there is no agreed upon or a standard way of instituting organizational structure but such issue is dependent on the contingent factors that makes a structure of one organization to be different from the others. Additionally, as a result of organization's circumstances the organizational control approaches may vary from one organization to another. Particularly, the reality of contingent variables on contextual factors may necessitate different forms of organizational structures in the different environments (Otley, 1999), which in turn, produces different types of design in MCS.

2.3.2.1 Organizational Structure as a Control Environment

Organizational structure defines the flow of tasks and responsibilities that provide the linkage among the group members in the different departments (Cook, Hunsaker & Coffey, 1997). Thus, organizational structure may be imposed for two reasons (a) to facilitate work flows (physical flow of material and information), and (b) to focus attention (to properly manage people's time and energy) (Simons, 2000). This flow of work is meant to ensure the smooth flow of information communication and decision making conditions among the different levels of management.

The main purposes of structuring organization's activities are to control the attention of the people in the organization, to influence their ways of thinking and control the efficiency of their decision making process (Simons, 2000). Through such structure, individuals' tasks, accountabilities and performance may be determined and depicted clearly. According to Anthony (1989), an organization may be structured according to a functional structure, a divisional structure or a matrix structure. Functional structure refers to a system that each manager is responsible for specific functions in the organization, such as production or marketing, while divisional structure means that every divisional manager is responsible for all the functions of particular business division, such as planning and control, production, distribution and marketing of specific business division or unit. Matrix structure is almost adopting the advantages of both structures.

During the design of MCS, these diverse structures should be considered as each of these structures need a suitable control system for their particular settings. For instance, the design of MCS in the functional structure assumes that a manager of one functional unit will have better knowledge about his/her particular department, where the advantage is that skilled managers may have better information about their specific areas of responsibility, which in turn, will enable them to take better decisions about their respective tasks such as planning, marketing or production. However, the disadvantage of functional structure is that different levels of each functional unit may create the ambiguity of effectiveness in the different managerial hierarchies (Cook *et al*., 1997). Similarly, as different centers have heterogeneous duties to carry out, it is difficult to

compare their results and measure the efficiency of each functional manager, which also complicates the rewarding systems of the organization (Anthony & Govindarajan, 2007).

In contrast, to avoid the drawbacks of functional structure, organizations may adopt divisional structure instead of functional structure. The design of MCS in divisional structure is that every division manager will exercise broad authority that involves all key business functions of the division, such as planning, coordinating, and controlling unit activities. In this form, each manager is held responsible for the performance of his/her business unit. During MCS design for the organization, it is necessary to consider the form that fits the organization considering both internal and external factors which may affect the efficiency of MCS in the organization. Such consideration depends on the factors that may influence the design of MCS such as individuals' norms, values and organizational culture. For instance, MCS design will be different if the organization is internally-oriented, where its concern of the external world is limited. In contrast, externally-oriented organizations consider that continuous relationship between the organization and the environment is an important factor, where the organization has to interact with the surrounding environments (Anthony *et al*., 1989). The design of MCS requires that to be externally-oriented, an organization should be more interactive with the external environment. Similarly, the view of the top management may also shape the control systems environment.

2.3.2.2 The Human Factor in Control Environment

One of the primary matters that contribute to the organizational structure development includes the role of individuals within the organization. In his early works of accounting and human behavior, Hopwood (1976) stated that:

> *"…human and social factors are clearly amongst the most important aspects of the design and operation of any accounting system"* (p. 1).

In his discussion, Hopwood (1976) offered that accounting is much affected by the influence of individuals' needs and attitudes which is also affected by the socio-economic environment of the organization. An organization is made of group of people, who have one main goal to achieve, and with an organizational structure that describes the roles, responsibilities and rights of each member of that group (Anthony & Govindarajan, 2007; Cook *et al*., 1997). The mission set by top management, which is also the mission of the organization draws the direction of the organization, its main goals and its multiple stakeholders (Cook, *et al*,. 1997). These elements of people, goals and structure construct the hierarchical system of the organization and its different units. Through that system, members of the group know their roles in the hierarchy and act upon it to achieve their assigned roles. The organizational structure is constructed from the top CEO, who decides the overall strategies of the organization, to the lowest employees in the different functions. Similarly, policies and strategies establish the foundation for accountability and serves as a control tool for achieving organization's main goals (Hoque, 2003).

In line with the human needs theory of Maslow (1987), individuals struggle to attain their self-interest to satisfy their personal needs and wants. Such needs and wants

(be they intrinsic or extrinsic) are structured from basic physical needs of food and shelter to the psychological needs of prestige and status. Hence, since employees and managers of an organization have all these needs and wants, MCS should be designed in agreement with the fulfillment of employees' needs and wants. Cook *et al*. (1997) note that realizing the interests of both individuals and organization create goals congruence, which in turn, creates a shared beliefs, norms, language and assumptions that everyone is heading towards the same direction.

One of the primary principles of economic theories is that individuals acts in their self-interest to maximize their utility (Zimmerman, 2009). According to this principle, individuals behave rationally as they strive to realize their various needs. To match these personal interests with the organization's goals; internal procedures are necessary to establish an organizational control environment (Anthony, 1988). Such internal procedures are demonstrated as; rules, procedures and guidelines that matches the varying interests in the organization. Kaplan and Atkinson (1989) noted that, to control and safeguard the interests of shareholders, policies manuals, procedures and operational standards, codes of ethics, customs and values, and job descriptions should be put in place as building blocks for management control environment. In other words, the preset standards protect organization's interests and also represent a parameter of individual performance measurement and rewarding structure of the organizations. Without standards of operation and rules, it may be difficult to achieve the aim of goal congruence between individuals and the organization interests.

2.3.2.3 Socio-Cultural Factors and Control Environment

One of the recent issues, which have attracted the attention of many empirical researches, is the organizational culture and how culture affects the design of its MCS (e.g. Efferin & Hopper, 2007; Harrison & McKinnon, 1999; Wickramasinghe & Hopper, 2005). Herath (2007) proposed a new conceptualized framework, in which she suggests four components for effective MCS. One of the components that shape the form of management control is the values, norms and culture of the organization. According to Herath (2007), principles, social beliefs and norms of the organizational participants will incorporate with the establishment of control systems development and how it works in a certain organization. These social and cultural factors may play a vital role in the design and implementation of the control systems in the respective organization. Similarly, the study of Efferin & Hopper (2007) confirmed the role of cultural values and norms on budget participation, management style, control systems and incentives management. This is supported also by the study of Tsamenyi *et al*. (2008) which will be discussed in the section of traditional societies and control systems.

2.3.3 Management Control Processes

In this section, the main control process of MCS is reviewed. This part of management control process highlights the formal, accounting-based control approaches that includes; strategies and strategic planning, budgeting, performance measurement, and compensation management (Anthony & Govindarajan, 2007), while in the subsequent section, the shortcomings of the traditional MCS literature is briefly discussed.

2.3.3.1 Strategy and Strategic Planning

As said earlier, the management control concept was conceptually initiated by Anthony (1965) who developed the preliminary definition and boundaries of management controls, strategic planning and operational controls. In Anthony's early framework in 1960s, organizations have to define its ability to manage and compete in the ever changing environments. Having strategy is the cornerstone of the organization's competitiveness and sustainability, because strategic plans direct actions of the organization's members to its goals and objectives and provides guidelines about how to prevent the possible threats and maximize potential opportunities (Macintosh, 1994). Organization's vision, mission, objectives and policies are some, not all, of the strategies that organizations design, and commonly the relationships between these strategies and operational aspects are carefully thought (Anthony & Govindarajan, 2007; Atkinson, Banker, Kaplan & Young, 1997; Hoque, 2003; Macintosh, 1994).

Even though, the term "strategy" was originally developed for military purposes (Anthony, 1965), but now it is widely used for both business and public institutions alike, as this tool "strategy" entails the direction of the organization and its ultimate goals in a predictable and measurable manner (Atkinson *et al.,* 1997; Macintosh, 1994). Anthony & Govindarajan, (2007) classifies two issues related to strategies; strategy formulation and strategic planning. Strategy formulation is the process of deciding on new strategies, while strategic planning is the process of deciding how to implement the strategies. The strategy refers to the process of analyzing whether the organization's capabilities are fit to the rapidly changing environment to determine its position within the competitive

marketplace (Cook *et al*., 1997), while strategic planning is the "process of deciding on the goals of the organization and strategies for attaining these goals" (Anthony, 1988).

Several concepts and patterns of strategies that are identified and recognized by researchers include; the concepts of strategy process, strategy as a competitive position, strategy at the business level and strategy at the corporate level (Herath, 2007; Chenhall & Langfield-Smith, 1998; Langfield-Smith, 2007; Slagmulder, 1997). Similarly, these patterns of strategies factorize the way an organization competes with its counterparts in a specific period of time, and how an organization effectively allocates its scarce resources to establish its competitive advantages in the market (Simons, 1990; Anthony & Govindarajan, 2001). Additionally, the main concern of any strategy is to direct the organization to its ultimate goals and to ensure that employees are doing what have been assigned to them and in the way it is required.

Strategies indicate the opportunities and threats in the environment and also serve as a guide to the employees of organization to achieve the planned target. Despite the fact that strategy formulation and strategic planning may be used interchangeably, Anthony & Govindarajan, (2004), however, view the former as the process of deciding on the new strategies, while the latter concerns how to implement strategies. Many different techniques may be used to formulate the strategy, such as analysis of current opportunities, threats, strengths and weaknesses of the organization (Herath, 2007). Additionally, economic climate and the political atmosphere may be important issues for better prediction of the organizational future performance that, in turn, leads to a realistic strategy.

Even though strategic planning is the means through which an organization will achieve its goals, however, its formulation and implementation is different from one organization to another (Anthony, 1988; Macintosh, 1994). The reasons for having different strategies are attributed to the contingent variables of the different environment such as nature of strategy, the human skills and knowledge possessed by the organization, technology and the difficulties of communicating the importance of the strategy to all levels of management and the recognition of strategy as on ongoing process (Anthony & Govindarajan, 2007; Langfield-Smith, 2007).

Empirically, studies that have attempted to understand how the contingent variables may affect organizational strategies and MCS, revealed mixed results (e.g. Bonn & Christodoulou, 1996; Chenhall & Langfield-Smith, 1998; Govindarajan, 1988; Micheli, Mura & Agliati, 2011; Riccaboni & Leone, 2009; Simons, 1987, 1990). By adopting contingency theory in the field of strategic planning, most of the studies analyzed how strategic planning is constructed, designed and implemented by the organizations. Even though these studies have mostly been conducted in the developed economies, it have concentrated on how strategies and strategic planning are formulated and implemented and also have drawn the various MCS practices in the different cultures and environments of the world. Bonn and Christodoulou (1996) studied whether Australian organizations use strategic planning formally and how they implement it. The study that employed 10 years longitudinal data collection between 1983 and 1993 reported that 72% of the organizations had formal strategic planning. In the same way, Riccaboni and Leone (2009) conducted an exploratory study to find out how MCS played a role in implementing sustainable and successful strategies in an international

organization. Similarly, they reported that both formal and informal controls are practiced by the case organization researched. In the case organization, coordination across business units and decentralized structures were the key-factors for the successful strategy that is being implemented by the organization.

Micheli *et al*. (2011) examined the link between strategic control/implementation, performance measurement and strategic alignment of one parent company and its affiliated companies. The company was attempting to align strategies between the parent and the affiliated companies. In this study, they found that introduction of systems and governance mechanisms (tools for MCS) enabled the implementation of strategic planning across the group companies. However, in contrast, they noted that due to the lack of comprehensive performance measurement systems, it has affected negatively the formulation and implementation of strategic planning. This is in line with the other evidences of Kober, Ng, and Paul (2007), who reported that interactive use of MCS mechanisms, certainly help to facilitate the development of realistic strategy, and that MCS mechanisms change to match that strategy.

Other notable studies that examine the linkage between MCS and strategy include that examine the impact of strategic planning on investment decisions (Carr, Kolehmainen & Mitchell, 2010; Slagmulder, 1997). Using grounded theory, Slagmulder (1997) examined how MCS are designed to help align strategic investment decisions in the organizations. They identified that MCS has a primary role on achieving strategic alignment between organization's investment streams and its strategy. Similarly, the findings of Carr *et al*. (2010) identified considerable difference related to the emphasis on

strategic vs. financial considerations, its thoroughness and rigidity and the attitudes towards incorporating less quantifiable factors. Other studies that researched MCS and strategy management included that of Otley (1999), and Ferreira & Otley (2005), who examined organization's strategy and objectives, performance measurement and incentives, information flows, organizational culture and other external environment factors. These two studies provided some insights about how integrated strategic planning and control system can effectively be implemented and to understand the complex nature of MCS impact on strategic planning and implementation.

In the developing countries, very few empirical studies were found in different locations of the emerging economies and the results indicated diverse findings (e.g. Al-Shammari & Hussein, 2008; Elbanna, 2007; Elbanna, 2008; Elbanna, 2010; Hussain, 2004). The results of these studies indicate that strategic planning is underutilized by both public and private organizations in the researched countries. In addition, the results of these abovementioned studies show that there is lack of awareness of the importance of the strategic planning, which in turn, caused the underutilization of strategic planning in the majority of the developing countries.

Similarly, according to the findings of these abovementioned studies, one of the main challenges that thwart the implementation of strategic planning, in the developing countries, are the resources to prepare realistic strategy and also its effective communication. Setting strategies is not without its costs. As the strategy involves the future of the organization, it may require a massive amount of human efforts and may consume financial costs (Elbanna, 2010). Special teams may be assigned to analyze the

current status of the organization and carry out the duty of strategy formulation. With the advancement in computers and technologies, strategy formulation and strategic planning processes have become easier, but still it requires a lot of economic and human involvement (Micheli *et al*., 2011). However, generally in the developing countries, the role of strategic planning on MCS is under-researched.

2.3.3.2 Budgeting and Budgets

The term "budgeting" is used generally for various management functions but its broad meaning may refer to the task of forecasting the future financial performance of an organization, which is useful for evaluating the financial capability of that organization and to achieve its strategies (Davila & Foster, 2007). Traditionally, budgeting is defined as a common accounting tool that organizations use for implementing strategies (Horngren *et al.*, 2005). It is an integral part of MCS which operates for the purpose of coordinating and communicating the financial information to different units of an organization, and also provides a foundation for judging organization's performance and motivating managers and other employees (Horngren *et al*., 2005). Anthony and Govindarajan (2001) highlighted the importance of budgets and expresses that it is a short-term planning which is indispensible for the organization to plan its operational revenues and expenses. Similarly, budgets play an important role in making goals, facilitating coordination and controls, support accountability and help the organization with the external contracting parties (Davila, Foster & Li, 2009). Discussing budgeting practices and its importance, King *et al*. (2010) noted that:

> *"Budgets are considered an MCS because they can influence the behaviors and decisions of employees by translating a business's objectives into plans for action, communicating the objectives, and providing a benchmark against which to assess performance" (p. 41).*

Budgeting is one of the traditional tools that play a key role in MCS of an organization, which serves primarily as an instrument of performance measurement (Libby & Lindsay, 2010). Recently, some scholars considered traditional budgeting system as an outdated and inappropriate for the changing environments of the modern world (Frow *et al*., 2010), while others (e.g. Anthony & Govindarajan, 2001; Libby & Lindsay, 2010) also argue that budgets and budgeting are primary tools for organizational performance management. However, the role of traditional budgets is still useful and widely used by many organizations. Additionally, budgets serve as a resource allocation plan, a performance target setting and as a helpful assessment tool (Frow *et al*., 2010).

As a management function, budgeting requires the involvement of the different levels of organization's staff. Since it is a type of planning for the future operational and investment activities of the organization, the success of any future plan, including financial plans, depends on the amount of information communicated to the persons who are expected to achieve the plan and the extent of their understanding of their responsibility about the plan (Koontz, 1958). Koontz explains that:

> *"The best planning occurs when everyone responsible for it has access to complete information affecting his (her) area of planning. It is difficult to expect a manager at any level to do an effective job of planning unless he (she) has available to him (her) an understanding of enterprise objectives and policies affecting his area of planning authority, and plans of other which affect his plans and other kinds of information" (p. 46).*

Budgeting is a critical issue for organizations, particularly in the era of globalization. Fruitticher, Stroud, Laster and Yakhou, (2005) indicated that budgets are used for different rationales, purposes and in different degrees across the different nations as well as the various industries in one nation. Despite these considerations, budgets are mainly used for the purpose of planning and control, as budgetary control is an essential factor for the success of organizations (Libby & Lindsay, 2010).

Even though traditional budgeting is widely used as a method of financial performance measurement of organizations, however, it is criticized for its limited role to assess the nonfinancial aspects of the organizations (Hansen, 2011; Østergren & Stensaker, 2011). The other major drawbacks and limitations of budgets include the time consuming of budget preparation (Hansen, 2011), its need for human and financial involvements, and the inflexibility required by budgeting and budgetary control (Frow *et al*., 2010). Similarly, some researchers argue that presently the traditional budgets become irrelevant as it causes the dysfunction of the organization and its rigidity to the innovations and change (Libby & Lindsay, 2010; Østergren & Stensaker, 2011). In addition, budgets focus much on the past as well as it is limited to the financial measurements of the organization (Merchant & Otley, 2007).

Despite budgets are severely criticized, with the emergence and use of the new performance measurement techniques such as balanced scorecard (BSC) and economic valued added (EVA), the limitation of budget may be reduced and that organizations control can be enhanced. Otley (1999) suggested that with the current problems of

budgets, other measurement mechanism such as BSC and EVA can be used as a complementary tool to overcome the deficiencies of budgets.

With the fact that traditional budgets have the aforesaid drawbacks and limitations, the role of budgets in the organization cannot be denied. Otley (1999) noted that budget is still a very relevant control tool which is indispensable for the financial control of any organization. Budgets still play a vital role for organizations and, to the present, there are not much practical alternatives in order to eliminate the currently used traditional budgeting systems. It is one of the primary tools used for the performance measurement and employee motivation (Armesh, Salarzehi & Kord, 2010). As Armesh *et al*. (2010) view, the role of budgets has shifted from merely focusing on the traditional financial-oriented to a mechanism of governance and a strong tool for creating organizational values. Hence, without budgets, performance measurement (specifically financial measures) may not have any meaning. Therefore, budgets still seem to be a prerequisite to the efficiency of performance measurement.

2.3.3.3 Performance Measurement

Performance measurement (PM) is that process of quantifying organizations actions and its relations to the organization's performance (Neely, Gregory & Platts, 1995). In other words, PM is an essential part of the organization planning and control system by which strategic and operational activities can be balanced. Before the emergence of the balanced scorecard, which was developed by Kaplan & Norton in 1990s, traditional financial measures were the prevalent techniques. For instance, accounting-based measures mainly

focused on the measures of; return on investment (ROI), residual income (RI), net earnings or profits, earnings per share (EPS), revenue growth, and economic value-added (EVA) (Hoque, 2003). These measurement techniques are used to assess the financial performance of an organization. Despite the importance of the accounting-based financial performance measures, however, as Hoque (2003) asserts, PM techniques may be inadequate to cope with the rapid advancing technologies, fierce competitive environment and the increased customer needs and awareness. Measuring only the financial performance of the organization may also cause problems and provide misleading information to the managers (Otley, 1999).

As a result of the shortcomings in the financial performance measures, non-financial performance measures have been developed. Kaplan and Norton (1996) developed the widely used balanced scorecard (BSC) concept that is designed to provide broader information about the major perspectives of the organizational operations. The BSC is an inclusive measurement system that considers the measures' nature (financial and non-financial), their scope (internal and external), and both strategic and operational aspects of the organization, to provide comprehensive information to the management for better decision making (Kaplan & Norton, 1996; Hoque, 2003). The main philosophy of the BSC is that both financial and nonfinancial measures should be considered and reported. Atkinson, Kaplan and Young (2004) suggest that financial measures should not be fully abolished, as it facilitates the financial control task and performance, but nonfinancial measures can give more information about the future sustainability of an organization than financial measures.

There are several academic works about performance measurement that have been developed in the last three decades to improve the MCS. These works include the balanced scorecard (BSC) of Kaplan and Norton, (1992), Simons' (1995) levers of control, and the MCS framework of Ferreira and Otley (2009). As mentioned earlier, balanced Scorecard emerged in the early 1990s when Kaplan and Norton published their first article about BSC as a comprehensive performance measurement system. They argued BSC is the most balanced framework that encompasses all aspects of an organization's short term and long term, operational and strategic, and financial and nonfinancial activities. Similarly, in their second article of 1993, Kaplan and Norton (1993) introduced the connection of the BSC to the strategy of the organization. In another study, Kaplan and Norton (1996) emphasized the importance of cause-and-effect relationship between the different measures of BSC. They noted that BSC should comprise the performance drivers and outcome measures. Generally, in all studies of Kaplan and Norton, the framework of BSC encompasses four main areas of any organization; financial perspective, customer perspective, internal business process perspective and learning and growth perspective.

The most integrative performance measurement systems may be the balanced scorecard (BSC) model of Kaplan and Norton in 1990, but recently the ability of BSC model to explain the informal aspects of the organizational operations, specifically that relates to the human behavior, was questioned (Berry *et al*., 2009; Ferreira & Otley, 2009). BSC model focuses much on the financial measures and ignores regular changes of the organizations' environments and needs (Chenhall, 2005). Furthermore, it has limitations to be used for incentive plans and rewarding systems (Berry *et al*., 2009) as

well as its subjectivity in measuring intrinsic rewards of the employees. In the current literature of performance measurement systems (PMS), there is a lack of attention about how informal control aspects of organization's activities are measured.

2.3.3.4 Incentives and Compensation Management

Employees motivation, which is the things employee values and what drives them to act in a certain way (Atkinson, Banker, Kaplan & Young, 1997; Merchant & Otley, 2007), is the primary objectives of MCS where it strives to motivate employees to pursue organization's goals aligned with the individuals' interest, and to prepare an environment that individuals in the organization, are motivated to act in the organization's best interest (Anthony & Govindarajan, 2007). The major function of motivation is to build goal congruence between the organizations objectives and the individuals' interests (Anthony & Govindarajan, 2007). It is the central concern of any organization to ensure that employee' decisions and actions are aligned with the interests of the organization (Merchant, 1989). In other words, it is to tie individuals' interests together with that of the organizations, to predict the outcomes that an organization values.

In the literature of management accounting (MA), great emphasis have been put on individuals' performance and its relationship with their motivation (Atkinson, Kaplan, Matsumura & Young, 2007; Anthony & Govindarajan, 2007; Stringer, Didham & Theivananthampillai, 2011). For instance, Anthony and Govindarajan, (2007), highlighted the importance of compensation management on both managers and subordinates to achieve organization's objectives:

> *"Individuals tend to be more strongly motivated by the potential of earning rewards than by fear of punishment, which suggests that management control systems should be reward-oriented . . . Motivation is weakest when the person perceives an incentive as being either unattainable or too easily attainable. Motivation is strong when the objective can be obtained with some effort and when the individual regards its attainment as important in relation to personal needs".*

Individuals' motivation may be in the form of extrinsic and/or intrinsic (Stringer *et al*., 2011). Extrinsic motivation focuses on the tangible and quantifiable rewards that are based on a monetary value such as paid cash bonuses and stock bonuses. This type of motivation is based on pay-for-performance system where employee's performance has to exceed certain level of output in order to be eligible for such extrinsic rewards (Atkinson *et al.*, 2007). Applying extrinsic reward system may necessitate setting a reliable performance measures that are clear and achievable by the employees.

On the other hand, intrinsic reward is the one that comes from the inside of the individuals and reflects their satisfaction intrinsically. Such intrinsic rewards are usually dependent on psychological aspects of work such as recognition and the enjoyment of employee in the work environment (Stringer *et al*., 2011). Similarly, satisfaction with the administrative style and organizational culture are considered an intrinsic motivation tool for the employees. Atkinson *et al*. (1997) argue that intrinsic motivation is hardly used by organizations in the developed economies. Many organizations ignore intrinsic motivation and blindly adopt only financial extrinsic incentive systems. According to Merchant, Van der Stede and Zheng (2003), the reason of not using intrinsic reward is not resolved yet, but it may be attributed to the lack of systematic assessment of such motivation scheme. However, extrinsic compensation plans is the dominating system which is used to determine individuals performance and their rewarding.

Contrary to the employee's reward, punishment methods are also used by organizations to make employees avoid undesired behavior. Types of punishment may include criticisms, denial of rewards that peers are getting and in the worst case the loss of the job (Merchant & Otley, 2007).

Whatever the motivation system is, the most important factor in setting compensation plans is to foster the congruence of employees' goals with the organization's goals. Consistent with the theories of motivation (e.g. expectancy theory, agency theory, motivation-hygiene theory, self-determination theory, equity theory, etc), individuals within the organization should undergo either "employee self-control" or interactive control systems (Atkinson *et al*., 1997). Employee self-control means that employees monitor and regulate their own behavior during work and perform their highest level of productivity, otherwise interactive control is imposed (Merchant *et al.*, 2003).

Despite relatively numerous studies have been conducted to advance the understanding about compensations plans and its relationships with the performance measurement of the managers and employees (e.g. Burney, Henley & Widener, 2009; St-Onge, Morin, Bellehumeur & Dupuis, 2009; Stringer *et al.*, 2011), the results, however, varied among these studies. Based on the environment and needs of the organization, the role of incentive systems vary among different organizations. Some organizations may use both extrinsic and intrinsic rewards, while other organizations confine to adopt only extrinsic reward system (Merchant & Otley, 2007). In a survey of literature, Merchant and Otley (2007) reported that in the US and some other countries, intrinsic rewards do not provide much satisfaction to the individuals; therefore, it is almost ignored by many

organizations. Other similar studies also supported such claim (Berry *et al*., 2009; Ferreira & Otley, 2009). Similarly, incentive plans may improve honesty and performance of the employees but that honesty may be temporary because through time, incentives will become an entitlement to the employee that might serve negatively in the long run (Berry *et al*., 2003).

The other important issue is that how to determine what incentive systems are applicable to the different organizational settings and how to implement it and how to link with the organizational performance. Similarly, the issue of whether group based incentives is more effective than individually based incentives and what is the relationship between incentives plans and organization's performance are part of the unresolved issues in the MCS literature. It is apparent that in the review of traditional MCS literature, numerous shortcomings are identified that has led to the emergence of the contemporary MCS perspectives, which is discussed in the next section.

2.3.4 The Patterns of Organizational Controls

After Anthony's (1965) works, Hopwood (1976) also offered a valuable contribution to the academia of MCS. In his book of "Accounting and Human Behavior", Hopwood offered an organizational control outline that categorizes control functions into three main areas. In this control outline, Hopwood assumed that organization's control system is shaped by administrative control, social control and self-control.

2.3.4.1 Administrative Controls

According to Hopwood (1976), administrative control is used for large organizations to regulate the individuals' behavior and to standardize organization's procedures that are used for goals achievements. As Hopwood (1976) highlights, administrative control is used by large organizations that designs administrative control system to structure the decision making process and regulates the authorities of the individuals in the organization. The administrative control in here focuses mainly on the formal rules and regulations of the organization such as organization's manuals that prescribe the functions of each division of the organization as well as the individuals' responsibilities in the different hierarchical levels of the organization (Ouchi, 1977). According to Ouchi (1977), these administrative control systems are mostly identified as written manuals that are employed to direct individual's behavior so as to achieve organizational goals and to detect/deter individuals' misconduct. Similarly, recruitment policies, staff training programs and communication channels of the management and the subordinates are part of the Hopwood's (1976) administrative control.

2.3.4.2 Social Controls

Social controls are mostly informal control mechanism that enables to control individuals' behaviors through shared values and beliefs (Ouchi, 1977). Formal control systems are taken to mean any process or rule that is explicit or written down and enforced by a particular government or another external actors, while, informal control systems are the implicit rules or codes of behavior that are enforced by the internal actors (Kinston & Caballerro, 2009).

According to Hopwood (1976), social controls emerge from the shared values and mutual commitments of organization's individuals that demonstrate the individuals' social interactions and their personal relationships in the workplace. This social relationship among group members influence individuals' behavior at all levels of an organization as well as the managerial strategies of the organization. As a result, a social environment that is conducive to all individuals emerges for better personal involvement and commitment that ultimately lead to better organizational goals achievement.

2.3.4.3 Self Controls

The administrative and social controls that are discussed above are ultimately expressed through the actions of organizational individuals. According to Hopwood (1976), organizational individuals internalize the administrative and social controls, directly or indirectly, to execute organization's strategies.

Through the realization of Abraham Maslow's human needs, organizational individuals strive to attain their personal needs that may conflicts with the organization's interests. Therefore, managers use several techniques such as recognition and acknowledgement of individual performance and their promotion, to minimize the conflict of individuals' interests with the organization's (Hopwood, 1976). This type of self-controls is a form of social control that is employed to support the socialization of individual's values within the organization (Norris & O'Dwyer, 2004). Accordingly, managers may use their personal values to influence individuals to create a mechanism of goal congruence between individuals' personal interests and organization's ultimate goals.

2.3.5 Comments on the Traditional MCS Perspective

With the fact that the proponent of traditional view of MCS has achieved a considerable development in the last century, however, there are numerous drawbacks that are attributed to their views. Anthony's (1965) dominant conceptual works were the first effort which demonstrated MCS as a separate area of academic concern. With the fact that Anthony conceptualized the main issue of MCS into the academia; strategic planning, management control and operational control, however, his works were severely condemned by restricting MCS through accounting rationales and giving less attention to the psychological and behavioral issues of the organizations (Otley, Broadbent & Berry, 1995; Lowe, 1971). Summarizing the limitations of Anthony's early works, Otley *et al*. (1995) offered that Anthony: (1) did not distinguish strategies, goals and objectives, (2) his approach is limited to the use of specific technologies, which may not be applicable to other systems and technologies, and (3) the way he interpreted planning and control is also restricted to accounting rationales that ignores the importance of psychological and behavioral issues in the organization.

Similarly, the traditional view of MCS is blamed to focus on the economic approaches that are driven by short term incentives of financial measures (Otley, 1999). In addition, Otley (2001) noted that traditional approaches of MCS had given much attention to the main stream of MCS, which is designed to deal with limited boundaries of organizational operations.

The other notable issue is that traditional view has neglected to adopt a bigger view about MCS and how does it interact with the social factors. Dissatisfied with the traditional view of MCS, Whitley (1999) stated that:

> *"…the traditional management control approach has been severely criticized for being too narrow, for assuming managerial consensus over objectives, for taking worker acquiescence and passivity for granted, and for generating universal – or at least highly general – recipes when it has become increasingly clear that patterns of work organization differ greatly across sectors, regions, and countries"*

To summarize the limitations of traditional MCS view, the following shortcomings are observed. First, the majority of the traditional MCS literature had centered on how MCS is designed and practiced by the large organizations and mostly in the developed countries (Ferreira & Otley, 2005; Merchant & Otley, 2007). These large corporations adopt more formal MCS techniques, while the knowledge about the informal control systems is an emerging one (Tsamenyi *et al*., 2008; Uddin, 2009). Informal control systems such as social and traditional controls are not adequately considered by the traditional MCS view.

Second, there are problems of defining MCS terms such as; strategic planning, management control, goals and objectives (Otley, 2001; Ferreira & Otley, 2009). Furthermore, the matters that are associated with the traditional MCS views and how different organizations implement it are research issues that have yet to be resolved.

Third, the influence of different social norms and values on the patterns of MCS is still an emerging issue that has received less consideration from the traditional view of MCS (Harrison & McKinnon, 1999; Hopwood, 1976). Different social factors may have

its role in the evolution and developing specific MCS techniques in a particular environment. Commenting this issue, Wickramasinghe and Hopper (2005) noted that MCS cannot be explained without reference to the cultural and political factors in which it takes place. In addition, ignoring the cultural and political factors of the respective nation may lead to a vague conclusion and distorted paradigms of MCS concepts as the knowledge related to MCS is more subjective and depend much on its cultural setting (Chenhall, 2003). Thus, based on these arguments, there are scholarly gap in the traditional MCS literature which has attracted the concern of the emerging MCS researches that will be discussed in the coming section.

2.4 The Contemporary Perspectives of MCS

To broaden the view of MCS and to integrate it with the social and behavioral aspects of organizations, new approaches have been taken by some of the contemporary researches (Ferreira & Otley, 2005, 2009; Merchant & Van der Stede, 2007; Simons, 1995, 2000; Otley, 1999). These new perspectives adopted more comprehensive view about the role of MCS in the different social contexts. For instance, the new contemporary views paid special attention to the social aspects of organizations which include: Merchant's (1985) and Merchant and Van der Stede's (2007) framework of object-of-control; Simons' (1995; 2000) typology of beliefs, boundary, diagnostic and interactive control systems; Otley's (1999) performance management for MCS; Ferreira and Otley's (2005, 2009) extended framework of performance management systems; Herath (2007) organizational management controls, and "MCS as a package" typology by Malmi and Brown (2008). In

the next sub-sections, each control typology is discussed separately in turn, followed by an overview of the strengths and limitations of each typology.

2.4.1 Object-Of-Control Framework (Merchant, 1985; Merchant & Van der Stede, 2007)

Merchant (1985) and Merchant and Van der Stede (2007) developed their framework; object-of-control, in which they analyzed the behavioral control types of action control, results control and personnel/cultural controls. In their framework they intended to overcome what they called the absence of direction, motivational challenges and the limitations of the individuals in the organization. They categorized components of object-of-control framework into three control groups, namely; results control, action control and personnel/culture control. Every type is separately outlined below.

2.4.1.1 Results Control

Results control is the most effective mechanism to influence employees' behavior because it makes them aware that rewards are tied to the achievement of organization's objectives (Merchant & Van der Stede, 2007). Organizations do not dictate what actions employees should take rather, employees are empowered and results are focused. According to Merchant & Van der Stede (2007), results control represents the output that is expected from the employees. Therefore, based on the reward systems used by an organization, whether monetary (e.g. salary, share options, cash bonuses and stock bonuses) or nonmonetary (e.g. job security, promotions, autonomy and recognition), employees' actions can be influenced by holding them accountable for their production

and that their achievements are reinforced by the rewards they receive (Merchant, 1985). Authors emphasize the essentiality of employees' motivation as a prerequisite for better results. Besides the monetary incentives, individuals have to focus on their final results as the determinant of the desired organizational results (Malmi & Brown, 2008). Merchant (1985) also argue that some controls may help individuals where to focus their efforts to produce the desired results, while some other control mechanisms are restrictive and involve "making it impossible, or at least difficult, for the employees to do things that should not be done" (1985, p. 29).

For the successful application of the results, Merchant & Van der Stede (2007), suggested that an organization should employ correct performance dimensions that defines organization's goals and strategies. Additionally, specific targets with the right measures are required to enable employees to achieve the desired results. Finally, reward and punishment systems should be put in place to promote employees behavior for better results.

2.4.1.2 Action Control

Opposite to the results control, which emphasizes on the employees' results regardless of their actions, managers use action controls to ensure that desired actions are taking place and that employees are behaving in the best interests of the organization (Merchant & Van der Stede, 2007). Action control is aimed to ensure that employees execute certain actions that are in line with the organization's objectives and this requires the managers to know which actions are in the best interest of the organization and which are not.

According to Merchant and Van der Stede (2007), action controls fall into four forms: behavioral constraints, preaction reviews, action accountability and redundancy. Behavioral constraints can be physical control or administrative control. For example, computer passwords and limiting access to the sensitive areas are included in the physical controls, while separation of duties and restrictions of decision making authority are considered as administrative controls. Similarly, preaction review refers to the formal procedures before taking any decisions as well as the informal discussions among managers or between a manager and subordinates about specific issues. Accountability action controls refer to the idea of holding individuals accountable for their actions which is accounted against their results. As Merchant and Van der Stede (2007) noted, accountability action controls require defining acceptable and unacceptable actions and what consequences are expected if they fault. Actions and its consequences should also be communicated to the employees administratively and socially. In the action control, policies, procedures and ethical codes are ways of administrative communication, whereas informal communication; such as face-to-face discussions and informal meetings, are considered as social communication. Lastly, redundancy refers to the assigning resources to the different tasks of action controls to satisfactorily accomplish the tasks (Merchant & Van der Stede, 2007).

2.4.1.3 Personnel/Cultural Control

Personnel control involves all issues related to job design, recruitment, training and promoting shared norms and values to induce employees' self-control. Merchant and Van der Stede (2007), highlighted that personnel control is to make clear everything that can

help employees to understand their duties and to ensure that they have all capabilities and resources to perform their tasks in the desired manner. To implement this type of control, Merchant and Van der Stede (2007) suggested that effective selection criteria for employment should be established. Similarly, it is important to provide employees sufficient training and job design with the necessary resources. Putting the right people in right place is one of the essential requirements to motivate employees (Stringer *et al*., 2011). Similarly, organization has to provide the necessary training for the staff to provide them enough information about the job and the necessary skills (Merchant & Van der Stede, 2007).

On the other hand, the beliefs and traditional values create a culture of collective pressure on the individual which also motivates them to act accordingly (Merchant & Van der Stede, 2007). Discussing on the organizational culture, Merchant & Van der Stede, (2007) confesses that usually cultures remain permanent over time, but they further highlight that managers develop and implement cultural controls through; codes of conduct, group-based rewards, intra-organizational transfers, physical and social engagement, and tone at the top. Codes of conducts are the formal written rules and regulations that entail the behavioral guide in dealing with certain issues, while intra-organizational transfers involve the rotation of the managers and employees to equip them for better understanding about the organization. Similarly, physical and social engagement deals with the general working culture and the organizational structure of the responsibilities (Malmi & Brown, 2008). Moreover, the tone at the top is the determinant factor of shaping such cultural control (Merchant & Van der Stede, 2007).

2.4.2 Levers of Control Framework (Simons, 1990; 1995)

The control framework of Simons (1995) is extensively studied both theoretically and empirically in the management accounting literature. In this framework there are four control systems; (a) beliefs, (b) boundary, (c) diagnostic, and (d) interactive. Simons (1995) proposed these four levers of control to provide a useful guide for those who want to research in management control approaches. As Simons notes, this framework was a product of long experience of work and direct discussion with the senior managers in the field. Simons identifies two major general categories of controls; beliefs and boundary controls and diagnostic and interactive controls. Every category is summarized below:

2.4.2.1 Beliefs and Boundary Control Systems

As Simons (1995, p. 34) defines, beliefs control system is "the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purpose, and direction for the organization". The beliefs system is used as an approach of communicating the mission, vision, core values and strategies of the organization to encourage employees to advance ways of seeking opportunities. Simons considers the ways of beliefs systems communication, as a formal and information-based methods, provided that managers use it to maintain or alter organizational activities. On the other hand, boundary systems are used as a mechanism to set up limits to the undesirable activities that are taking place in the organization. To Simons (1995, p. 39), boundary systems "delineates the acceptable domain of strategic

activity for organizational participants". To perform a good communication of boundaries systems, codes of business conduct should be put in place (Simons, 1995). Through codes of conduct, managers attempt to ensure that employees are not engaging in activities that damages the integrity of the organization. Both beliefs and boundary systems aim to motivate employees, but through inspiration the first affects in the control system positively while through demarcation of the opportunities the later affects employees motivation negatively (Simons, 1995).

2.4.2.2 Diagnostic and Interactive Systems

Both diagnostic and interactive control system refer to a measurement and feedback system but their difference lies in how managers use it. Diagnostic system is used to ensure the predictability of goals achievement and the effective implementation of strategies (Simons, 1995). Simons (1995) argue that diagnostic system allows managers to monitor the achievement of the pre-established objectives and reward approaches through the review of performance variables. In contrast, interactive control systems involve the strategic control issues. It fosters the active and frequent dialogue as well as the debate on the strategic uncertainties. In addition, Simons (1995) view interactive control can be used to stimulate dialogue and organizational learning.

2.4.3 Performance Management Framework (Otley, 1999)

After extensive study of MCS operations, Otley (1999) proposed a framework that highlights five central issues to describe what he called a "coherent structure of

performance management" for MCS. Warning from the noisy implications of studying one control aspect, Otley (1999) argued that his framework is a holistic one that encompasses all aspects of managing organizational performance to ensure inclusive control systems. Using his experience and the extant knowledge about MCS practices, Otley (1999) proposed five key issues that include: (a) the key organizational objectives and the process that is used to evaluate how these processes and methods can enable organization to achieve its objectives, (b) the process of setting and applying strategies to achieve objectives, (c) identifying the performance targets on which an organization is intending to reach, (d) to establish reward system, and (e) to decide the type of information that will be used for monitoring of performance. To demonstrate the applicability of the framework in the field, Otley applied it using three control mechanism; budgetary control, balanced scorecard and economic value added. The component of this framework was praised by Broadbent and Laughlin (2009), however, the designer of the framework himself modified it since it faced numerous condemnations from the academicians. The following framework, by Ferreira and Otley (2005) extended this framework and included some additional control elements.

2.4.4 Extended Otley's PM framework (Ferreira & Otley, 2009)

To improve Otley's (1999) framework, Ferreira and Otley (2005, 2009) extended their performance management systems (PMS) framework for MCS. By using case-based descriptions, they extended their framework to twelve key control issues that provide more inclusive components of control systems. According to Ferreira and Otley (2005, 2009), this framework is an integrated model for MCS which is more inclusive than the

previous one. In addition to the five central areas of Otley (1999) PM framework, Ferreira and Otley (2005, 2009) added new seven key areas, namely; the role of vision and mission, key success factors, influence of organizations structure on MCS, performance evaluation means, organization's key performance measures, the extent of MCS change and the extent of framework techniques coherence. For example, the first new key area with the extended framework is the vision and mission. Vision and mission are prerequisite for performance management system of an organization. Having vision and mission directs the organization to its ultimate goal and links the operational aspects to the strategies (Ferreira & Otley, 2005). The second key area is the organization structure. According to Ferreira and Otley (2009), organizational structure affects directly on the design and use of performance management of the organization and it works as a means of establishing roles and tasks of individuals. The way tasks are distributed affects organization's control system as well as the implementation of strategies (Ferreira & Otley, 2009). The third new key area with the extended framework is the key performance measures. To evaluate the key success factors, organization should identify the key performance measures that can lead to the achievement of the organization's objectives. As Ferreira and Otley (2009) argue, it is necessary to identify what performance measures are suitable to achieve the desired results. The fourth key area refers to what process the organization put in place to evaluate individuals and groups performance. Although performance evaluation techniques can be both subjective and objective, however, an organization has to determine formal and informal performance indicators that are suitable for linking measures to the outcome of the organization (Ferreira & Otley, 2009).

The fifth key area is the extent of change that occurs in the performance management systems (i.e. MCS). This issue refers to the range and extent of altering the mechanisms of performance management due to the change of environment and organizational needs. With the rapid technological development and the change of market needs, it is essential to improve and to understand how the current techniques are compatible with market needs (Chenhall, 2003; Ferreira & Otley, 2009). Finally, coherence of the performance management techniques and the extent they incorporate each other is proposed as a key area. Ferreira and Otley (2009) pointed out that it is crucial to understand the strength of the performance management systems that leads to the alignment of and coordination of different components to enable the achievement of organizational objectives (Ferreira & Otley, 2009). The twelve key areas can provide sufficiently broader and inclusive framework for analyzing MCS both theoretically and empirically, but this newly extended framework lacks an academic validation to confirm its practicality.

2.4.5 Organizational Management Control Framework (Herath, 2007)

After a wide review of the literature, Herath (2007) developed this framework that aims to guide researchers to advance academic understanding of management controls. According to Herath (2007), the framework is developed from a rigorous analysis of the MCS literature. The control packages in this framework, as Herath argues, can be used to explore the patterns of management controls in all types of organizations. She suggested several components that represent the foundation of management controls in an organization, as will be discussed below.

2.4.5.1 Organizational Structure and Strategy

Organizational structure is considered as means of coordination and control through the interaction of the human being in the organization. As Herath (2007) notes organizational structure plays an important role in determining individuals relationships within the organization in one hand, and on the other, clarifies the duties and responsibilities. Additionally, through the structure of organization, information flow and good communication takes place. Similarly, organizational structure can affect the type of management control practices by shaping the manner of information communication and decision making process (Herath, 2007). Furthermore, Herath (2007) highlights that based on the organizational structure, strategies are formulated and implemented which in turn influence the patterns of operation and the control systems.

2.4.5.2 Organizational Culture

Organizational culture, or as sometimes called corporate culture, is represented by the shared values and beliefs applied by an organization and its actors (Herath, 2007). Organizational culture is produced by the beliefs, values, morals, customs and the knowledge of the society in which the organization operates (Hofstede, 1984). Social culture forms the thinking patterns, feeling and actions of the person, which in turn directs how that person makes organizational decisions (Hofstede, 1984). Within the social culture, organizations also create their own form of organizational culture that forms the MCS practices through individuals' behavior and their roles at the different

management levels (Herath, 2007). Thus, culture, as a component of management control, influences the attitude of employees in the organization, and as a result, management control practices will also be affected. Herath (2007) concludes that the management control approaches should be appropriate to the organizational culture of the respective environment.

2.4.5.3 Management Information Systems

In the framework of Herath (2007) the relationship between management information systems (MIS) and an organization control system provides reciprocal relationships. MIS provides necessary information about performance targets and measurements, to the managers for decision making. MIS is an inseparable function of MCS which is mainly generated through accounting information systems (Otley, 1999). With the development of computer technology, managing information systems is becoming more essential than before (Herath, 2007). Hence, Herath (2007) states, designing MIS require that such system should meet the needs of the respective organization and should be in the highest effectiveness and efficiency.

2.4.5.4 Core Control Package

Herath (2007) developed a type of core control packages that represent the overall control components which plays the vital role in the approaches used by MCS. She identifies four different patterns of management controls that are used by organizations:

a) Management control as a set of rules, practices and procedures, aimed to guide individuals' actions towards the achievement of organization's goals and objectives;
b) Management control as the management of contextual factor dependency;
c) Management control as a set of behavioral control mechanisms; and
d) Management control as a set of cultural values and norms that flexibly deals with working commitment of individuals.

Finally, according to this framework, the ultimate goal is to achieve the organizational goals and objectives based on the above discussed management control components. However, even though this framework seems, to some extent, inclusive but it also lacks an empirical validation. The assessment of its strengths will come in the section 2.6, of this chapter.

2.4.6 The Typology of MCS as a Package (Malmi & Brown, 2008)

The framework of Malmi and Brown (2008) is intended to avoid the limitation of the previous frameworks and they proposed more integrated framework which is almost built on the previous frameworks and extends them to new issues. Malmi and Brown (2008) claim that they analyzed and synthesized the empirical results of nearly four decades in MCS field research and come up with what they called "MCS as a package" typology. This typology provides adequately broad approach to research MCS phenomenon empirically (Malmi & Brown, 2008). They state that the aim of their framework is to facilitate in-depth discussion in MCS research area, rather than suggestive final solution

to the conceptual problems in the field (Malmi & Brown, 2008). This framework encompasses five forms of control methods: (a) planning, (b) cybernetic, (c) reward and compensation, (d) administrative, and (e) cultural controls. These control methods are as summarized below.

2.4.6.1 Planning Controls

According to Malmi and Brown (2008) planning control is divided into action planning and long-term planning. Action planning focuses on the operational issues that are related to the near future goals of the organization, while long term planning emphasizes the medium and long term goals that have strategic focus. The authors considered this form of control as an ex ante system for three causes. First, by directing efforts and organization's behavior, planning sets out the goals of the functional areas. Second, through standards to be achieved, planning clarifies the efforts and behavior that is expected from the individuals in the organization. Third, by controlling the activities of the groups and individuals, planning can help in aligning individuals' behavior to the organization's goals. Finally, Malmi and Brown (2008) pointed out that planning supports ex ante decision making as well as creating goal congruence within the organization.

2.4.6.2 Cybernetic Controls

Green and Welsh (1988) defined cybernetic control as "a process in which a feedback loop is represented by using standards of performance, measuring system performance,

comparing performance to standards, feeding back information about unwanted variance in the systems, and modifying the systems compartment". Furthermore, they stated that "the linking of behavior to targets, and establishing accountability for variations in performance takes a cybernetic system from being information system to support decisions, to a management control systems" (Malmi & Brown, 2008). Four central systems, that are essential for cybernetic controls, have been offered by Malmi and Brown (2008), namely: (a) budgeting, (b) financial measures, (c) nonfinancial measures, and (d) hybrid of financial and nonfinancial measures. Regardless of the criticisms against budgeting, it serves as a vital tool for activities planning, evaluation of actual performance and as process of resources allocation (Hansen, Otley, & Van der Stede, 2003). Similarly, Malmi and Brown (2008) noted that cybernetic controls can provide a useful solution to some issues that cannot be measured financially such as economic value added and balanced scorecard.

2.4.6.3 Reward and Compensation Controls

Employees' motivation refers to the things employees' value and what drives them to act in a certain way (Atkinson, Banker, Kaplan & Young, 1997; Merchant & Otley, 2007).The central aim of compensation and reward system is to motivate individuals and groups within the organization to achieve better performance by connecting rewards to the achievements of the individuals. It has been argued that the presence of compensation plans influences the outcome of the individuals where their rewards are tied to efforts that they provide (Stringer *et al*., 2011). In the management accounting research, as Atkinson *et al*., (1997) reveal, extrinsic motivation approaches (based on monetary incentives) are

largely used by many organizations while there is less concern about intrinsic motivation system. Malmi and Brown (2008) state that the reason many organizations use more extrinsic motivations, is that it is easier to quantify and encourage employees to accomplish tangible organization's goals through measurable rewards.

2.4.6.4 Administrative Controls

As can be seen from the typology of Malmi and Brown (2008), there are three administrative control approaches that direct individual's behavior in the organization, namely; organizational design and structure, governance structure and the policies and procedures. Using certain organizational design and structure can operate as a device that enables management to predict employees' behavior and to certain types of individuals' relationships. Similarly, governance structure directs employees' behavior through formal lines of authority and accountability (Malmi & Brown, 2008). To ensure that representatives of various organizational units and functions coordinate their activities, governance structure should encompass company's board structure and composition, as well as other various management and project teams.

Policies and procedures play the bureaucratic approach that directs organizational activities and employees behavior (Malmi & Brown, 2008). Policies and procedures include such operating standards and practices and other rules that are proposed by Merchant and Van der Stede (2007) about behavioral constraints, pre-action reviews, and action accountability.

2.4.6.5 Cultural Controls

Cultural control is used as a mechanism that ensures employees' behavior that is consistent with the organizations strategies and goals. It is employed for the purpose of regulating employees' behavior. Malmi and Brown (2008) presented three aspects of cultural controls; (a) value-based controls, (b) symbol-based controls, and (c) clan controls. Value-based controls, which is based on Simons' (1995) beliefs systems, intends to communicate organization's values, purposes and its strategic directions that senior managers want to be achieved. As Malmi and Brown (2008) indicate the effects of values on behavior rests on three levels. The first level is the deliberate recruiting of individuals whose values match with that of the organization. The second is the socialization of individuals to change their values to fit the organization's culture. The third is the values explication to make employees' behavior in accordance with that of organization.

Symbol-based control refers to the visible expressions that are designed to develop certain organizational cultures. For example, organizations develop particular design of workplace, dress codes and a style of communication to control employee behavior. As Malmi and Brown (2008) indicate, establishing organizational culture may improve an atmosphere of professionalism at the work.

The last issue of cultural control is the clan control which refers to the assumption that every organization has its own sub-cultural values shared by particular members in the organization such as ceremonies and rituals of the clan members. These sub-cultural values are instilled in the clan members and through the process of socialization, the clan

control takes place to direct individuals' behavior. The framework of Malmi and Brown (2008) has attempted to include all MCS control elements identified in the MCS literature, and almost suites to cope with the different social contexts. However, it has some limitation that will be discussed in section 2.6, of this chapter.

2.4.7 Comments on Contemporary Typologies and Frameworks of MCS

Similar to the traditional view of MCS, contemporary view has its strengths and its limitations. To recapitulate the major contemporary concepts include that of: Merchant (1985) and Merchant and Van der Stede (2007), Simons (1995), Otley (1999), Malmi and Brown (2008), Ferreira and Otley (2005, 2009) and Herath (2007).

For instance, Simons (1995) framework has several strengths particularly; it provides explanation about how control techniques are applied by different organizations. Equally, it concentrates on strategic issues such as strategy formulation and control. However, even though the framework of Simons provides very useful perspectives about the formulation and implementation of control strategies but, it adopts a narrow view of MCS techniques and emphasizes specific control tools; such as strategic formulation and risks management, rather than focusing on the bigger picture of MCS. Additionally, Simons' framework does not present broader conceptualization about the different MCS tools, but it emphasizes on the strategic aspects of MCS at the expense of operational controls. It is also criticized by its focus on the top level of organization's management and ignores the control roles of low level management lines. Additionally, one of the major important limitations of this framework is the ambiguous definitions, meanings and

boundaries of the control levers such as interactive, diagnostic or boundary control systems (Ferreira & Otley, 2009). Finally, it does not cope with the informal control aspects that may exist in small business organizations and specifically it does not explicitly consider some administrative control elements (i.e. vision and mission), let alone to give attention to the traditional social contexts.

Otley's (1999) framework is also considered a very useful framework that has been tested empirically. Although the framework is in its development stage, however, it has the following strengths. First, it is a valuable tool for analyzing operations of MCS by focusing on specific key areas of MCS practices. Second, it can be applied for studying both for-profit and not-for-profit organizations (Ferreira & Otley, 2009). Third, these five key areas provide meaningful assessment for the researchers at the different levels of management (Ferreira & Otley, 2005). Finally, the five key issues suggested in the framework may draw, to some extent, an overview of the major control mechanisms that are in place.

In contrast, the framework has been criticized for several limitations (Ferreira & Otley, 2005). One of the major condemnations that it faces is that it does not consider vision, mission, and policies of the organizations. Furthermore, it does not consider the essentiality of these issues in the organization. Second, it was also raised that the five central issues of the framework are only an interpretation of some of the Simons' (1995) levers of control (Malmi & Brown, 2008).

To overcome the limitation of Otley's (1999) framework, Ferreira and Otley, (2005, 2009) extended it to propose what they called "performance management systems

for MCS". In addition to the previous five key areas, they introduced additional seven key factors. Although the twelve key areas proposed by Ferreira and Otley (2009) provide an insight about the various aspects of MCS design and use, however, there are not much empirical examinations about its capability to meet the different organizational circumstances in the diverse environments. For instance, one of the apparent limitations is that this framework does not explicitly consider cultural issues and other external factors that may affect the design and use of MCS, such as political, economic and cultural issues. Additionally, this framework is again built on Simons' (1995) levers of control and the mechanisms used mainly appear the same.

The framework of Herath (2007) is more ambiguous and has the following limitations. First, it does not consider some aspects of MCS, such as administrative controls except the simple mentioning of rules and regulations of the organization. Rules and regulation may not cope with the importance of administrative controls. Second, some administrative control elements such as; MIS and rules and regulations are overemphasized at the expenses of other important factors; such as culture and technology. Third, the framework lacks reputation from the academic researches as it is still new and needs further examinations about its practicality. In addition, the framework is mainly derived from the component of Otley's (1999) performance management.

Finally, the frameworks proposed by Merchant and Van der Stede (2007) and that of Malmi and Brown (2008) are almost similar and share most of the control components, but with several differences. For example one of the main differences is that Malmi and Brown (2008) considers strategic planning as a management control tool that plays an

essential role in influencing employees' behavior, while such issues was not explicitly discussed by Merchant & Van der Stede (2007). Additionally, Malmi and Brown (2008) have treated planning as a separate mechanism of management controls, while Merchant & Van der Stede (2007) included planning in the financial results control.

With regard to the administrative controls, Malmi and Brown (2008) has conceptualized broadly and separated it from the other management control tools compared to the mere indication of policies and procedures by Merchant and Van der Stede (2007), which may represent a very tiny part of administrative controls. They are also different in the treatment of the human resources controls. Whilst Merchant & Van der Stede (2007) included human resource control in the personnel controls; recruitment process, training, and job design, Malmi and Brown (2008) discussed the importance of personnel; such as recruitment process, training, and job design, under cultural and administrative controls. Yet, even though Malmi and Brown's (2008) control framework appears to be more comprehensive than other previous frameworks, however, it also failed to consider very important issues, such as vision, mission, information flow and the importance of MCS change. Importantly, this framework is still new and needs an acceptance and a validation from the academic arenas.

2.5 MCS Research in the Developing Countries

Over the past two decades there is a growing research interests that draws attention towards the importance of management accounting and control practices in the transitional economies and particularly in the less developed countries (Hopper *et al.*, 2009; Joshi, 2001; Sulaiman *et al*., 2004; Morakul & Wu, 2001; Waweru *et al*., 2004).

For instance, Sulaiman *et al*. (2004) examined the use of traditional and contemporary management accounting in Singapore, Malaysia, China and India and concluded that the use of traditional MAS remains strong in those countries.

The development of modern MAS adoption in the developing countries has been researched in a limited extent. For example, Joshi (2001) examined the adoption of MAS in 14 Indian companies with the comparison of Australian MAS practices. The results indicate that the adoption rate in India for traditional MAS was higher than that of modern MAS compared to Australia. Joshi (2001) attributed the differences of MAS adoption to the differences in the cultural values. This is also supported by Morakul and Wu's (2001) findings, who examined the adoption of US activity based costing (ABC) in Thailand, and found that due to the cultural factors, the implementation of ABC in Thailand was different from that was found in USA. Similar findings were revealed by El-Ebaishi, Karbhari and Naser (2003) who examined the use of MAS in Saudi manufacturing companies.

Similarly, the factors of competition and technology are considered as another key factor that play an important role in the development of MAS (Luther & Longden, 2001; Waweru *et al*., 2004). Luther and Longden's (2001) study reveal that perceived benefits of MAS in South Africa differs from that of U.K. equivalents. In their analysis, Luther and Longden (2001) also confirm that the main factors that cause MAS development and change in South Africa are different from those of U.K. In addition, Waweru *et al*. (2004) examined four industrial companies in South Africa and found that internal and external environmental factors have "knock on" influences on MAS development and change.

Uddin and Hopper (2001) emphasize that the governmental bodies and other economic factors have very limited role to the development of MAS in the less developed countries. Rather, they found that in Bangladesh, MAS development depends on the nature of ownership, particularly family ownership, which limits the managerial information and accounting practice of the studied companies. Furthermore, a general review of MAS literature in less developed countries, Hopper *et al*. (2009) underlined that in the less developed countries, family ownership is the dominant factor that makes informal and subjective management controls the prevalent system of institutional governance. They noted that information is restricted to the family members and serve their explicit interests. Additionally, Hopper *et al.* (2009) confirmed that organization's rules and regulations are replaced by the family ties and friendship connections. The importance of traditional familial connections in management controls is also confirmed by Wickramasinghe and Hopper (2005) in their study on an organization that operates in the traditional society of Sri Lanka. In the findings, they concluded that conventional western management accounting failed due to the traditional and rural cultural norms based on kinship obligations that affected the organization's practices.

2.5.1 Traditional Societies and Control Practices

Traditionalism is a cultural concept that is used for the societies that are organized on ethnical or familial structures (Lewis, 2004; Leonard & Samantar, 2011). The role of traditionalism in management accounting and control as a cultural factor is an emerging research issue which has recently been debated (Efferin & Hopper, 2007; Uddin & Choudhury, 2008; Uddin, 2009).

Although the role of culture in management and accounting has been widely researched, yet culture lacks consensus definition among researchers. A popular definition was provided by Hofstede (1980) that is widely used by management and accounting scholars. Hofstede (1980) defined culture as the "collective programming of the mind that distinguishes members of one group or society from the others" (p. 43).

Similarly, the most popular cultural theories that are used in relation to management, leadership and control include that of Hall's (1990) cultural dimensions, Trompenaars and Hampden-Turner's (1993) cultural dimensions, and Hofstede's (1980) cultural dimensions. These cultural dimensions have been developed to provide a valuable framework to explore the cultural differences across nations and to examine the relationship between culture and organizational operations. However, Hofstede's (1980) five dimensions of culture; i.e. power distance, uncertainty avoidance, individualism vs. collectivism, masculinity vs. femininity, and long versus short-term orientation, became the most commonly used for the accounting and management controls (see for example: Baydoun & Willett, 1995; Bhimani, 1999; Gray, 1988).

In his general view, Hofstede (1980) examined the impact of culture in international business and argued that culture can influence the decision-making process in the respective social context; where if a manager goes to another country and makes decisions according to his country's culture, that may lead him to make some very ineffective decisions. In this regard, Hofstede (1980) notes that culture depicts the thinking models, which specific people transfer to others, to demonstrate the meanings attached to the various aspects of the life and the way the people view the world. Expressing how culture might influence management practices of certain society,

Hofstede (1980) points out that management practices within a society might be very much constrained by its cultural settings, as it is difficult to coordinate the actions of people without a deep understanding of their cultural values, beliefs, and expressions. This shows that, based on the common cultural values and norms of a society, specific patterns of management practices, including control systems, might evolve among the members of the society, where such society may develop a model of management system that is different from the other society's practices.

Furthermore, Hofstede (1984) asserts that, in the cultural system of the traditional norms, management is considered as a symbolic activity that influences decision making of managers according to the understanding of the subordinates which its implementation depends on the pre-programmed interpretation of the receivers.

Similarly, the common concepts in the industrial oriented societies such as "labor market", "factor of production" or the assumption of business relationship between employee and employer, which is sometimes, called the mutual economic advantage or individualism, may not exist in the traditional societies (Hauriasi & Davey, 2009). In contrast, traditional society's perception is based on the concept of collective and mutual obligations which also directs the employee-employer relationships regardless of the rules and performance (Hofstede, 1984). Such mutual cooperation, kinship ties and the moral components of the group members disapprove any decision concerning employee changes or their release from work (Wickramasinghe & Hopper, 2005).

Under the mentioned traditionalism, accounting and control systems, for an organization is primarily a cooperative system that is designed to overcome the

weaknesses and limitation of individuals (Ansari & Bell, 1991). As a result, collectivism concept makes the organization to be an open system that interacts with the other external factors such as political, economic and cultural norms. Therefore, as Effering and Hopper (2007) revealed, the management activities of an organization, including control systems, are produced by the traditional norms of the society in which the organization carries out its operations. This is supported by the other empirical studies that explored how traditional cultural factors shape the form of organizational controls, control development, design and practices within its traditional settings (e.g. Ansari & Bell, 1991; Gray, 1988; Hofstede, 1980; 1984; Perera, 1989; Tsamenyi *et al*., 2008; Uddin & Choudhury, 2008; Uddin, 2009). Gray (1988) used Hofstede's (1980) cultural constructs and assumed how cultural values form accounting practices and values. He proposed that accounting related decisions, in any environment, is created in response to the cultural values under which it is made. Gray (1988) identified four accounting values from the accounting literature that include: professionalism versus statutory control; uniformity versus flexibility; conservatism versus optimism and secrecy versus transparency. In addition, Gray (1988) argued that accounting is the product of its social contexts which is strongly influenced by the social norms and values of the respective people. He demonstrated that worldwide diversity requires varied accounting systems depending on the circumstances of the national cultures (Gray, 1988).

Furthermore, by reviewing Hofstede and Gray's cultural constructs, Perera (1989) expanded a theoretical framework to analyze the role of culture in creating accounting values and practices. He found that accounting systems of different nations are formed by their social norms, which in turn, creates the type of accounting practices in that context.

These two studies of Gray (1988) and Perera (1989) analyzed how social norms and values might shape the development and practices of accounting systems, however, even though, accounting tend to be viewed as diagnostic control tool for monitoring and measuring the individuals performance in the organization (Abernethy & Chua, 1996), it also usually achieves both formal and informal controls depending on the way accounting information is used and the approaches that the top management utilizes it (Merchant, 1985). Moreover, there are other empirical evidences (as explained below) that also reveal the importance of social norms in shaping management controls in its organizational settings.

Ansari and Bell (1991) has examined the influence of societal culture on accounting control practices in Pakistani family-owned firm. The results of the study show that control systems were informal and trust-based, when the firm was relatively small as well as after the firm has grown and become international. Additionally, the personal trust family-based controls remained strong throughout the organization's life. Finally, the firm faced business crisis and the owners, who are from one family, failed to team up and eventually firm was dissolved. Ansari and Bell (1991) attributed the problem of organization's failure to the traditional system that made personal relationships and family ties to dominate the firm rather than formal management and accounting controls. The study of Uddin and Choudhury (2008) also found similar scenario. They explored the corporate governance in the traditional societies to compare it with the western capitalism. Using interview of directors and managers of one firm, they analyzed the role of traditionalism (familial and political connections) on shaping rational corporate measures. They concluded that board of directors in the firm noticeably served the family

interest rather than the shareholders. Another study by Uddin (2009) alone also examined how traditionalism forms management styles and accounting control practices. The study that used one case organization to collect data revealed that management practices (including accounting controls) served the dominant family members even if they owned minority shares. Uddin (2009) also found that reports, budgets and financial information were used only for internal interests (family members). In addition, informal communications and controls were common in the company due to the traditionalisms of the family members.

Informal relationships among traditional society members usually structure the way management systems and control is being implemented, because of the informal connections that were created by the familial practices of management functions (Uddin, 2009). Similarly, enforcing state rules and regulations and business standards in the traditional societies may not be simple since traditional norms and values overrule the general regulations and state systems. Uddin's (2009) study concluded that: "Serving family's interest seems to be the natural course of action for employees at all levels (in the firm studied)".

Tsamenyi *et al.* (2008) studied how Chinese norms, values and cultures affect their MCS practices. They found that Chinese traditions and their social relations (with other ethnics) were very instrumental in the management controls of the organization researched. Their results show that decisions concerning recruitment, rewards, performance evaluation and resource allocation were based on symbolism and collectivism in the control of the organization. They also indicated that the strong

influence of social relations in the organization has rendered the formal practices of the management to become irrelevant. The study of Efferin and Hopper (2007) also confirms the same claims about the familial connections on management controls in an Indonesian Chinese organization. The owners of the organization introduced conventional Western controls including budgets and other financial controls such as formal wages and rewards for performance, alongside with the other norms adapted, especially ethnic based tensions with the non-Chinese Indonesians. Describing the situation of management control in the organization, Efferin and Hopper (2007) noted that "…ethnic tensions between employers and employees, and organizational and economic factors affected management controls". They also found the domination of personnel control in the daily operation such as low participative budgets, subjective controls and few rewards tied to the results, and the common informal practices of management controls.

2.5.2 Comments on MCS Researches in the Developing Countries

The recent studies provide good insight about MAS in the less developed countries' context, however, majority of these MAS researches have either focused on large and manufacturing companies (Ebaishi et al., 2003; Soobaroye & Poorundersing, 2008) or only focused on MAS practices of specific industries, such as retail sector (Waweru *et al*., 2004), which might not capture other business types such as services. In addition, less attention has been given to the traditional cultural context which is an emerging research area in the recent management accounting and control academe. Comments on the MCS studies in less developed and traditional society's contexts are discussed below.

2.5.2.1 MCS researches in Less Developed Countries

First, even though the recent studies in the traditional social contexts have offered very valuable understanding about business governance; ownership structures and control systems of the organizations in such a social settings, however, it has emphasized only small number of settings that cannot be generalized to a wider environment (e.g. see Efferin & Hopper, 2007; Tsamenyi et al., 2008; Uddin & Choudhury, 2008; Uddin, 2009).

Second, majority of these studies are carried out to explore and further MCS understanding in such a social settings, therefore, the results do not provide definitive conclusion on all factors that could have contributed to the emergence of specific MCS in such environments.

Third, these current studies, in less developed countries, mainly focused on the Asian Continent, while less consideration has been given to Africa (Acquaah, 2013; Ngobo & Founda, 2012). According to the UN report (2013), almost seventy percent (34 out 49) of the less developed countries are from African Continent and it is the least researched continent in general and particularly in accounting area (Rahaman, 2010).

Moreover, one of the main issues in the less developed countries, and particularly in the Sub-Sahara Africa, is the traditionalism of the society, where traditional societies set their traditional rules and norms to manage their political, economic and social relations of their respective affairs (Jackson et al., 2008; Kumssa & Mbeche, 2003). These traditional norms and values represent the most important sources of stability in

human interactions which shape the socio-political and economic relations of such societies (Kumssa & Mbeche, 2003). In this regard, according to Jackson et al. (2008), local societies of Sub-Sahara Africa usually develop their own management approaches that reflect their local traditional values, which in turn, may give rise to the success of business organization within the local context of that community.

To explore the research amount of management accounting and control in the Sub-Sahara Africa, recently, Rahaman (2010) surveyed three prominent accounting journals to identify the accounting research coverage of Africa in the last four decades. The three accounting journals are: Accounting, Organizations and Society Journal, Accounting, Auditing and Accountability Journal and Critical Perspectives on Accounting. In this survey, Rahaman (2010) found that 24 accounting research papers, out of 2,374 papers (almost 1%) published by the three journals were about Africa. Although these three Accounting Journals may not give the true picture of accounting research in Africa, however, it provides an insight about the research situation in the Continent. Similarly, most of these aforementioned accounting studies focused on the public sector, while very few studies have been dedicated to the private sector especially in the Sub-Sahara Africa (see example: Acquaah, 2013; Jackson et al., 2008; Ismail, 2007; Ngobo & Fouda, 2011).

In addition, although management literature in Africa sometimes may portray Africa as a poor prospect for business, yet, private sector, particularly small and medium sized enterprises, in sub-Saharan Africa, is considered dynamic with various examples of successful organizations (Jackson et al., 2008). Nonetheless, there is little evidence about

the success factors of those businesses and how they are managed and what forms of control systems they are using. This is the emerging issue that needs further considerations.

2.5.2.2 Assessment of Hofstede's Cultural Dimensions

Likewise the previous studies, Hofstede's cultural dimensions have also been criticized for several limitations. Even though Hofstede's cross-cultural theory have been used in international management accounting research, however, one of the main limitations is that Hofstede's research data was obtained from only one firm (IBM) and his studies is now over 30 years old (Merchant et al., 1995). Hence, that nature and the impact of cultural dimensions within the nations that he has studied might have changed and become different now. Similarly, while Hofstede's cultural dimensions provide a useful tool for research, it was criticized by a restricted view of culture (Chenhall, 2003). Likewise, Baskerville (2003) severely criticizes the quantification of culture and developing cultural indices and matrices, which may contradict the nature of the human behavior. Furthermore, the cultural differences within the same nation have been neglected by Hofstede's cultural dimensions. In addition, a recent study on cultural dimensions around the world by House, Hanges, Javidan, Dorfman and Gupta (2004) revealed different results that vary, in some aspects, from Hofstede's cultural arguments.

With regard to social context of Africa, Jackson's (2011) study has questioned the applicability of the Hofstede's cross-cultural dimensions in many of African cultural environment and proposed an alternative cross-cultural theory. On top of that, the methodology that has been used for the development of the Hofstede's cultural

dimensions does not conform to the philosophy of this study. As discussed in the research methodology chapter, this study believes that it is difficult to understand the reality of social phenomenon with quantitative methods by which Hofstede's (1980) cultural dimensions were built on.

Table 2.2
Summary of the MCS Frameworks and its Limitations

MCS view	Control typology/ Framework	Control components	Limitations and the gap
Traditional MCS perspective	Started with the emergence of MCS planning and control framework of Anthony (1965; 1988) and MCS of Anthony & Govindarajan (2007)	MCS environment (organizational structure, personnel, socio-cultural factors), MCS process (strategic planning, budgeting, performance measurement, compensation management	Based on accounting rationales. Concerns on only measurable short term activities, and ignores behavioral aspects of organizations. Provided less concern in the developing countries. Narrower view to interact social factors. Neglected informal control approaches.
	Patterns of organizational control of Hopwood (1976)	Three categories of control; administrative control, social control and self-control	The informal controls that is explained as social control is not clear, where it is limited to the personal relations among individuals. Almost social and self-control is similar in his analysis and it is not clear which affects on which.

Table 2.2 (continued)

	Object-Of-Control Framework (Merchant, 1985; Merchant & Van der Stede, 2007)	Results control, action control, personnel and cultural control	Does not consider the role of vision & mission. Ignores the role of information flow. Does not consider intrinsic incentives.
Contemporary MCS perspective	Levers of Control Framework (Simons, 1990; 1995)	Beliefs, boundary, diagnostic and interactive controls	Mainly focuses on the strategic issues. Focuses on top management and ignores MCS role of other management levels. Ambiguous definitions of terms, meanings and boundaries. Ignores the role of vision/mission and organizational structures.
	Performance Management (PM) Framework (Otley, 1999)	Five key areas of: key objectives, process, performance targets, reward system and information system to monitor	Focused much on the measurable aspects. Less attention to organization structure. Does not consider intrinsic incentives.
	Extended Otley's PM framework (Ferreira & Otley, 2009)	Five key areas of Otley (1999) and additional seven key areas of: vision/mission, organization structure, strategies & plans, performance measures, performance evaluation, extent of MCS change and coherence of key control areas	Still new and needs empirical validation. Neglected cultural factors. Neglected the role of organizational policies. Does not consider intrinsic incentives.
	Organizational Management control framework (Herath, 2007)	Organizational structure & strategy, organizational culture, management information systems and core control package	Still new and needs empirical validation. Neglected cultural factors of organizations activities. Ambiguous terms & definitions.

Table 2.2 (continued)

	The Typology of MCS as a Package (Malmi & Brown, 2008)	Planning controls, cybernetic controls, reward & compensation controls, administrative controls and cultural controls	Still new and needs empirical validation. Does not consider the role of vision/mission. Ignores the role of information flow. Neglects importance of MCS change. Does not consider intrinsic incentives.
Hofstede's Cross-cultural theory	Hofstede's (1980) cross-cultural dimensions	Power distance, uncertainty avoidance, individualism vs. collectivism, masculinity vs. femininity, & long vs. short-term orientation	Restricts cultural views. Extreme criticism from accounting scholars. Criticized for culture quantification. Quantitative methods have been used for cultural dimensions development. Recent studies reveal different results of Hofstede's findings.

2.6 The Need for Conceptual Framework for the Study

As stated previously, the current MCS typologies and frameworks are criticized for its limitations to meet the requirements of the traditional social context. After reviewing both traditional and contemporary MCS views, it is apparent that there is a need for more inclusive MCS framework that fits to the different social settings, particularly one that matches the circumstance of the traditional society's environments. The social conditions of traditional societies may require an appropriate type of MCS typology that reflects its

social context. Such type of MCS should be able to explain the nature of MCS that is developed and practiced in the different social environments such as: developed and developing nations, small and large organizations and formal and informal aspects in the organization's operations. Therefore, based on the previous discussions and the research gap that have been indicated in the first chapter, there is a need to further our understanding about MCS dimensions and patterns, particularly that are designed and used in the traditional clannish societies.

In an effort to broaden the contemporary MCS view, this study combines the control components of Malmi and Brown's (2008) framework, Ferreira and Otley's (2009) framework and with incorporation of some of the control components of Anthony and Govindarajan (2007) and Merchant & Van der Stede (2007). The control components of those frameworks are useful for making inclusive framework that considers different issues of the MCS in the different social settings. With the consideration of limitations stated in the comments, the conceptual framework attempts to incorporate the strengths of the frameworks discussed in the contemporary MCS researches. The details about framework's components and the reasons are discussed in chapter three.

2.7 Chapter Summary

This chapter provided an overview about the current status of MCS, both its traditional and contemporary perspectives as well as the merging issues in the traditional societies. The chapter outlined the current limitations in both perspectives and offered how the current MCS typologies and frameworks failed to cope with the requirements of the

different social contexts. Comments about the limitations of each perspective are presented. At the end of the chapter, the need for new insights and understanding of MCS in the traditional clannish societies is emphasized.

CHAPTER THREE

THE THEORY AND THE FRAMEWORK OF THE STUDY

3.1 Introduction

This chapter presents the underpinning theory and the conceptual framework that is intended to guide the study. It starts first with the approaches of institutional theory; Old Institutional Economic (OIE), New Institutional Economics (NIE) and New Institutional Sociology (NIS), to enable the researcher to determine the scope and factors that shape MCS in the traditional clannish contexts. In the second section of the chapter, the conceptual framework is presented to direct the explanation of MCS components and elements for better understanding of the daily routines in the field. Finally, the chapter is summarized.

3.2 The Underpinning Theory of the Study

To understand MCS in its social context, Burns and Scapens (2000) view that any socially constructed phenomena can only be understood through social theories, such as institutional theory, or actor-network theory. Theory enhances the coherence of the theoretical understanding and provides sufficient explanations about human actions with the logical consistency of practical interpretations (Burns & Scapens, 2000). Therefore, with the guidance of institutional theory, this study attempts to understand the institutionalized MCS in the traditional clannish society of Somalia.

3.2.1 Institutional Theory

Institutionalization of organizations activities is not itself an objective but an instrument to establish means for realizations of the objectives. According to Scott (2001), the best means to achieve organizational objectives is to institutionalize its business operations, as it is impossible to survive in the current globalized world with the primitive informal traditions. Similarly, institutionalization enables to create congruence between the goals of the organization with the employees' behavior (Scott, 2001). Therefore, with the guidance of institutional theory, the study attempts to understand MCS practices within its social context, as well as to analyze the reasons that may promote managers to adopt or adapt certain MCS forms and processes.

In the recent decades, there is a growth of institutional theoretical works in management accounting and control literature (Ahmed & Scapens, 2000; 2003; Covaleski *et al*., 1993; Covaleski *et al*., 1996; Modell, 2005a, 2005b, 2006; Siti-Nabiha & Scapens, 2005). Majority of the researches in this area applied institutional theory, in its three approaches of; old institutional economics (OIE), new institutional economics (NIE) and new institutional sociology (NIS). However, for this study, OIE and NIS are considered to be useful for achieving a richer conception about socially constructed MCS. Additionally, a conceptual framework is proposed to gain an in-depth understanding of MCS techniques that takes place in the traditional clannish society of Somalia. The three approaches of institutional theory and the conceptual framework are discussed below:

3.2.1.1 Old Institutional Economics (OIE)

According to the MCS literature, OIE ages over a hundred years, where Moll *et al*. (2006) declares that Veblen (1898, 1899, as cited by Moll *et al*., 2006) found the theory of OIE to conceptualize economic process that encompasses stability and change. The primary assumption of OIE is that institutions shape their economic behavior; in contrast of neo-classical economic that primarily assumes the profit maximization approach as the main factor that shapes organizational systems (Scapens, 2006). The main focus of OIE is to provide an analysis and explanation about organizational internal process and change (Scapens, 2006). Similarly, OIE concerns on the analysis of the prevailing habits, routines and rules that are produced and reproduced by organizations (Guerreiro, Pereira & Frezatti, 2006; Scapens, 2006). According to Scapens (2006), habits and routines become what create organizational components that are developed into a regular culture. Furthermore, he clarifies that, while habits are considered as individuals' features, routines may characterize the regular activities of both individuals and/or groups. Similarly, these regular habits and routines may become formalized institutional behaviors that are guided by the organizations rules which is also repeatedly used and reinforced by standardizing the informal activities (Guerreiro *et al*., 2006). In this view, rules, habits and routines are illustrated as an "organizational memory" that forms the basis of organizational systems evolution (Scapens, 1994).

In the context of OIE, the institutions are the main objects of analysis. Through the time, the regular process and rules of the organization, including management accounting and control, become institutionalized systems that are "taken-for-granted",

and accordingly shape and direct individuals behavior (Burns & Scapens, 2000). Organizations, in this perspective, operate within formally accepted social standards and values that are in conformity with the structured and institutionalized behavior in the organizations (Guerreiro *et al*., 2006). Thus, generally, OIE perceives that individuals behave according to the institutionalized settings of rules and values regardless of its rationality.

OIE is said to provide useful explanation about the micro-economic levels of a particular organization where it concerns "inside" organizational behavior rather than macro-economic level (Moll *et al.*, 2006). However, although some researchers adopted OIE for analyzing the process and routines of management accounting (see for example Burns and Scapens, 2000; Busco *et al.*, 2006; Guerreiro *et al*., 2006), the main focus of these studies seems to be on "how" and "why" process changes happens rather than giving considerations to the bigger picture of MCS as a broader tool for organizational controls. In this sense, the central emphasis of OIE is how internal systems evolve over time.

Therefore, with the fact that OIE may not capture the different aspects of MCS as "a package", but it may provide an institutional basis for how activities are structured and shaped by the beliefs and values that different groups and individuals hold in organization. Such beliefs and values may be useful for individuals to give the meaning to their daily activities, since it became institutionalized habits that are accepted by all members and be respected by them. From the view point of Scapens (2006), the practices and emergence of certain control techniques become institutionalized when it is widely

accepted to the extent that, individuals in the organization, adopt it as a 'taken-for-granted" routine. Therefore, OIE can help us to understand how internal rules and routines shape organizational behavior and the evolvement of MCS.

3.2.1.2 New Institutional Economics (NIE)

According to Scapens (2006), NIE adopts rational economic approach to reason the organizational structures and activities. Its main concern is that the reason behind emergence of organizations and disappearance of others is an issue of economic rationality and profit maximization (Scapens, 2006). In other words, NIE concept is founded on the assumption that individuals' behavior is motivated by the economic interests that they are expecting from the behavior within the organization. Similarly, according to this view, organizations adopt the same approach as it also adopts certain management and control techniques to achieve specific economic interests.

Even though, as Scapens (2006) view, NIE theory is applied in the organizations that desire to understand the use of MCS and its relationship with the different management levels, however, based on its narrow view towards organizations operations, that is limited to the economic aspects of organizational activities, it seems that it does not meet the condition of this study since this study aims to understand MCS rooted not only in its economic rationality but also in its social contexts.

3.2.1.3 New Institutional Sociology (NIS)

It is argued that the foundation of NIS is laid down by Meyer and Rowan (1977) while they were researching the causes behind why some organizations are more institutionalized than others (Ribeiro & Scapens, 2006). The emergence of NIS has come in opposition of the dominating rational-actor approaches of that time (Moll *et al*., 2006).

In a response to the external social pressures, usually an organization strives to conform to the prevalent standards, traditions and social effects, which create homogeneous organizational structures, systems and practices, in a particular society (Carpenter & Feroz, 2001). Thus, within NIS, Scott (2008) defines an institution as "of regulative, normative and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life" (p. 48).

According to Moll *et al*. (2006), internal structures of an organization will reflect the rules, procedures and norms that are commonly accepted by and considered "right" in the society. Since an organization desires to survive, it introduces and upholds institutional rules that are established to provide legitimacy for attaining resources (Scapens, 2006). Such rules of legitimacy emphasizes on how an organization maintains internal and formal systems, including MCS, which is shaped by its external environment. These formal organizational structures have two characteristics. First, these structures rationalize prescriptions and other various social purposes as technical rule-like systems. Second, these structures are highly institutionalized in an organizational discretion manner. Scott (2001) comments this point and declares that:

> *"… all organizations are subject to important regulative processes and operate under the control of both local and more general governance structures, as well as in the broader sense that all organizations are socially constituted and are the subject of institutional processes that define what forms they can assume and how they may operate legitimately" (p. 136).*

Within the construction of the specific society, processes and actions of the organizations are monitored (Moll *et al*., 2006). The basic assumptions of NIS, about institutions, are to explain the similarities between organizations in specific environment, which place greater emphasis on the external rather than internal organizational factors (Scapens, 2006). These external factors may also shape the internal structures, systems and practices of an organization (Moll *et al*., 2006). The process of congruence between organizations external factors and internal structures/procedures is explained through what is called "isomorphism" (DiMaggio & Bowell, 1983). Isomorphism is the process that forces one unit in a society to resemble other units that face the same set of environmental conditions (Hassan, 2005). There are two components of isomorphism recognized in management accounting and control literature, namely; competitive isomorphism and institutional isomorphism.

3.2.1.3.1 Competitive isomorphism

The concept of competitive isomorphism refers to the forces of doing things in efficient, best and least-cost structures and practices that is adopted by an organization to survive in the competitive markets (Moll *et al.*, 2006). It describes how rational an organization is to correspond to its competitive market. This notion of rationality portrays that the optimal behavior of an organization is to generate the maximum possible profit while conforming

to the external rules. In the view of the modern organizations, the rationality is condemned for its focus on only market competitiveness (DiMaggio & Powell, 1983). Thus, to complement the drawbacks of rationality that is advocated by competitive isomorphism, institutional isomorphism has emerged.

3.2.1.3.2 Institutional isomorphism

Institutional isomorphism adopts the idea of formal organizations should be matched with their respective environment and develop organizational structures that reflect its social reality (Hassan, 2005). It includes rules, symbols and beliefs that enforce an organization to seek its social legitimacy. The concept of institutional isomorphism is divided into three subcategories: coercive isomorphism, mimetic isomorphism and normative isomorphism.

Coercive isomorphism: "Coercive isomorphism results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function" (DiMaggio & Powell, 1983). According to Hassan (2005), these pressures are exercised through the need for resources, regulations and other laws and it is illustrated by the other external rules. According to NIS theory of coercive isomorphism, the form of MCS is the result of the external factors that affect organizations (Moll *et al*., 2006). In the case of traditional (clannish) Somali culture, the study assumes that an organization, in order to survive and get legitimacy, should comply with the traditional norms and

values (coercive pressure). Hence, MCS practices will be subject to the coercive pressure of the traditional norms and customary laws.

Mimetic isomorphism: This concept views that all institutional isomorphism does not result from coercive pressures, but the social structure can also drive mimetic isomorphism. Based on this view, an organization looks for successful reference organizations to imitate its behavior particularly when there is uncertainty (Moll *et al*., 2006). Additionally, organizations may adopt the internal structures and procedures of the other organization when they fail to develop their own (Abernethy & Chua, 1996; Ribeiro & Scapens, 2006; Siti-Nabiha & Scapens, 2004). It is also believed that mimetic isomorphism is helpful when an organization face uncertainties (Hassan, 2005). For the case of business organizations in the traditional societies, particularly in Somalia, it is assumed that organizations may imitate structures and MCS techniques that are adopted by the other similar organizations, as a way of improving competitiveness in the unregulated business market of Somalia.

Normative isomorphism: According to this concept, structures, methods and procedures are defined by the dominant professions, professional bodies, or members of certain occupation. Abernethy and Chua (1996) defined normative isomorphism as "when professionals operating in an organization are subject to the pressures to conform to a set of norms and rules developed by occupational/professional groups" (p. 574). There are two forms of professionalization that is illustrated by isomorphism. The first form is the formal education that is produced by the specialized educational institutions whereas the second form is from the professional training centers (Moll *et al*., 2006). In

the traditional clannish societies, like Somalia, the graduates of the higher educational institutions may contribute to the development of certain MCS techniques on the one hand; and on the other, specialized trainings offered to the individuals in the organization, may create new innovations in the process of the organization.

Even though NIS theory draws a wide range of various insights such as, cognitive science, cultural studies, psychology, anthropology and other social analysis, however, it is criticized for its focus on the issues of influence at the macro-levels as well as its assumption that organizational practices and procedures are adopted to obtain external legitimacy, while ignoring internal operating systems (Yazdifar *et al.*, 2008). Despite such criticisms, generally, researchers using NIS can integrate more comprehensive perspectives focusing on both external (macro) and internal (micro) organizational settings (Moll *et al*., 2006). As a result, the application of NIS in organizational sociology would enable the researcher to examine the organization relationship with its environment (Fisher, 1998; Huang, Tayles & Luther, 2010; Sisaye, 1998).

Based on the above discussion about OIE and NIS, the following are the main justifications behind the adoption of OIE and NIS. First, since organizations are open social systems that cannot operate detached from the socio-political factors (i.e. external and internal factors), there is a need to understand both external and internal factors that shape organizations' operations. Each of OIE and NIS is used to explain certain MCS practices. For instance, OIE provides an explanation about the internal rules, habits and routines that constitute and shape the internal behavior of an organization. Therefore, OIE is adopted to guide the explanation of internal process, habits and practices of the

organization. On the other hand, NIS is used to explain how external factors structure the organizational behavior in specific social environment (Abernethy & Chua, 1996). According to James (2009), institutional sociological research attempts to explain the role of external environment as the main factor to determine organization's internal structures and systems.

Even though studies that adopt NIS is usually assume that, through the process of coercive, mimetic and normative, an organization competes for political power and legitimacy, in some environments such as Somalia, the situation is quite unique in terms of political crisis and *clanism*. Since the collapse of the central state in 1991, chaos, political conflict and *clanism* is part of the normal daily life. From 1991, there is a political vacuum where regulatory institutions are nonfunctioning and as well as the frequent fights between the nominal state and the many opposition factions. Such situation has created a political instability, which in turn, paved the way for traditional clannish norms and customary laws as alternative social control (Little, 2005; Hastings, 2009). Undoubtedly, such situation led to the unrest of business market in the main cities which has also increased the uncertainty in the business markets (International Alert, 2006). Additionally, the absence of regulatory system and institutions also caused the unhealthy competition among business organizations as there are no legal procedures for business establishment and standardization in the market (Ismail, 2007). Similarly, the absence of the regulatory institutions made the currency a floating one that is subject to the free-for-all market.

On top of that, external cultural factors may affect also business operations in Somalia. For example, clannish conflicts and the settlement of the clans' disputes may halt the business operation for a while. It regularly, happens that some clans attack certain business organization offices because they believe that company is mainly owned by clan A or B; the against-clan. Therefore, to deal with such a social and political complex, business organizations are assumed to employ certain control techniques that may be deemed to reduce uncertainty of Somalia's environment. These social factors; cultural, political and economic, may create a macro-level pressure on the organization, and to survive the organization has to respond to such external pressure by employing MCS techniques (Scott, 2001). In this sense, NIS was employed to explore the effect of the macro-level pressure on the development of certain MCS routines and practices.

Second, due to its limited view to the economic rationality, NIE cannot fulfill the requirements of this study, since it does not cope with the dimensions of socially constructed MCS. Thus, to understand the complex situation of organizations operating in the Somali traditional clannish societies, the study implements the control components that are offered in the conceptual framework that is adopted for the purpose of this study. The framework is discussed in the next section.

3.3 The Conceptual Framework of MCS as a "package"

As previously stated, the main purpose of the study is to understand the patterns of management control practices that are used by business organizations operating in the traditional clannish environments like Somalia. To explore and to further our

understanding of MCS, the study combines the MCS components of the most comprehensive frameworks in the MCS literature. After a thorough review of the literature, the study combines the control components of MCS frameworks of Malmi and Brown (2008) and Ferreira and Otley (2009), with incorporation of control process of Anthony and Govindarajan (2007) and some of the control concepts of Merchant and Van der Stede (2007). This framework is considered broadly enough to capture MCS as a package in the different social contexts, including the traditional clannish societies.

As discussed earlier, the main reason for combining these frameworks is to minimize the major limitations of each framework and, as a result, this framework incorporates the strengths of the frameworks discussed earlier in the MCS literature. For instance, as discussed in the comment section of chapter two, the framework of Ferreira and Otley (2005, 2009) did not give sufficient consideration about the role of external factors in MCS, particularly, the social controls such as traditional norms, cultural values and symbols. These issues are considered very important for studying social science like management control patterns in the traditional societies (Hauriasi & Davey, 2009; Hofstede, 1984; Uddin, 2009). Likewise, the framework of Malmi and Brown (2008) failed to consider some administrative control elements such as vision and mission. Similarly, Malmi and Brown (2008) neglected the extent and the process of MCS change which is part of administrative controls.

These control elements seem to be essential for the success of the other strategies and plans of the organization (Otley, 1999; Atkinson *et al*., 1997). Additionally, the conceptual framework here considers the information flow, communication and relationship among employees as a crucial factor for the success of MCS in the traditional

societies. Hopper *et al*. (2009) asserts that information sharing and reporting relationships may sometimes be restricted to particular group networks such as family members or friendship connections.

Furthermore, some additional control components are included in this framework; like intrinsic rewards, which was not considered in both frameworks of Malmi and Brown (2008) and Ferreira and Otley (2009) but was explored in the recent MCS studies. In the traditional societies, where mutual relationships of the society members and their belongingness are highly valued, intrinsic rewards may be more important than extrinsic (Tsamenyi *et al*., 2008). Finally, it is believed that this framework suites to explain the management control variables in an environment where the market standards, rules and regulations of the state and the other public institutions are superseded by the traditional clannish norms, ideological beliefs and the values of the clannish family networks (Hopper *et al*., 2009).

According to the Figure 3.1, cultural control represents the main factor that directs the entire organizational system and operation. Hofstede (1984) views, that management system within a society is the result of its cultural norms, symbols and values. This means that cultural issues are the primary factors that structure the development of sub-systems and activities. Similarly, based on the cultural systems of the organization's owners and management, the administrative control is structured.

Therefore, cultural norms and values shape the form of management structure that an organization develops to achieve its organizational objectives. Hence, organizational structures, the structure of governing boards and policies and procedures are shaped by the cultural views of the organization owners and managers (Hofstede, 1984). This is the

way an administrative control system is expected to evolve. Similarly, the control process, which mostly focuses on routine and operational aspects, is the product of the administrative control. As mentioned previously, administrative control depends on the view of the cultural controls. Therefore, control process is a tool that helps the administrative control which shapes how regular routines operate that is designed to serves administrative controls.

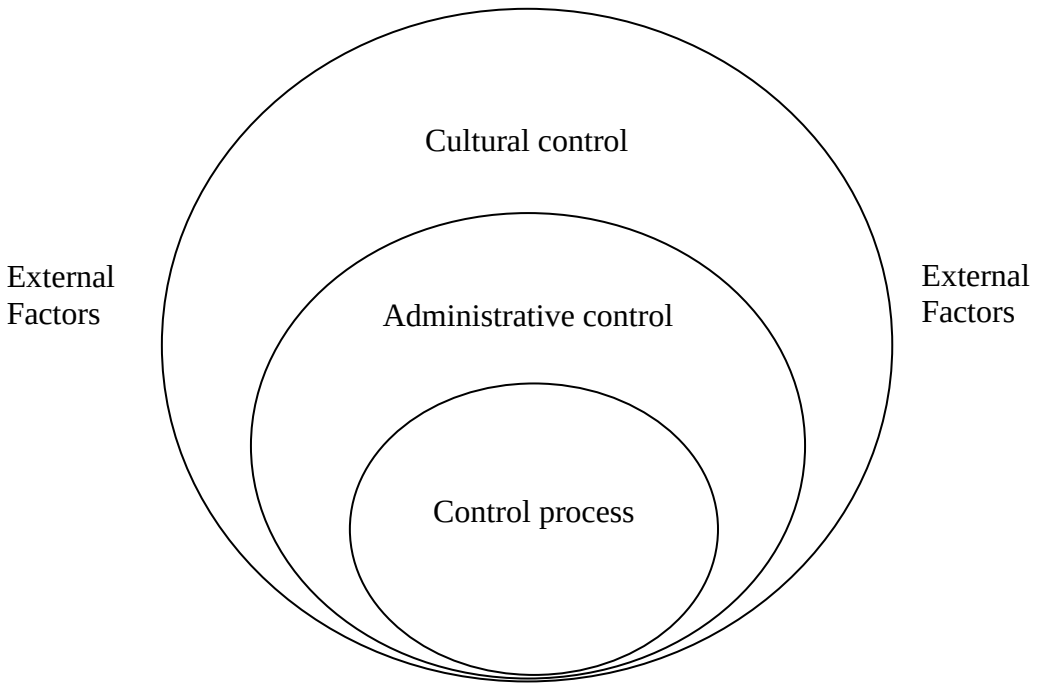

Figure 3.1
The Conceptual Framework for MCS in the Traditional Clannish Societies

In that sequence, the three control constructs; cultural control, administrative control and control process, intertwine and strive for the achievement of the organizational ultimate objectives. In the next section, the components and control areas of framework are discussed.

Table 3.1

Description of the Framework and the Control Elements

Control area	Control element	Description control element
Cultural controls	Clans (Ouchi, 1979)	It is informal social norms imposed by the in-group members to behave according to the norms and values and voluntarily adopt it which usually has rigid nature (Harrison & McKinnon, 1999).
	Beliefs and Values (Simons, 1995; Herath, 2007)	The influence of ideological beliefs, traditional cultural values and informal norms on individuals' behavior and the role of such behavior on management controls (Hofstede, 1984; Malmi & Brown, 2008).
	Symbols (Tsamenyi *et al*., 2008)	Symbol controls are the visible expression used by the organization in an attempt to control employees behavior and relationships (Malmi & Brown, 2008)
Administrative controls	Vision and Mission (Ferreira & Otley, 2009)	The vision and mission of the organization expressed as statements, which outlines the desired future state and the expectation of the stakeholders (Ferreira & Otley, 2009).
	Organizational Structure & design (Malmi & Brown, 2008)	It refers to the organizational hierarchy, rules and regulations and reporting relationships among individuals within the organization (Herath, 2007; Malmi & Brown, 2008).
	Governance mechanisms (Malmi & Brown, 2008)	It refers to the formal lines of authorities and responsibilities such as boards' structure and composition and other various management and project teams (Malmi & Brown, 2008).
	Process of MCS change (Ferreira & Otley, 2009)	It refers to the ways and reasons that certain MCS techniques are adopted or not adopted (Ferreira & Otley, 2009).
Control process	Planning (Malmi & Brown, 2008; Ferreira & Otley, 2009)	An ex ante control forms that is used to set both strategic and operational planning to forward-looking of the future (Malmi & Brown, 2008; Ferreira & Otley, 2009).
	Budgeting & Budgets (Anthony & Govindarajan, 2007)	Budgets are quantitative expressions to allocate financial resources of the organization to the planned activities in the different units and subunits of the organization (Malmi & Brown, 2008).

Table 3.1 (continued)

Performance Measurement (PM) (Ferreira & Otley, 2009)	To establish the standards and the key performance measures, comparing results to the standards, variance analysis and taking corrective adjustments (Malmi & Brown, 2008; Ferreira & Otley, 2009)
Information flow systems and networks (Ferreira & Otley, 2009)	It refers to the mechanisms used to transmit information from the extremities to the centers and from the centers to the extremities (Ferreira & Otley, 2009). Financial information process for external accountability and internal transparency (Efferin & Hopper, 2007).
Compensation & reward systems (Ferreira & Otley, 2009)	Any system that is used to motivate employees for the purpose of increasing their performance through tying rewards to effort direction, effort duration, and effort intensity (Malmi & Brown, 2008).

3.4 Explanation of the Framework Control areas and Components

This section discusses the control areas and control elements that have been depicted in Figure 3.1, and Table 3.1. The control areas are; cultural, administrative and control process. This section explains the control areas as well as the control components that are demonstrated in the proposed conceptual framework and the subsequent Table that details the control elements of the framework.

3.4.1 Cultural Controls

The role of culture on the design and execution of MCS, specifically planning and control, has gained importance over the past three decades (Chenhall, 2003; Hofstede, 1984; Sisaye, 2005)., however, Hofstede (1984) has provided a popular definition that is common among management fields. Expressing how culture influences management

practices of the society, Hofstede (1984) pointed out that "management within a society is very much constrained by its cultural context, because it is impossible to coordinate the actions of people without a deep understanding of their values, beliefs, and expressions" (p. 82). Control approaches as a function of MCS, that is used by the group members who share beliefs and values, will strongly be affected by the culture (Ansari & Bell, 1991). Additionally, Sisaye (2005) notes that culture can play an essential role to direct instrumental control mechanisms and facilitate the best ways of working relationships among employees and organization. In this study three types of cultural controls are considered; clan control (Ouchi, 1979), beliefs and value based controls (Herath, 2007; Simons, 1995) and symbol based controls (Tsamenyi *et al*., 2008).

Clan controls. Clan is a homogeneous group of which its members share common values, beliefs and norms (Ouchi, 1979). Unlike formal organizational authority, clan control is based on peer monitoring and sanctions, where members have to promulgate shared values, beliefs and norms (Chua, Lim, Soh & Sia, 2012). The concept of clan control is based on the socialization process that instills in the individuals which creates a kind of boundary among them. For example, informal social relationship between managers and subordinates or among subordinates themselves is a form of clan controls, where it illustrates the operation of the clan mechanisms to control their group members according to the requirements of the informal norms. Describing the role of clan control mechanisms, Ouchi (1979) pointed out that clan control relies, for its control, upon a traditional contract that requires high level of commitment from the members to achieve socially prescribed common behavior. Such contract among members serves as a basis for organizational control, and it also requires a norm of reciprocity and legitimate

authority (Ouchi, 1979). Clannish relationships may have several forms. For instance, it may be in the form of biological shared family connections, religious associations or professionally networked groups. Such connections may provide an atmosphere of solidarity among the group members and develop a level of trust that encourages employees to behave in the best interest of the group (Cook *et al*., 1997). Trust-based relationship is an informal control that encourages self-regulation from the two sides (Berry *et al*., 2009). This study considers only the clannish system that is based on the biological networks which is common in the majority of the East African countries (Jackson *et al.*, 2008) particularly the society of the study, the Somali clans, and the influence of their *clanism* on the employees' behavior in the organizations.

Beliefs and value-based controls. In his levers of control, Simons (1995) developed the concept of belief and value systems and emphasized its role in control systems. Simons (1995) defined beliefs and control systems as "the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purposes and direction for the organization" (p. 34). Managers employ beliefs systems as an approach to communicate vision, mission, core values and the strategies of the organization. As Malmi and Brown (2008) view, such belief system works on three levels. First, during recruitment employees may be selected based on specific beliefs and values that match with those of the organization. Second, socialization process, to change individuals' values, to fit them into organization's values, takes place. Third, values are clarified to enable employees to behave according to the organizational values. In this study, it is assumed that traditional values, based on *clanism*, are very important factor that may affect other social, economic

and cultural aspects of the society under study (Lewis, 2004). Thus, this study considers how clannish norms are mobilized to communicate vision/mission, strategies, policies and information sharing in general, and particularly, how these values and norms affect the daily routines of the organizational activities.

Symbol-based controls. Symbol-based control refers to the physical expressions that an organization adopts to facilitate a collaborative environment that helps to ease communication and control over employees' behavior during the work. Such symbol expressions include the design of offices, dress code, and encouraging particular form of culture in the organization (Malmi & Brown, 2008). This study explore whether specific symbol-based (e.g. internal design of the offices, religious and/or traditional dress, etc) play a role in the development of specific routines and practices that have become common and accepted by the individuals.

3.4.2 Administrative Control

Administrative control involves the matters related to the overall structural system of the organization which institutes the responsibilities and flow of information and decisions. In this study, the following divisions of administrative control are focused:

Vision and Mission. The existence of vision and mission statement is an essential foundation that positions the success of the rest of the administrative and control process functions (Ferreira & Otley, 2009). Organizational vision draws the desired future status that the organization spires (Cook *et al*., 1997), the mission is the "overriding purpose of the organization in line with the values or expectations of stakeholders" (Ferreira &

Otley, 2009, p. 268). Instituting vision and mission statements of the organization directs individuals behavior and actions towards organizational goal achievement (Malmi & Brown, 2008), on the one hand; and on the other, it determines the relationship between the organization and its stakeholders, such as customers, suppliers and the public at large (Chenhall, 2003). Simons (1995) included vision and mission in the beliefs system of his levers of control and considered them as part of core values that guide other organizational control activities. Ferreira and Otley (2009) also points out that organizations may exist and operate with clear vision and mission but they also signify the importance of understanding approaches of MCS that takes place in such organizations.

On the other hand, an organization may have clear vision and mission, but does not properly communicate to its stakeholders, which also may necessitate exploring its implications. This study will explore whether vision, mission and other values of the organization are developed and whether it is explicitly communicated to the interested stakeholders of the organization. Additionally, the extent that vision and mission are linked to the other administrative controls will be explored.

Organizational Structure. As an element of control, Ferreira & Otley, (2009) emphasized that organizational structure determines individuals' responsibilities and accountabilities and it also defines each individual's tasks and duties. By using specific structure, the relationships and contracts among different levels of management in the organization is clarified (Abernethy & Brownel, 1997). Depending on the contingent variables, there is no standardized organizational structure that is applicable to all organizations at all the times. Every organization develops its own structure that suites to

its organizational needs and in response to the surrounding environment. However, as Ferreira & Otley (2009) emphasize, it is necessary for every organization, to design and implement the structure that enables it to achieve its organizational objectives and goals. Policies and procedures of the organization is part of the organizational structure and specify the authority of each division or unit in an organization, as well as the processes and behavior that an organization desires to be achieved (Malmi & Brown, 2008). This study, explores whether the organization has developed formal organizational structure that specifies authorities, responsibilities, tasks, policies and procedures, and whether these issues were communicated to the stakeholders of the organization, particularly employees.

Governance mechanisms. As stated earlier, governance structure is related to the board structure and its composition. Based on the agency theory, organization's governance system is determined by the relationship between the agent (management) and the principal (stakeholders), which draws whether agents are undertaking their agency duty to the best interests of the principal. Governance system of an organization enables the various boards and committees in an organization, to coordinate their activities and responsibilities both vertically and horizontally (Malmi & Brown, 2008). In other words, governance structure harmonizes the different interests of the stakeholders and helps to create formal relationship among different lines of authorities, decision-making process and how different divisions of the organization involve in those tasks (Malmi & Brown, 2008). Governance system of an organization is affected by the norms, traditions and behavioral patterns of the particular environment in which governance takes place. For example, Overall, Tapsell and Woods, (2010) revealed that traditional

theories of governance are insufficient to explain governance in its cultural context. This means that different social contexts may require its own localized form of governance mechanism that matches its political, economic and cultural context. In this study, it is attempted to understand the procedures that are related to the governing boards, decision making process, practices of authorities and the mechanisms of information communication and sharing.

Process of MCS change. Based on the organizational culture and governance, MCS practices may change to align with the norms of the organization as well as the changes of the other external factor (Hoque, 2003). Given that the organization is an open social system that is integrated with its social, economic and cultural factors, it also interacts and responses to its surrounding environment (Fisher, 1998). In response to the changes of market share, employee commitment, attitude, and morale may also necessitate changing MCS process and practices, which in turn, require individuals to adjust their behavior in order to sustain MCS relevance.

Ferreira and Otley (2009) argue that it is important to understand the causes of MCS change and consequences of that change. They pointed out that changing certain techniques such as technology, or introducing new structures, approaches, process and procedures, or new products, may bring with it positive or negative reaction from the different stakeholders in the organization. In this study, the main reason for searching MCS change is to understand the extent and process of introducing MCS techniques and development process that may take place in the organization, particularly in Somalia's unstable environment. Understanding the process of MCS development may help organizations to pre-plan the potential implications of MCS before and during MCS

design and implementation. Thus, by exploring organization's practices and procedures, this study attempts to understand how the ongoing process of adaptation of certain MCS techniques takes place.

3.4.3 Control Process

The control process in here is meant what Anthony and Govindarajan (2007) call the management control process that focuses on the operational tasks of the organization. Control process is an integrated group of activities that are designed to achieve a specific purpose and it includes physical, people and information elements (Atkinson *et al*., 1997; Anthony & Govindarajan, 2007). The importance of control process has been emphasized by Anthony and Govindarajan (2007) in their MCS techniques typology. In their typology, the control process of MCS include; planning (both strategic and action), budgeting, performance measurement, motivation management and information flow and network. These control elements are discussed below:

Planning. The strategies and plans of any organization should be based on the stakeholders' needs of that organization. There are five major stakeholders that an organization has to serve; customers, employees, suppliers, owners, and the community (Atkinson *et al*., 1997). The success of the organization depends on the achievement of these stakeholders' objectives. To achieve the objectives of the stakeholders, which is also the organization's objectives, an organization should set up plans. As Koontz (1958) defined, planning is the "the conscious determination of courses of action designed to accomplish purposes" (p. 48). In other words, planning refers to the task of forward-looking towards future actions. It draws the standardized results that should be achieved

in accordance with the goals and objectives of the organization on the one hand, and it enables management to align employees' behavior with the organizational goals, on the other (Malmi & Brown, 2008).

Atkinson *et al*. (1997) underlined that planning is a contract between the organization and its stakeholders which specifies what the organization has to deliver to its stakeholders. Malmi and Brown (2008) also categorized planning into two types: action planning and long term planning. Action planning refers to the plans that are related to the near future, i.e. twelve months or less, and usually have a tactical focus. On the other hand, long term planning has a strategic focus and concerns to the medium and long term goals and actions (Malmi & Brown, 2008). Even though there is no identical planning system among organizations, however, Friend and Zehle (2004) noted that any plan should identify: defined markets, growth prospects, target customers, suppliers, main competitors, planning assumptions and forecast, potential risks and mitigating actions. Similarly, planning covers logistics, personnel, customer service and other administrative processes (Atkinson *et al*., 1997). As a result, this study attempts to identify whether the organization has written its (planned) future activities as well as the types of plans; short term and long term plans.

Budgeting. To implement plans, a financial budgeting is an essential tool to translate plans into actions. As Atkinson *et al*. (1997) points out, plans reflect the priorities of the activities and how important every activity is. On the other hand, budgeting refers to the tasks of forecasting the future financial performance of an organization for the purpose of evaluating its financial abilities to execute planned

activities (Davila & Foster, 2007). In other words, budgeting is a form of planning that focuses on the accounting-based information and helps translate plans into financially measurable actions. Budgets can be used as an MCS tool because it can influence employees behavior for the purpose of translating organization's objectives into plans and actions (King, Clarkson & Wallace, 2010). Furthermore, budgets can serve as an instrument to communicate organizational goals, and operates as a benchmark against which to assess performance of the individuals as well as the organization.

While budgeting is the process to prepare budgets, budgets are quantitative expressions to allocate financial resources of the organization to the planned activities in the different units and subunits of the organization (Atkinson *et al*., 1997; Malmi & Brown, 2008). Empirically, the role of budgets in organization's performance was substantiated by several researchers (Fruitticher *et al*., 2005; Frow *et al*., 2010; King *et al*., 2010; Libby & Lindsay, 2010). In this study, operating budgets (sales, capital, production/service, labor and administrative) and financial budgets are explored. Although budgeting is considered part of the planning, but the reasons we separated it from planning is that organizations, in the developing countries, may use budgeting as a tool for financially forecasting only with the perception that budgets are small part of financial accounting procedures (Flamholtz, 1983; Zan & Xue, 2011)

Performance measurement. Performance measures (PM) are used to measure the achievement of the organizational objectives and goals, but in quantifiable manner. As Ferreira and Otley (2009) stated, key performance measures are "the financial or nonfinancial measures used at different levels in organizations to evaluate the success in

achieving their objectives, key success factors, strategies and plans…". The purpose of these performance measures is to satisfy the expectations of the organization's stakeholders. The number of performance measures, its appropriateness and the ways to implement it depends on the organizations needs and the environment in which it operates (Otley, 1999). Specifically, nonfinancial performance measures may not be identical among organizations and even for the different times in one organization (Atkinson *et al.*, 1997).

The major financial performance measures that are used by many organizations include; analysis of financial ratios (e.g. profitability, liquidity, return on investment, return on equity, residual income, net earnings, earnings per share and revenue growth), and any other measures deemed to be useful for the success measurement of the organization's activities (Halabi, Barrett & Dyt, 2010; Hoque, 2003). On the other hand, nonfinancial measures that organizations may use include; economic value added, total quality management, productivity, customer satisfaction and market share (Otley, 1999).

To implement PM, an evaluation system should be put in place. The process of performance evaluation is one of the primary concerns in the organizations. Performance evaluation (PE) refers to the issues that managers consider as the most important factor that determines the potential success of the organization in the future (Ferreira & Otley, 2009). PE can be at organizational level or divisional and departmental level. Similarly, performance evaluation may be designed on team basis, or on individual basis. However, as Ferreira and Otley (2009) notes, an organization should put greater priority on the general evaluation measures rather than specific evaluation measures, without negligence

of the specific issue evaluation. Additionally, whether PE is subjective or objective should be decided by the organization. According to Ferreira and Otley (2009), an evaluator determines specific subjective weightings which is unknown to the evaluee. In contrast, authors view that objective PE refers to the formulaic PE techniques that depends on actual results and predetermined standards. Objective PE may be appropriate when the relationship between input and output is obvious. In this study, the key performance measures that are employed by the organizations are explored as well as the process of evaluating individuals, groups and the organization in general.

Information flow systems and networks. Ferreira and Otley (2009) considered this control element as the binding engine that keeps the entire system of the organization together. They resembled it as the nervous system in the human body. The flow of information among different divisions, horizontally and vertically, determines the efficiency of the other MCS (Herath, 2007). Moreover, Ferreira and Otley (2009) point out that efficient control of information enables the organization to learn from its experience, take corrective actions, encourage innovation, and create strategies and plans. These tasks cannot be performed without effective information sharing and communication mechanisms among different management levels (Atkinson *et al*., 1997). Information should be disseminated among the stakeholders who need to get the necessary information and in the right time.

Information flow depends on the different systems in the organization such as information technology infrastructure, accounting systems, financial reports and budgets (Ferreira & Otley, 2009). Additionally, timeliness, accuracy, relevance and reliability of the information are necessary for better coherence of the decisions. Effective information

sharing and network motivates employees and encourages them to behave in the best interest of the organization (Ferreira & Otley, 2009). As Tsamenyi *et al*. (2008) noted, in the traditional societies, informal channels of information transfer or oral cultures of information sharing are the prevalent as a way of powerful source to disseminate information vertically. This study attempts to explore the reporting relationships, extent of communicating decisions, budgets, policies and procedures as well as the informal networks that takes place to disseminate information and rumors among employees.

Compensation and reward system. Employee motivation is the thing that employee value and drives them to act in a certain way (Atkinson, *et al*., 1997; Merchant & Otley, 2007). To create goal congruence between organizations' objectives and employee interests, an organization has to establish compensation and reward systems (Anthony & Govindarajan, 2007) that construct an alignment between what employee want to achieve, for their personal interest, and what the organization desires to realize. There are two forms of employee motivation; extrinsic and intrinsic. Extrinsic motivation focuses on the quantifiable benefits rendered to the employees through financial rewards such as bonuses and salary increase (Ferreira & Otley, 2009; Stringer *et al*., 2011). Rewards may be based on collective performance or individual performance. For instance, collectively paid rewards include; profit sharing schemes, team-based incentive schemes, and gain-sharing plans. Similarly, even though it is difficult to identify individuals' role in the organization's performance, however, performance evaluation based on individuals is used (Ferreira & Otley, 2009).

To measure the extrinsic incentives system, Malmi and Brown (2008) suggested three approaches; effort direction (the tasks individuals focus on), effort duration (how long individuals devote themselves to the task) and effort intensity (the amount of attention individuals devote to the task). On the other hand, intrinsic motivation refers to the psychological satisfaction which the individuals gain through unquantifiable methods. Intrinsic motivation is extracted from nonmonetary motivation approaches such as recognition, fairness and equity, inclusiveness and praise (Ferreira & Otley, 2009).

Even though intrinsic motivation has received subtle attention from the current literature of MCS, however, in the modern organizations, concern of individuals about nonmonetary rewards is increasing (Ferreira & Otley, 2009; Stringer *et al*., 2011). Although compensation and reward systems are strongly linked to the performance measurement and evaluation system, however, organizations may rely on reward methods that are not connected to the performance such as group-based rewards or for other purposes such as the retention of employees (Malmi & Brown, 2008). In this study, it is explored what forms of reward systems (extrinsic and intrinsic) organizations employ to retain and encourage their employees in the traditional clannish society of Somalia.

3.5 Chapter Summary

The conceptual framework here is intended to provide a guide to study organizations operating in different social settings with particular consideration about organizations operating in the traditional societies. The framework is drawn from the current MCS literature (Anthony & Govindarajan, 2007; Malmi & Brown, 2008; Ferreira & Otley,

2009). It attempts to capture the main elements of MCS with the consideration of internal and external, social, economic and cultural aspects of an organization. The aim of adopting this framework is to use it as a tool for guiding this research and provide an explanation to the details of the MCS implanted in its social context. It covers the major control elements that are identified in the MCS literature, namely; cultural, administrative and control process. It is hoped that this framework will provide researcher with broader view and also will be useful to explore MCS as a package in the different social settings.

CHAPTER FOUR

METHODOLOGY AND THE RESEARCH METHODS

4.1 Introduction

The choice of methodology is usually inherent in the development and research process that makes necessary to explicitly state the prejudice assumptions and strategies that guide the research process of the design, data collection and analysis (Laughlin, 1995). This chapter discusses the research methodology (philosophical aspects of the methods), and the qualitative case research methods that the study adopts for design, data collection and analyses. The chapter also outlines the reasons for choosing qualitative case research approach. In the last section of the chapter, research design, data collection instruments and the data analysis techniques are highlighted.

4.2 The Philosophy and the Paradigm of the Study

At the beginning of any research, the philosophical aspects, concepts and questions that lie behind the entrance into specific research area should be considered. Every research project is reflected by the previous beliefs and assumptions of the researcher (Eriksson & Kovalainen, 2008; Chua, 1986; Hoque & Hopper, 1994). Saunders *et al*. (2007) argue that the presumed premises determine the philosophical differences, which also influence thinking ways of researchers and their research processes. These philosophical assumptions may guide the researcher to understand and interpret the specific research.

The belief system or the worldview, which sometimes is expressed as the paradigm of the researcher, determines what and how specific beliefs and assumptions are learned or acquired (Guba & Lincoln, 1998; Eriksson & Kovalainen, 2008). Paradigm is a universally recognized scientific approach that adopts scientific models to provide solutions to the practitioners (Kuhn, 1996). The term "paradigm" plays several roles at the different levels of scientific research. For example, at the philosophical level, the research paradigm reflects the worldview that guides the research project, while at the technical level the research paradigm offers the strategy to conduct research project and hence enable researchers to identify what research methods are appropriate for data collection and analyses of their projects (Eriksson & Kovalainen, 2008, p. 16-20). The general meaning of paradigm is the thinking modes that locate individuals' positions and their relationship with the other parts of the world (Guba and Lincoln, 1998). In other words, the definition of the researcher's position towards the sources of knowledge and the nature of the world facilitate to define the conceptualization of the phenomenon and, according to the philosophical positions of the researcher, explain the phenomenon. Research paradigm is about the methods and approaches that represent the starting point to guide research inquiry, and should come before the choice of any method for field research.

The basis of philosophical paradigms is built on the main social science dimensions which determine the structure of any research. As Guba and Lincoln (1998) reveal, there are three distinct assumptions on which any research should be built on; (1) assumptions about the fundamental nature of organizational phenomena (ontology), (2) the nature of knowledge about how researchers know the phenomenon (epistemology),

and (3) the ways and processes of studying the phenomenon (methodology). As Chua (1986) explained, these three assumptions (ontology, epistemology and methodology) spell out the beliefs about knowledge, the beliefs about physical and social reality and the assumed relationships between theory and practices. Based on these three philosophical assumptions, presented by Chua (1986), the current main paradigms of conventional accounting concepts have emerged in the accounting research.

These theoretical assumptions of accounting research, including management accounting, takes three perspectives, namely; mainstream or positivist, critical and interpretivist (Chua, 1986). The mainstream perspective, which is the most dominant in accounting research (Ryan *et al*., 2002) refers to the assumption that the only legitimate knowledge can be drawn from the experience (Johnson & Duberley, 2000). This perspective believes that reality is stable and can be observed and described from an objective viewpoint (Swanson & Holton, 2005). Thus, according to the mainstream perspective, the researcher (positivist) contends that phenomena should be isolated and that observations should be repeatable.

The mainstream accounting research concerns the functions of accounting and adopts the objective view of the individuals and society which is the parameter of the empirical observations (Ryan *et al*., 2002). Additionally, the mainstream accounting perspective privileges positive (quantitative) research methodology and the generalization of results (Chua, 1986). There is, however, much debate on the matter of whether or not the positivist perspective is entirely suitable to the social sciences, as there are currently scholarly calls for more multiple attitudes towards business related research areas

(Alhtaybat & Alhtaybat, 2010; Elharidy, Nicholson & Scapens, 2008; Parker, 2008; Swanson & Holton, 2005). Similarly, the mainstream perspective has been criticized for its focus on how to generate hypothesis for empirical tests and that this perspective does not provide adequate concern to explain the behavioral issues of organizations (Ryan *et al*., 2002). Therefore, in a response to the shortcomings of positivist perspective, the critical perspective had emerged. Hence, as an alternative approach critical and interpretive perspectives come into view.

Critical perspective also agrees much with the positivist perspective, that there is an observable world which is independent from the human consciousness (Eriksson & Kovalainen, 2008; Ryan *et al*., 2002). According to this perspective, social phenomena can be understood from the objective standpoint, but with the subjective interpretation of the phenomena's historical development and relations (Saunders *et al*., 2007). Contu and Willmott (2005) suggest that critical perspective allows the researcher to use multi-methodological approaches, which in turn, may enhance the clarity of the analysis and give more details about the causalities in the organizations' development. However, as Eriksson and Kovalainen (2008) view, the adoption of critical perspective in business research is not an easy or an uncontested approach.

Table 4.1
The Dominant Assumptions in Accounting Research

	Mainstream accounting research	Critical accounting research	Interpretive research

Belief about knowledge	Theory and practice are independent of each other and quantitative methods of data collection are favored as based for generalization	Criteria for judging theories are always temporal and context-bound. Social objects can be understood only through a study of their history and change within the totality of relations	Theory is used to provide explanations of human intentions. Its adequacy is assessed via logical consistency, subjective interpretation and agreement with the actors.
Belief about physical and social reality	Empirical reality is objective and external to subject and researcher. Human actors are essentially passive objects, who rationally pursue their assumed goals. Society and organizations are basically stable and dysfunctional behavior can be managed through the design of control systems.	Empirical reality is characterized by objectivity but is transformed and reproduced through subjective interpretation. Human intention and rationality are accepted but have to be analyzed critically, because human potential is alienated through false consciousness and ideology. Fundamental conflict is endemic in society, because of injustice.	Reality is socially created and objectified through human intentions. Human action is intentional and has meaning grounded in the social and historical context. Social order is assumed and conflict mediated through shared meanings.
Relationship between accounting theory and practice	Accounting is concerned with means, not ends, it is value neutral and existing institutional structures are taken for granted.	Theory has critical imperative, in particular, the identification and removal of domination and ideological practices	Accounting theory seeks to explain action and to understand how social order is produced and reproduced.

Source: Chua (1986, p. 605- 615)

This study discards the claims of the mainstream and critical perspectives, which view that there is a stable reality that can be described from an objective viewpoint, where the researchers' task is to record the phenomenon in distance and detached from

the reality. Rather this study adopts a subjectivist interpretive approach, where it adopts the view that the researcher has to join the world that is being researched. As Ryan *et al*. (2002) claim, to study social practices, including accounting, the researcher should be directly involved with the reality and has to look for the relationships between social actions, structures and dimensions. Therefore, with the belief that accounting practices is a social product which is much influenced by the social actors (see Ryan *et al*., 2002), it is believed that an interaction with the real daily-life of the organization is a prerequisite to understand their social settings (Eriksson & Kovalainen, 2008). This approach may help us to understand the complex issues of socially constructed business practices, particularly in the developing countries where social norms dominate (Rahaman, 2010). Therefore, interpretivist perspective was adhered in this study and is discussed separately in the next section.

4.3 The Interpretive Perspective in MCS

The interpretive research perspective believes that social practices, including management and control systems, are socially constructed (Chua, 1986). According to Elharidy *et al*. (2008), interpretive perspective in management accounting research involves exploring the real world practices, settings, and decisions with the aim to understand them and then interpret them, while considering its implanted social contexts. In this view, the researcher is part of the reality under research, because the researcher has to interact with the phenomenon and attempt to explore and understand as a part of that nature. This is the view of naturalistic philosophy, which focuses on social practices as they are, not as they should be (Kakkuri-Knuuttila, Lukka & Kuorikoski, 2008). In

naturalistic philosophy, the researcher is attached directly to and analyses the phenomenon in a concrete manner. In doing so, the researcher intends to understand the social practices that exist on the ground and trying to find its solutions, instead of looking for artificial explanations while remaining apart from the situation (Elharidy *et al.,* 2008). Commenting the nature of interpretive research perspective and its role in exploring its real meanings, Chua (1986) noted that "the aim of interpretive scientist is to enrich people's understand of the meanings of their actions, thus increasing the possibility of mutual communication and influence" (p. 615). Similarly, to develop a holistic comprehension of the people's behavior, in an organizational field, interpretive perspective can be useful for better explanation of employee's collective actions (Elharidy *et al.,* 2008).

Even though interpretive research philosophy was originally used for the fields of sociology, cultural anthropology, political and social work (Irving & Gaffikin, 2006), however, it is also identified as useful in the business fields and there is a growing dissatisfaction with the appropriateness of quantitatively (positivist) produced information in certain circumstances (Cepeda & Martin, 2006; Lukka & Modell, 2010; Vaivio, 2008). Consequently, based on qualitative methods, interpretive research perceives that the development of management accounting and control systems is shaped by the social construction in certain environments (Chua, 1986, 1988; Jeacle, 2009; Kakkuri-Knuuttila, *et al.,* 2008).

Interpretive research in management accounting and control contends that only through the subjective interpretations of reality can be understood how specific MCS take

place in the concerned organizational reality (Vaivio & Sirén, 2010). Moreover, it is a helpful instrument to explore the mechanisms used by an organization to create a common understanding of its employees with the conformity to the social traditions, norms and values, under which the organization operates (Otley, 2001). It is a distinctive approach that offers an alternative to the traditional aforesaid perspectives that permits the direct involvement of the researcher with the social practices and process. Thus, to achieve the main objectives of this study, interpretive research philosophy is considered appropriate to interpret the socially constructed MCS practices of organizations in the traditional clannish Somali context. The reasons for choosing this perspective are highlighted in the next section.

4.4 The Reasons for Choosing Interpretive Research Approach

The primary aim of the interpretive perspective is to study the real world practices, decisions and organizational settings, with the objective of analyzing, interpreting and understanding them; thereby identifying solutions to pragmatic problems (Kakkuri-Knuuttila *et al.*, 2008). Furthermore, interpretive approach enables the researcher to explain thoroughly MCS process and practices that are rooted in its social context (Elharidy *et al*., 2008). Similarly, as it involves with social reality of the phenomena mainly interpretive paradigm is associated with qualitative methods as the most appropriate mode of data collection and analyses (Lukka & Modell, 2010).

Chua (1986) indicates that interpretive perspective seeks “to understand, explain and describe a social reality that is emergent, subjectively created and objectified through

human interactions" (p. 615). Klein and Myers (1999) also support that argument and highlights that interpretive research enables the researcher to emphasize, compare, contrast and redefine the subjective realities to reach one substantial understanding of reconstructed reality. To achieve such research goals, the researcher should develop a holistic view that can give a detailed description of conditions, events and interactions that are carried out by human being.

As the main goal of interpretive research is to explain the meaning that people attach to reality, interpretive research perspective provides rich analysis about how people communicate and act in their specific social settings (Lukka & Modell, 2010). In line with this view, Lukka and Modell (2010) noted that social meaning of people's behavior is shaped by the interaction between people and their other socio-political factors. According to Saunders *et al.* (2007), interpretive research perspective draws the meanings of business events and attempts to understand the subjective realities of the situation under research in order to understand the motives, actions and intentions of the human business actors. Researchers using qualitative-based interpretive researches do not search for generalization of the results; rather they form, either explicitly or implicitly, the social actions (Scapens, 2004).

One of the distinctive characteristics of interpretive research perspective is to extend the knowledge by breaking away from the traditional settings and providing insights into "different" context, culture and backgrounds; thereby producing knowledge in novel ways (Elharidy *et al*., 2008). The novel application of MCS practices is studied

in the institutional and cultural setting which has had little contact with any management accounting and control practices (Kraus & Lind, 2007; Vaivio, 2008).

Therefore, to understand the meaning of specific social context, including MCS, an interpretive researcher needs to be directly involved with the researched phenomenon. Direct involvement of the researched phenomena requires the researcher to play the role of insider, or an emic perspective, as it is not sufficient to merely observe and measure the reality from a distance or an outsider's (etic) perspective (Humphrey & Scapens, 1996). Emic perspective or subjective understanding of the reality assumes that the starting point of interpretive research analysis is the data from the field which also adopts inductive approach (Kakkuri-Knuuttila, *et al.*, 2008). Even though seeking subjective meanings of the social behavior is the common approach used by interpretive researchers, however, Humphrey and Scapens (1996) insisted that researchers' flexibility, to listen to multiple voices (eclecticism), is necessary to guarantee the diversity of the information sources. By using various qualitative methods, interpretive researchers have to combine both subjective (emic) meanings and the meanings of important objective (etic) elements with informed theoretical relevance (Lukka & Modell, 2010). Based on these arguments, the following are the motives to adopt interpretive perspective for this study:

First, interpretive perspective provides better and in-depth understanding of the field compared to the other research paradigms (Chua, 1986). As MCS is the product of social practices, which is subject to the external social factors of the organization, an interpretive research paradigm has the potential to offer richer explanations (Lukka & Modell, 2010). Second, as the aim of the study is to explore and understand the

phenomena of socially constructed MCS "as a package", most likely, that positivist and critical paradigms will not be able to offer rich thoughts about the reality of what this study aims to achieve (Vaivio, 2008). Positivist and critical perspectives depend much on the ideal scientific methods which may not capture certain issues of MCS such as everyday behavior of employees while in their natural contexts (Chua, 1986). The reality under study cannot be understood from the objective standpoint that is promoted by the mainstream and critical research perspectives. Therefore, the limitations of positivist and critical research paradigms have given room to the interpretive paradigm as the most appropriate approach for this study (Lukka & Modell, 2010). It is hoped that interpretive perspective will enable the researcher to understand the phenomenon in its social context (Ryan *et al*., 2002). Similarly, this perspective may help the researcher to identify how the phenomenon interacts with its natural world as well as to interpret the day-to-day activities as a social product.

Third, as Ryan *et al*. (2002) argue, the interpretive perspective intends to identify the structures and norms of social behavior. Thus, to understand MCS, as a social behavior, is the expected outcome of this study. Fourth, for qualitative research methods, interpretive perspective is the most recommended approach that is capable to grasp the social reality under study (Vaivio, 2008; Vaivio & Sirén, 2010). Vaivio (2008) suggests that:

> *"By qualitative research, we suggest broadly the entire interpretive research tradition in accounting, especially case-based research that relies on rich empirical material collected from a single target organization or a handful of case-organizations. Qualitative research strives towards theoretically valuable interpretations" (p. 65).*

Fifth, interpretive approach allows the researcher to report the research evidence from both emic and etic perspectives to guarantee the diversity of data sources (Efferin & Hopper, 2007). Finally, since the primary objective of interpretive research is to offer deeper understanding and interpretation of the phenomena, it is also a prototype of qualitative research because both of them deal with the human behavior and the reasons behind it (Cooper & Schindler, 2006).

In this regard, the research of MCS that aims to identify and explain people's actions through their individual and collective experiences and creating a meaning to their organizational activities is the main objective of this study (Vaivio, 2008). Hence, to envisage how such MCS be explained to predict the future trends of organizational practices and developments (Humphrey & Scapens, 1996), an interpretive research perspective is believed to be an appropriate approach to understand how organizations use MCS practices in their traditional social settings.

As previously declared, the nature of the research questions are mostly in the type of; "how" and "why" questions that seek to understand socially constructed practices and process of MCS from the field. Thus, to answer these types of questions, qualitative research methods are considered as an appropriate method for data collection and analysis. Qualitative research methods, reasons and how it was used for this study is discussed in the next section.

4.5 Qualitative Research Methods

For any research, either quantitative or qualitative approaches are used. Quantitative research approaches focus on the relationship between different variables and which variables affect which. It focuses on the measurement of the phenomena objectively (Cooper & Schindler, 2006) on the one hand, and it involves collecting and analyzing numerical data, on the other (Ahmed & Usop, 2011). In quantitative research methods, probability sampling with larger sample sizes are usually employed (Saunders *et al*., 2009). In contrast, qualitative research methods, which are more subjective in nature, are applied to deal with social and human behavior (Ahmed & Usop, 2011). The main purpose of qualitative research is to obtain deep understanding and then provide adequate interpretations to the human behavior (Cooper & Schindler, 2006). Depending on the nature of qualitative research techniques, non-probability sampling with smaller sample sizes are common (Cooper & Schindler, 2006). Similarly, for data collection, qualitative research approaches, such as; interviews, document reviews and participant observations are used (Samkin & Schneider, 2008).

Qualitative research is pragmatic, interpretive, and grounded in the lived experience of people (Llewellyn & Northcott, 2007; Vaivio, 2008). According to Marshal and Rossman (2006), there are five characteristics of qualitative research and four of researchers who practice it. Marshal and Rossman (2006) see that qualitative research (a) is naturalistic, (b) draws on multiple methods that respect the humanity of participants in the study, (c) focuses on context, (d) is emergent and evolving, and (e) is fundamentally interpretive. Additionally, they mentioned that qualitative researchers (a) view social

world as holistic, (b) engage in systematic reflection on the conduct of the research, (c) remain sensitive to their own biography/social identities and how these shape the study, and (d) rely on complex reasoning that moves dialectically between deduction and induction. In view of that, using qualitative research techniques can link theoretical life to the practical or real life of the people that might not be reached through other research techniques. Since MCS is a context-bound social phenomenon that is highly reliant on the situational socio-cultural settings, this study utilizes qualitative research approach, with the justifications, which will be mentioned later.

Qualitative research is criticized for its tendency to be more subjective as compared to quantitative techniques. For instance, it is condemned that it merely assembles personal impressions and lacks repeatability (Llewellyn & Northcott, 2007). Similarly, according to the opponents, qualitative research faces the challenge of that it is severely subject to the personal bias of the researcher. These criticisms are mainly associated with the methods of sampling, data analysis and generalizability of the qualitative data findings (Lillis, 2008; Parker, 2011; Vaivio, 2008). Other weakness that is propagated by the proponents of quantitative research include that qualitative research data is “anecdotal”, “unsubstantiated,” and “subjective” that lacks validity, predictability, reliability, and generalization (Llewellyn, 1996; Scapens, 1990). These opposed view perceive that qualitative research lacks the assurance that a different researcher would not come to the same conclusions of the previous ones even if they employ the identical research methods.

However, these criticisms have also been refuted. Criticizing the research perspectives that view the ineffectiveness of qualitative approaches in business related areas, Commesson (1991) attacked their limited understanding of the necessary skills and condemned them by exaggerating the reliance of the quantitative research analysis which may not capture the important behavioral issues in the social life. Qualitative methods provide powerful tools in researching social behavior thoroughly and broader than quantitative methods. It can help to discover the characteristics and features of situations, social events and institutional behaviors (Llewellyn, 1996). One of the main criticisms presented against qualitative researches is its focus on small number of settings and generating large amounts of detailed information (Llewellyn & Northcott, 2007). But what is ignored usually by the quantitative researchers is the importance of studying the small settings that may describe the reality of the phenomena from "single point of view" better than "common view" that is adopted by quantitative research approaches. Arguing this issue, Llewellyn and Northcott (2007) emphasize that quantitative researchers usually place higher trust and reliance on majority rather than minority views. Llewellyn and Northcott (2007) questioned why it is necessary to focus on the common views, or the majority opinion, at the expense of singular views.

Even though sometimes, qualitative researchers struggle to establish legitimacy through rigorous testing, validity, reliability, and generalization, still, these tools are all positivist-based quantitative approaches, which may not necessarily be appropriate to what qualitative research methods can handle. Therefore, to establish authenticity of the qualitative research, there are unique approaches, such as using multiple sources, cross-checking, well-designed interview questions, and vigilant data analysis that can create

credibility and reliability of study results (Lillis, 2008; Parker, 2011; Samkin & Schneider, 2008; Vaivio, 2008). Furthermore, qualitative researchers can go closer to the world of the researched organization and get access to the relevant documents and respondents as well as processing the collected data from the field, interpretively and credibly reasoning the processes (Vaivio, 2008).

With regard to the management accounting and control field, there is, currently, a great deal of qualitative researches that spring from the dissatisfaction with the perceived sterility of the empirical insights and the broad-based survey research or highly stylized laboratory studies (Alhtaybat & Alhtaybat, 2010; Lillis, 2008; Parker, 2011; Vaivio, 2008). Similarly, qualitative research in management accounting and control concerns why and how certain techniques are used and specific processes are carried out (Alhtaybat & Alhtaybat, 2010). Qualitative research, in management accounting and control, does not only penetrate into the organization's social aspects, but it also plays a central role in designing and directing the social affairs of the organizations. Emphasizing on this role, Vaivio (2008) noted that:

> *"Qualitative studies have documented how management accounting instruments become intermingled with intricate political processes, in which the distribution of organizational power plays a central role. They have illustrated how budgeting procedures introduce organizational segmentation and tension. They have exposed how accounting measurements create disciplinary spaces for governing economic life. They have identified the ritualistic and symbolic value of financial controls in transforming an organization's dominant culture. They have described how management accounting "talk" becomes intertwined with other forms of organizational and managerial knowledge. They have identified the routinization and institutionalization of outdated management accounting techniques" (p. 68).*

As the MCS forms and control traditions that are used by organizations are not homogenized and usually contingent on its situational specifics, through qualitative research method, MCS can be better understood through its subjective meanings associated with its specific forms of social life (Parker, 2011). Thus, with the anecdotal evidence of the Somali business environment, which is characterized with its traditional clannish culture, qualitative research method is considered the most appropriate approach to genuinely understand MCS forms, process and practices of organizations.

To summarize these arguments, there are several pushing factors to conduct qualitative researches in MCS practices of organizations in traditional clannish societies. First, qualitative research methods help the researcher to go beyond the narrow and functionalist view of the MCS phenomenon. Second, qualitative research protects researcher against a scientific imperialism that reduces management accounting and control to an issue of mere economic views, rather it promotes to dig out the social aspects of MCS. Third, qualitative research can produce deeper understandings of organizational actors and their world (Parker, 2011) and will provide us the foundation for further comprehension of the factors contributing to the diffusion and development of the MCS practices with its institutional and cultural contexts (Vaivio, 2008). In regard, qualitative research concerns the issue of in-depth or breadth (Vaivio, 2008). This means that the research has to decide to study the phenomenon either deeply through a single case organization (in-depth study) or to investigate across multiple case organizations (breadth study). This study utilizes single case study to cope with the situation under research.

4.6 Research Strategy: Case Study Approach

The research strategies that are common in management accounting and control areas include; case study, experimental study and field study (Otley & Berry, 1994; Ryan *et al*., 2002; Yin, 2003). This study is built on one single case study, which is a research approach that emphasizes on the dynamics of the inner single settings of a specific phenomenon to understand its characteristics (Eisenhardt, 1989; Otley & Berry, 1994).

The adoption of case study is no surprise as it is becoming common into business management and accounting (Eriksson & Kovalainen, 2008). For instance, recently a number of authors have employed qualitative case studies to understand MCS in its social settings (e.g. Alaudin, Zarifah Abdullah & Hamdan, 2012; Tsamenyi *et al*., 2008; Uddin & Choudhury, 2008; Uddin, 2009). As mentioned earlier, qualitative case studies generally seek to discover "what is going on" in any organization for the purpose of finding out the "inside" views of the informants (Llewellyn & Northcott, 2007). Case study is "an empirical inquiry that investigates a contemporary phenomenon, within its real-life context, especially when the boundaries of the phenomenon and context are not clearly evident" (Yin, 2003).

There are approaches of conducting case study research, which often depends on the philosophical background of the study, its purpose and the nature of the research design. Case study may take the form of a single or multiple (Stoecker, 1991; Yin, 2003). Single case study focuses on one case to excavate the phenomenon in-depth. One case study is an appropriate approach when a particular case is critical or extreme in the sense

that there is a need to identify more about the inside view of the phenomena (Ghauri & Gronhaug, 2005). On the other hand, multiple-case study is to theorize about the phenomenon across multiple case organizations. The main purpose of studying more than one case organization is to compare the differences and/or similarities of the cases under research, or it is conducted to gain further insights about the phenomena. Both single case and multiple case studies may employ intensive or extensive case research.

The researcher can adopt either intensive or extensive case study design. For example, an intensive single case study design may focus on one case organization or even one individual respondent in an organization. Intensive research design, for single case organization, adopts an in-depth examination of the case particulars, where a researcher attempts to find out data about the common patterns and properties across the case as much as possible (Stoecker, 1991). By studying a single case organization, intensively, requires thick description and interpretation of the data. Therefore, as one of the qualitative research features, the researcher is an interpreter who has to offer thorough explanation about the different aspects of the phenomena, such as; economic, social, cultural and other related settings (Eriksson & Kovalainen, 2008). In contrast, extensive case study is more similar to the quantitative research techniques where it focuses on the properties of certain contexts for the purpose of developing, elaborating and testing specific theory (Eriksson & Kovalainen, 2008). In an extensive approach, the real life case study is not the important issue, but the aim is to develop theoretical propositions first and accordingly test it to generalize the findings. So, the aim of extensive case study is not to study the inner workings of the phenomena but to generate theory or to verify an existing one. There are no specific rules concerning the number of cases that are good to

research, but depends on the research questions and the requirements of the study objectives. However, as Eriksson and Kovalainen (2008) argue, the larger the number of cases studied, the higher the possibility to generalize research findings. For this study, an intensive case study approach is adopted. The reason for choosing this approach is to offer a thicker and thorough interpretation of the phenomenon.

In management accounting and control, case study takes several forms (Scapens, 2004). These are: (1) descriptive case study; aims to describe how specific techniques are practiced by an organization, (2) illustrative case study; focuses on the description of certain techniques that are adopted and the extent of its success, (3) experimental case study; concerns the impact of specific techniques on the predetermined objectives, (4) exploratory case study; aims to identify and construct questions and then generate hypotheses for further research, and (5) explanatory case study; seeks to analyze specific practices and processes based on a specific theory which guides the explanation of such practices. These frames may also sometimes be combined together (Parker, 2012).

As mentioned previously, this study is based on an interpretive perspective with the aim to explain the phenomena under research within its social context. The study may employ more than one approach for results analysis. For instance, to identify what forms of MCS are in practice exploratory approach is needed. Similarly, to explain how specific MCS is practiced and why, an explanatory role seems necessary. Similarly, the study also fulfills a descriptive role by describing the collected evidence. Thus, all these analytical techniques are considered useful for an interpretive research perspective (Scapens, 2004).

4.6.1 Justification for the Use of Case Study Approach

The main reasons for choosing a single case study approach for the study stems from the following justifications. First, to contribute to the knowledge, case study approach has been used and become a helpful for situations of individuals, groups, organizations, social and cultural contexts, that cannot be measured with the "common view" quantitative approaches (Yin, 2003). Otley and Berry (1994) indicate that to understand and explain the specific practices and processes of an organization, a case-based holistic perspective allow the researcher to interact with different opinions, thoughts and experiences of individuals, groups and more specifically to communicate the real practices of an organization.

Second, as MCS is a social phenomenon that cannot operate in an isolation from its socio-cultural settings, a case study approach offers better insights to examine the inside "emic" perspective of the practices and processes that managers and other subordinates undertake to accomplish the desired organizational objectives (Llewellyn & Northcott, 2007). To reach out the real life of the social settings, may not be easy through survey or other quantitative research methods that researcher conducts detached from the phenomenon. Therefore, by employing case study approach, the researcher can investigate in-depth the forms of MCS practices and how it evolves in the organizations operating under traditional clannish context.

Third, case study approach is a way that allows accessing multiple data sources (Yin, 2003). The direct involvement of the researcher will enable him/her the position of "insider" role, which in turn, facilitates the accessibility to the multiple sources including

documents, reports, observations, and other informal behaviors that are used by the management. This approach allows the researcher to identify what is really going on, how it is going on, and the meanings attached to the specific processes and practices that are undertaken in the daily operation.

Finally, the research questions of the study are mostly in the type of "why" and "how" structure. It is difficult to cope with this type of questions through quantitative research approaches (Yin, 2003). Due to that reason, qualitative case study approach became a compelling method to provide sufficient explanations about this type of questions. Thus, case study approach is an appropriate method for the purpose of this study and also it is consistent with the interpretive perspective and qualitative research methods.

Despite that, case study fits into in-depth social behavior; however, there are some limitations of case study research that is determined by researchers. For instance, the main limitations of case study are; (1) it is a method that lacks statistical analysis of the data; (2) it cannot test hypothesis, and (3) the lack of generalizability of case study results (Gummesson, 2000; Scapens, 2004; Adams, Hoque & McNicholas, 2006). Similarly, the other difficulties that have been identified, which associates with the case study methods, include; the nature of social reality, the researcher's bias, the ethical relationship of researcher with the research subject and the accessibility to the reality (Adams *et al.*, 2006).

With the fact that there is no one single research approach that perfectly deals with the particular research project, however, case-based method enables to understand

the wholeness of the phenomenon through holistic approach (Punch, 1998). Additionally, compared to the other research strategies, case study approach is considered the most appropriate strategy to study intrinsic parts of the reality (Swanborn, 2012). As Yin (2003), concludes, case study approach is the proper research method that can provide multiple data sources to identify the different aspects of the organization's practices and process. Therefore, case study approach was believed to be an appropriate method for achieving the research objectives of this study

4.6.2 The Research Design

Research design is the logical sequence of research activities that combines research questions of the study to its empirical part and conclusion (Punch, 1998; Yin, 2003). It is the research planning that details how the researcher want to achieve the research objectives. The first stage of research design is to define research questions through the literature review, and based on the literature, data collection and data analysis should be connected to fit with the research questions (Ryan *et al*., 2002). The last step of the research design is to ensure that the final results should be able to answer the starting research questions.

Yin (2003) highlights four issues that are important for research design and needs to be clarified. The issues are; what questions to study, what data will be relevant, what data will be collected and the techniques that will be used for data analysis. Similarly, in management accounting and control, there are several main steps in case study design. These include; preparation, collecting evidence, assessing evidence, identifying and

explaining patterns, and report writing (Ryan *et al.*, 2002). Each of these steps is briefly highlighted below.

4.6.2.1 Preparation for the Case Evidence

According to Ryan *et al*. (2002), the first step of any research is to set the theoretical stand of the study. For instance, research questions, underpinning theory and the research framework should be established first. Case study research is no difference. In this regard, the starting point of the case study is to identify the research questions and the theoretical framework which is constructed to guide the rest of the study. Additionally, the review of the literature about how to conduct a case study, how to interview and how to analyze data are also used (Saunders *et al*., 2007). Similarly, at this stage the researcher should decide the number of case organization for the study (Ryan *et al.*, 2002). In the case of this study, research questions and the framework have been discussed in chapter one and three respectively.

However, as Ryan *et al.* (2002) suggest after the specification of research questions and framework, the relevant theory should be reviewed for the purpose of creating a checklist that will guide the fieldwork of the researcher. At this stage, researcher has to identify and seek access to the case organization. After the access to the study case, then the real work of the research embarks. For this study, as repeatedly mentioned, the main purpose is to understand MCS that is socially constructed in the traditional clannish societies, particularly that of Somalia. As explained in the next paragraphs, the case organization is selected from the services industry, which is the

leading industry in terms of economic success (Leeson, 2007; Nenova, 2004; The Economist, 2005).

4.6.2.2 The Selection of the Case Company and Participants

The case organization in this study is selected based on a previous experience of the researcher with the company. In the year 2010, in a response to a training request from the case organization, the employer of the researcher (SIMAD University) sent a group of its senior lecturers to train the members of key operational departments of the case organization. The researcher was one of the training members. In the sessions of the trainees and trainers discussion, the issue of *clanism* and the management challenges of different clan regions were the pivotal issues of the discussion. The main aspects which the trainee discussants emphasized was that *clanism* become the parameter of all aspects of the company's operations; i.e. staff employment, employees assessment and rewards, employee promotion, information sharing and communication, relationships,… etc.

Therefore, since the researcher obtained this preliminary information about organization management within the traditional *clanism*, it was one of the main factors that have motivated the researcher to study how different management controls could have worked in such a clannish environment. Furthermore, since the researcher has participated in the training program of the case organization, it enabled him to obtain access to the key staff members with the formal support of the researcher's employer. In addition, the employees from the functional operational units of the case organization were the trainees of the researcher; e.g. employees of sales, marketing manager, public

relations, engineering, finance and the human resources. These trainees facilitated to assist the researcher to obtain the necessary data about the company management controls.

When the researcher decided to carry out the study in the selected case organization, the researcher contacted the marketing head to have a formal permission to carry out the study. The marketing head accepted the request, after approval of the steering committee, but he requested to get a formal application letter signed by the supervisors, with UUM letterhead, and promptly the request letter was sent to the CEO of the case organization. The request was about to interview the members of the functional departments. The researcher has received an acceptance letter from the case organization, which is considered one of the leading companies in the telecommunication service industry. The interview was carried out with the steering committee that is in charge of organization's operational activities. The steering committee comprises the chief executive officer (CEO) and heads of main operational departments. The plan was to interview the main functional managers in the company. At the beginning it was found that the steering committee consists of seven directors and the CEO. Moreover, there are three regional branch managers who run TSOM's business operations in the main three regions excluding the Headquarters in Mogadishu. The researcher planned to interview 14 functional managers/officers as detailed in Table 4.2, internal auditor and three customers who have been selected for the length of their usage of the company's services. The three customers had their own businesses that were using TSOM telecommunication services since its inception (regarding the interviewees profile, please refer to Appendix C). The customers' interview was used to validate the data collected

from the company's employees. In addition to the interview, an observation was carried out during the stay of the researcher in the case organization as well as documents review. This is also used to triangulate the data (Mason, 1996).

4.6.2.3 Interview Guidelines and Protocol

Since the interview questions were self-developed the following steps were taken. First, the research questions were formulated. Second, the control elements that are looked for were defined. Third, general guide questions for interview sessions were developed. These steps were taken to strengthen the coverage of the interview guidelines for the interviewees' participation. Furthermore, before the interview was started the CEO of the company asked for a copy of the interview questions and he distributed to all the participants by email and informed them to cooperate with the researcher.

As discussed in the methodology chapter, an open-ended interview questions were used to obtain more exploratory information from the field. The open-ended questions are mostly the type of "how" and "why" questions. To consider every participant's respective duty area, there are some slight differences of some questions that were designed for the respective departments. For instance, specific interview questions were included for the task that pertains to Finance Division, while some specific questions were pertaining to Public Relations Divisions. However, during the interview sessions, the researcher was trying to make it open to obtain further information that might not be captured by the interview questions as well as that could be beyond the

functions of the respective participant (the guide questions, data resources and the justifications of interview, please refer to Appendix D).

The interview guide questions have been emailed to the CEO, who requested to see the types of interview questions and he shared guide questions with the relevant interview participants. Although there were some different interview questions for the different participants, due to the different tasks of the participants' respective positions, however, the interview questions were mostly structured as follows (see Appendix A):

1. Description/elaboration of the interviewee profile, profile of the company; size (sales, employees, total assets), vision/mission statements, description of company's organizational structure (e.g. governing bodies, committees), description of trust/cooperation among staff, friendship/blood ties, religious considerations and shared values/beliefs/norms, etc.

2. Description/elaboration/explanation of process of business control over activities; (e.g. employees hiring & firing, customer recruitment & relationship management, dealing with the difficulties of clan/security, performance measurement & evaluation, incentives/motivations, reporting & information dissemination methods, etc.).

3. Explanation/justification of the existing practices (whether they understand the reasons and the benefits/usefulness of the practices, etc.).

4. Any further explanation/additional information, and

5. Any relevant documents for the respective issues.

All interviews were conducted on face-to-face except two customers who were not able to set face-to-face meeting. Therefore, telephone interview were used with the two customers. In this regard, before the interview start, the first five to ten minutes of each interview, the researcher had to introduce himself in order to build a trust relationship and to explain the research issue at hand as well as the types of the questions for interview discussion. The interview guidelines are displayed in Table 4.2.

Table 4.2
Description of Interview Topic Guideline

Control element	Guide questions/control practices
Clanism	Role of *clanism* on the process of hiring, firing, information sharing, personal trust, informal relationships.
Beliefs and Values	Religious practices, rituals, clan-based networks, obedience to traditional customary law, information sharing among specific networks are checked
Symbols	Design of the workplace, dress code & attire, importance of religious obligations & practices
Vision and Mission	Clearly defined vision & mission statements, employees' awareness of these statements
Organizational Structure & design	Formal organizational hierarchy, chain of administrative structure, policies and procedures; organizational policies, job descriptions, HR rules, financial rules, etc.
Governance mechanisms	Bodies and boards of governance, its composition, etc.
Process of MCS change	Any adopt new techniques & process of applications
Planning	Long terms strategies, short term plans, how strategies, and plans are prepared and communicated?
Budgeting & Budgets	Operating & financial budgets, process of budget preparation, communication & control

Table 4.2 (continued)

Performance Measurement	Financial measures; i.e. ratios, costing, pricing, and non-financial measures; i.e. productivity, customer satisfaction, market share. Performance evaluation approaches; objective vs. subjective, formal vs. informal
Information flow systems and networks	Decisions communication, information flow; reports, to the lower levels staff; vertical and horizontal. Accounting records, manuals and documents, financial statements, periodical reports, audit reports.
Compensation & reward systems	Incentives paid; cash bonuses, stock bonuses, nonmonetary incentives; job security, promotions, autonomy, recognition

4.6.2.4 Collecting Research Evidence

The second step of case study research design is to collect the evidence which means to gather the raw data from the different sources of the case organization. According to Yin (2003) there are six possible data sources in a case study; archival records, documents, direct observation, participant observation, interviews and physical artifacts. In other words, researcher has to decide whether to use primary data, secondary or both (triangulation). This study adopts triangulation approach to collect evidence. The study utilized both primary data (interview and observations) and secondary data (archival records and other relevant documents).

4.6.2.4.1 Primary Data

The primary data refers to the information obtained firsthand by the researcher on the variables of interest for the specific purpose of the study (Sekaran, 2003). It is directly obtained from the respondents whom the researcher aims to seek their opinion about on

certain facts. The main reason for using primary data is that usually the existing secondary data cannot fulfill the requirements of the phenomenon (Wilson, 2010). Furthermore, as Wilson (2010) argues, primary data is the most appropriate when the research area is relatively new into the academic arena or still did not capture scholars' attention. The major categories of primary data instruments that are frequently used in qualitative research are interview and observations.

An interview is a form of information seeking through the art of questioning and interpreting the answers (Q.Qu, 2011). Primarily, interview is divided into three categories, namely; structured interview, un-structured interview and semi-structured interview. Mostly, un-structured and semi-structured interviews are the common techniques in qualitative case research, while structured interview corresponds to the positivist quantitative methods (Q.Qu, 2011).

Structured interview is a questioning type that uses a rigid set of interview questions, where interviewer has pre-set questions to answer (Q.Qu, 2011; Wilson, 2010). Its advantage is that it is easier to analyze and usually permits more questions to be answered. However, it is criticized that it does not consider the feelings of the respondent (Sekaran, 2003). In addition, this type of interview does not give the respondent an opportunity to express additional information that they wish to disclose or elaborate further. It is also claimed that it may not be proper to the research issues that requires deep examination (Mason, 1996).

Unstructured interview, which is also sometimes referred to as an in-depth interview or an informal conversation in the field, is more flexible than the previous one

where the questions are broader and the respondent can discuss in an open manner (Q. Qu, 2011). Here, the interview questions are not preplanned and have no any standardization but more dependent on the information received from the respondents and its directions (Saunders *et al.*, 2007). This type may be more suitable to qualitative research approaches as it captures wider space of the respondents view point. Finally, Semi-structured interview is a hybrid type of interview questioning that contains both the characteristics of structured and unstructured interview approaches. According to Q. Qu (2011), for semi-structured interview, the researcher should first prepare guiding questions that is consistent with the themes of the study and giving flexibility to the respondent to disclose any relevant information that serves the purpose of the research. By using an interpretive perspective semi-structured interview enables to play the role of insider "emic" perspective rather than measuring facts from distance (Lukka & Modell, 2010).

Therefore, with the consideration of the socio-cultural circumstances that dominates in the traditional clannish context of Somalia, semi-structured interview is thought to be appropriate to gain an in-depth understanding of organization's MCS practices in their daily operation. The reason for choosing semi-structured interview is that it comprises both features of unstructured and semi-structured interview questions. So, the researcher drafted a guiding list of questions to make it easy for reference during the interview.

As noted earlier, the Head of Marketing Division has arranged the formal process of data collection. Before start of interview sessions, a meeting with the CEO was

arranged by the head of marketing office. The CEO approved the interview of TSOM Directors and Heads and proposed a schedule for formal interviews times. During the interview period the CEO permitted to the researcher to come any time of the working hours, from 8am to 5pm. At least three of the working days (Saturday-Thursday), the researcher used to visit one of the three premises of the company that it has in the capital city. The CEO also gave flexibility with the Heads of Marketing, Sales and Public Relations Divisions who were recommended by the Director of the Commercial Department. These three Divisions fall, hierarchically, under the Commercial Department, but they are the key activities of the business operations in the company. Since the heads of these three units deal directly with the customers they are given extra authorities. The extra authorities include; giving materials (hand phone) for promotions, giving certain amount of discounts to the postpaid users, giving promotion credits to come customers and other services.

The interview was actually conducted in the period between March 14th and June 10th 2013. Fifteen interviews, out of seventeen, were conducted by face-to-face interview with the participants, while telephone interviews were used for the remaining two interviewees. The interview was conducted in Somali language, which is the local language of the participants, while the analysis of the interviews was conducted in English language. In addition, during the stay of the researcher in the company offices, informal conversations were undertaken with the operational employees, but without having them tape-recorded. These free conversational interviews were very valuable for the researcher as these conversational discussions may provide some useful information about the way TSOM undertakes its normal activities.

At the beginning of each interview session, the participants were asked for permissions for them to be interviewed and that interviews be tape-recorded. During the interview discussions, majority of the participants were very open for informal discussion and normal conversation to give them a platform to express detailed information about their daily practices. However, since the interview was being recorded, some of the participants avoided discussing the intimate details at some issues. Thus, majority of the interviewees were conservative and showing their reservations about some questions and many of them transferred the information asked to other concerned offices. Some interviewees apologized at the beginnings that they were busy and the researcher has to wait them up to a week or more than a week except one Branch Manager who accepted at the beginning but after several weeks apologized for medical reasons.

Apart from two participants, the interview of the other participants were tape-recorded and transcribed simultaneously. To preserve the safety of data collected for this study, the data was tape-recorded using Sony IC voice recorder machine. After every interview, the data was organized and stored in a personal computer and kept within the safe custody of the researcher (Yin, 2001). At the end of the recorded interviews, the researcher asked every participant whether they want to give any additional information. Some of the participants offered additional information only after the tape-recording machines were switched off. With this additional information, notes have been made. Even though such information would have added great value to the findings, however, the researcher decided to consider it as observed information. The interviews of the participants lasted between 30 minutes to approximately 85 minutes. Besides the

automated recording of the interview, the researcher has to take notes in order to generate further questions from the discussion (Patton, 1990).

In addition to the interview, an observation method was also employed. According to Mason (1996), an observation is a data generating method, by which the researcher involves with the research setting and systematically observes events, actions and the dimensions. In qualitative research, an observation is that method for observing, recording, describing, analyzing and interpreting people's behavior (Saunders, *et al*., 2007). In the social science research, two types of observation are commonly recognized; direct observation and participant observation (Yin, 2003). Yin (2003) defines direct observation as "…making a field visit to the case study –site- the researcher is creating the opportunity for direct observation" (p. 92). While, on the other hand, participant observation is that researcher, as participant, decides to observe specific issues not the entire phenomenon (Saunders *et al.*, 2007). Parker (2012) views that; "as a participant, the researcher may operate as a full working member of the organization being studied, noting observations throughout the working period" (p. 58). For this study, the researcher used direct and more natural open-ended observation was used to enable the researcher to observe the entire operation instead of focusing on specific issues (Punch, 1998). A participant observation is not desirable as it may inhibit the researcher to take notes during observation (Uddin & Hopper, 2001). Moreover, the observation was carried out concurrently with the interview. Similarly, during the observation, notes have been taken. The issues that have been raised in informal discussions with the interviewees, particularly in the break time for prayer and lunch, were documented but with little delay in some occasions. The delay time was from 4 hours to 12 hours.

4.6.2.4.2 Secondary Data

On the other hand, secondary data refers to the information gathered from the existing sources which may not necessarily have been prepared for the purpose of the study. It is the documents obtained from the records, archives, publications and industry analysis (Sekaran, 2003). Documentary data is an important data source, specifically in case study and various evidences may be obtained from these case studies but should be relevant for the purpose of the study (Yin, 2003).

For this study, the researcher attempted to identify, the administrative routine documents such as meeting minutes, announcements, internal reports, proposal reports related to specific projects, as well as the relevant personal documents (e.g. letters, notes, diaries, memoranda, etc) (Yin, 2003). The other documents that may be useful for the study include; policy manual, HR policies and procedures, organizational charts, organizational structure, financial regulations, accounting charts, financial reports, and budgets reports (Saunders *et al*., 2007). Even though these documents are very useful for understanding internal process of an organization, however, it depends on the accessibility of the research to these secondary data.

At TSOM Company, in the first meeting with the CEO, a permission to review the documents was requested from the CEO and he permitted with the condition that he should be consulted before the participants share the documents with the researcher. Hence, at the end of each interview, the researcher requested to see documented evidences, examples and any other visible proofs. As mentioned earlier, interviewees

were very cautious or reluctant to provide documents unless they contact the CEO to get permission for the request. Therefore, usually the documents were reviewed after severals hours or even after a day. Monthly financial reports, internal reports, performance measurement techniques, internal memos and budgets are included the materials displayed by the participants. Those documents were intended to be used for triangulation of the study sources (Saunders *et al*., 2007).

Due to the nature of Somali clannish society, the management of the case organization was very conservative to provide some documents. However, the researcher got the permission to review and take notes from the documents listed in Table 4.3, with the condition that such documents should not be taken out of the company offices. Thus, the researcher had to use written notes from the documents.

Table 4.3

Documents reviewed

No	Document	Language	Document/drafts reviewed
1	Policy Manual: general	English	- Vision/mission statements - Organizational structure
2	Policy Manual: HR	English	- Process of staff recruitment - Documents required from candidates to submit - Sample of forms of job application, leave request, guarantor form, etc. - Process of punishment - Staff contracts - Types of leaves and vacations
3	Policy Manual: financial Guidelines	English	- Guideline for duties of accountant, finance director, internal auditor & cashier. - A guide about records to be kept by finance division

Table 4.3 (continued)

4	Financial documents	English/ Somali	- Vouchers; cash receipt, cash payment, credit collection voucher, list of debtors, list of creditors.
5	MCS draft for performance measurement	Somali	- Financial ratios - KPIs for financial success indicators - KPIs for nonfinancial success indicator - Major operational activities of TSOM that needs to be planned annually.
6	Management guidelines and Proposals	Somali	- Samples of proposal about sites construction - Sample of proposal about staff trainings - Usage guide for telecommunication machines - Sample of document for major annual planning areas.
7	Annual budget	English	- Annual budgets (e.g. 2009/2010)
8	Other documents	Somali	- Brochure for customers

4.6.2.5 Assessing the Quality of the Evidence

In this stage, the quality of the data being collected from the case is an essential issue. The quality of the data means data validity and data reliability. In the literature, good case study design is one that adequately identifies the construct validity (i.e. internal validity and external validity) and reliability of the evidence (Eisenhardt, 1989; Saunders *et al*., 2007; Yin, 2003). Yin (2003) argues that depending on the experience and the availability of the data from the field, the researcher can judge the validity and reliability of the data according to the logic assessment.

4.6.2.5.1 Validity of the Data

The concept of validity is not a single, fixed or universal concept, but generally it refers to "the credibility" and "authenticity" of the evidence that is drawn from the field (Ihantola & Kihn, 2011; Ryan *et al*., 2002). In qualitative research, the terms; quality, rigor and trustworthy are used to express the validity of the data. As a result, researchers do not have common meaning for what the terms mean, however, researchers often try to generate the most convincing data (Stenbacka, 2001). Therefore, to reduce the validity threat, researchers adopt variety of techniques that a researcher can use to address validity and reliability of the qualitative studies. For example, triangulation of information among different sources of data, feedback from informants and expert interviews are considered as useful strategies for improving the validity and reliability of data or the evaluation of findings (Mason, 1996). Triangulation may include multiple methods of data collection and data analysis, but does not suggest a fix method for all researchers. By triangulating, the researcher was able to check and verify the data and correct if any errors related to the facts or that related to the interpretation of the data.

The validity of data interpretation is also considered an essential issue for the worth of the results. Mason (1996) view that validity of data interpretation is more important than data collection, because it is not simple to produce the correct answers from the raw data that is collected from the field. Ihantola and Kihn (2011) suggest that avoiding the "observer bias, researcher bias, data access limitation, and complexities related to the human mind limitations" (p. 42), is the best approach to reduce the threats

of the validity. The reason for such concern is that personal judgments and biases may dominate the analysis of the data, which may damage the reliability of the end results.

In qualitative research, generalizability is one of the major issues that threat the external validity of the results (Eriksson & Kovalainen, 2008; Ihantola & Kihn, 2011). Carrying out qualitative case study in a holistic perspective, perhaps mostly aim to understand the inherent phenomenon rather than to generalize the findings (Punch, 1998; Ryan *et al*., 2002). For instance, Ryan *et al*. (2002) argue that the concern of case results generalization is itself a positive perspective, while in contrast; interpretive perspective focuses on the context-inherent phenomenon. Moreover, by applying theory in new contexts, case study is used to give insight to an issue and to refine/modify theory, which leads us to the process of theoretical generalization (Ryan *et al*., 2002). Therefore, through interpretive analysis of the case study results, the study looks for "theoretical generalization" rather than positive "statistical generalization", which is not the issue of this study. This means that the study aims to form theoretically informed understanding that relies much on an interpretive method of theorizing that enable us to explain the observed phenomenon as a theoretical sense (Ryan *et al*., 2002).

In order to improve the "theoretical" generalizability of the results, the case organization was purposefully selected with predefined criteria. Additionally, the researcher attempted to minimize the researcher's etic voice in the study and give much priority to the participant's emic voice (Merriam, 2012). Furthermore, to reduce the bias, the researcher used manual transcribing of the interviews as well as analyzing data as

soon as it was collected. This was done to help the researcher to recall the context of the study scene and participant's concentrations.

4.6.2.5.2 Reliability of the Data

Joppe (2000) defines reliability as: "…the extent to which results are consistent over time and an accurate representation of the total population under study". According to Joppe (2000), the issue of repeatability of the method is an essential factor for the reliability of the evidence reported. It requires that if a researcher uses the same methods of qualitative data collection, he/she will obtain the same results as those found by the previous researcher (Mason, 1996).

Even though, the concept of "reliability" was originally developed for the assurance of quantitatively collected data and that some scholars do agree that such tools may not be applicable to qualitative data collection methods. However, still it is the researchers' responsibility to ensure the credibility of the data reported, in order to incarcerate the reader's attention about the consistency of the results (Lillis, 2006; Ihantola & Kihn, 2011). The value of any research findings depends on the researcher's ability to demonstrate the consistency of the research results (LeCompte, 1982).

The reliability of the research findings is affected by both external and internal design of the study (Mason, 1996). External reliability of the data addresses the issue of whether an independent researcher generates the same constructs in similar setting of the study (LeCompte, 1982). This means that, with the same phenomenon, different

researchers would realize similar constructs or results. On the other hand, internal reliability refers to the degree to which other researchers, given a set of previously generated constructs, would match them with data in the same way as did the original researcher (Punch, 1998; Mason, 1996). Both internal and external reliability of the research concerns the scientific aspects of the findings.

With regard to this study, the researcher dedicate special attention to the good practices in the field such as tape-recording of the interview in more than one electronic devices, accurate note-taking and comparisons of the different respondents' data. Furthermore, a respondent validation was sought to validate the credibility of the data received from the respondents. Participant's validation is to take findings back to the respondents to ensure that they agree with what the researcher has transcribed. This method is one of the most appropriate approaches to "validity check" the data (Green & Thorogood, 2004). Moreover, taking back the results to the respondents and consulting them provides their approval of what have been found (Punch, 1998). Additionally, reports and the available documents were compared to the analyses of the oral responses to improve the validity and reliability of the data (Wickramasinghe & Hopper, 2005). Also, the researcher's position (etic voice) was kept separate, as much as possible, from the informants' position (emic voice) during data generation as well as during data description and interpretation. On the other hand, to improve the authenticity, a flexible interview mode was used to allow participant to refine, enrich and improve their view point. Finally, to enhance interpretation reliability, data classification, attaching data to constructs, creating links between themes and patterns was employed during data analysis (Ihantola & Kihn, 2011).

4.6.2.6 Writing up Case Study Report

This is the last phase of the study. The ultimate goal of any research usually is the final report of the research work. As Ryan *et al.* (2002) note, this stage is the interpretation of the raw data and final production of the research information. This task requires preparing all reports, drafts, notes, comments and all other relevant data that serves for the purpose of the research. In this stage, researcher is required to produce a convincing text that draws the phenomenon in its real context (Ihantola & Kihn, 2011). Ryan *et al.* (2002) states that researcher has to convince himself first before convincing others. For this study, it has been already discussed the techniques that was used to interpret the results. Similarly, the next section outlines how the data was analyzed.

4.7 Data Analysis of the Study

Usually, raw data may not have any significance, after its collection, until it is interpreted and analyzed. In the literature, the terms “data transforming” “interpreting” and “making sense” are common to change raw data from being meaningless to becoming meaningful (Iriksson & Kovalainen, 2008; Mason, 1996; Punch, 1998). However, the central concern of these terms is the thoroughness of the analysis of the data produced on the one hand, and on the other, how the method of data analysis is systematic, disciplined and the proper conclusion of the study. Generally, the analysis of qualitative data encompasses data organization, patterns and themes development and interpretation of that data in meaningful report (Marshal & Rossman, 2011).

Even though, different researchers may apply different techniques, due to the purpose of their study, however, there are different approaches that are practiced by the different researchers (e.g. induction, narrative, discourse analysis, semiotics, ethnography, etc). These various approaches point out that there is no single right way to analyze qualitative raw data (Punch, 1998). Rather it depends on the main objectives of the study and the logics derived by the researchers to use such techniques or approaches. Yin (2003) asserts that the analysis part of case study results is one of the least developed areas in qualitative research methods. However, in case study research, narration and storytelling modes are part of the case study reporting techniques (Iriksson & Kovalainen, 2008). Ryan *et al*. (2002) notes that the researcher's role in case study research is to describe and explain the main patterns identified and to compare with the previously developed research framework or propositions.

As mentioned previously, for analyzing qualitative data different researchers use different analytical methods but there is no single right approach to analyze qualitative raw data (Marshal & Rossman, 2011; Merriam, 2009; Patton, 1990; Punch, 1998; Yin, 2003). However, for this study, based on the different approaches of qualitative data analysis, the three steps or processes of data analysis of Miles and Huberman (1994) are employed; data reduction, data display and drawing conclusion. These processes are intended to provide a systematic procedure to identify the essential features and components of MCS and to enable us to transform the data, through interpretive strategy, to meaningful themes and patterns.

4.7.1. Data reduction

The first stage of qualitative data analysis is to segment the raw data into manageable units. This is carried out by the process of coding and organizing the data into categories. According to Miles and Huberman (1994) the reduction of rich qualitative data will continue throughout the analysis stage. The process of data coding is a way to help us to retrieve and cluster all segments of the different concepts and themes (Miles & Huberman, 1994). It is not a separate task but concurrently, the researcher plans to edit, abstract, segment, explore and analyze the themes of the data. During data reduction process, the researcher will identify the themes, patterns and the relationships by arranging the codes and categories in a hierarchical mode (Saunders *et al*., 2003).

In this stage, the researcher aims to record initial ideas that have been collected from the field; observations, field notes, documents received and any other relevant data that can help us to identify MCS themes in the traditional clannish environment. As Punch (1998) notes, this step involves the tasks of data coding and *memoing* which is to attach a meaning to the pieces of data received. In this regard, the researcher categorizes the data by simplifying and transforming the data into clusters.

4.7.2. Data display

The next stage of the qualitative data analysis involves in understanding how different concepts and mechanism are developing and why these concepts and mechanisms happen in the way it happens (Merriam, 2009). This technique will be achieved by constructing a case description and interpretation of the concepts, themes and patterns using the within-case analysis (Miles & Huberman, 1994). This approach is intended to reduce the large

volume of the qualitative data to identify the different parts of the phenomenon and to interpret it.

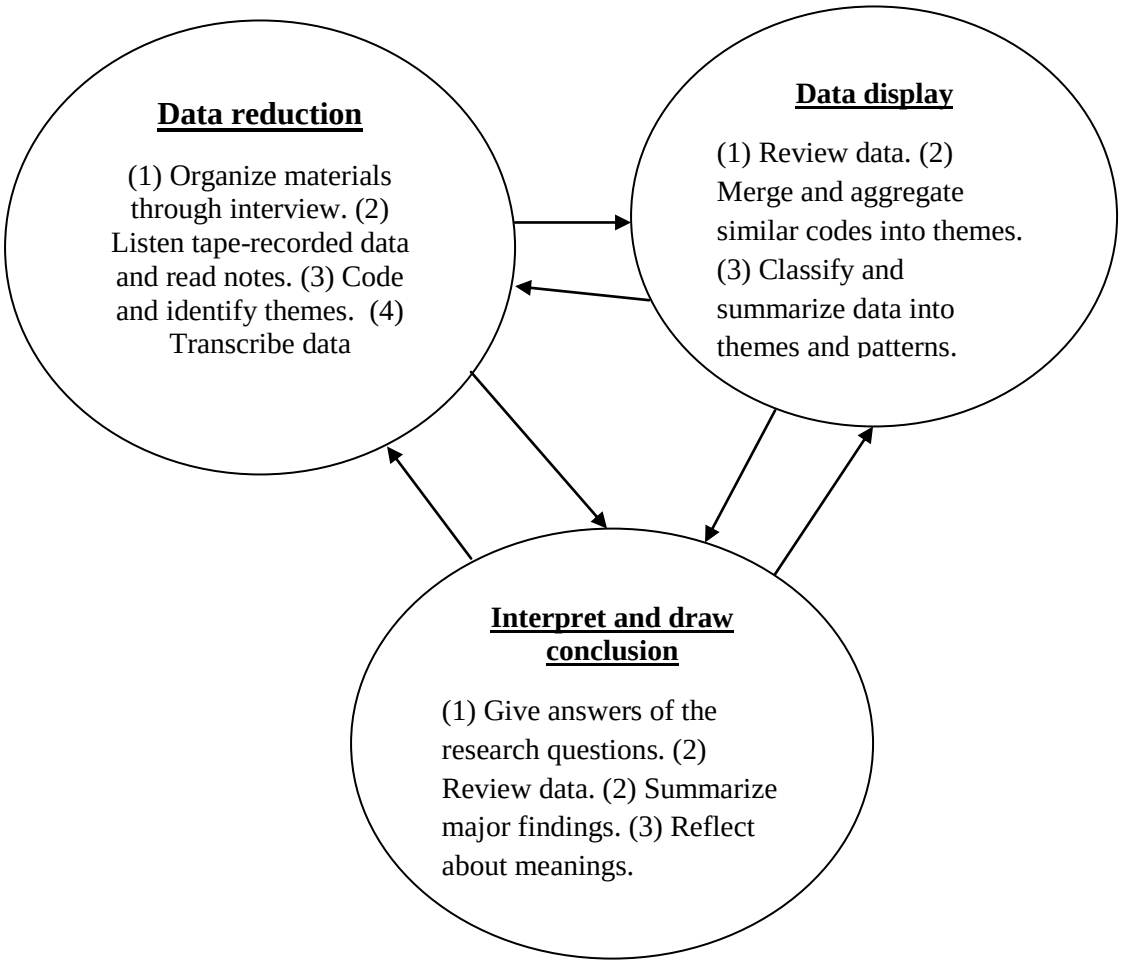

Figure 4.1
The Study's Path of Data Analysis

In this stage, the data was prepared for drawing conclusion and interpretation (Punch, 1998). Thus, the researcher carried out analysis of the data to identify the different meanings attached to the habits, routines and MCS daily practices of the case organization. To display the data means to assemble the data into useful information

which can lead us to a certain meanings and conclusions (Miles & Huberman, 1994). Similarly, in this step the researcher prepared the data for interpreting and reporting.

4.7.3 Conclusion drawing and verification

The last step of data analysis is to decide the explanation and meaning of the themes and patterns identified in the field. According to Miles and Huberman (1994), in this stage the data notes the concepts that can lead us to prepare final conclusion of the study. At this stage, the general themes and categories of MCS techniques will be extracted from the participants' interview. Through the data process that is outlined in these three stages, is aimed to enable the researcher to summarize the data that is collected through interview, observation and document analysis. Similarly, the researcher interpreted the meaning of the data and attempted to reveal the reflection and research implications for future studies (Miles & Huberman, 1994).

In conclusion, based on the theoretical foundation of the study; like the theories and theoretical framework, the initial themes and patterns of MCS practices will be identified, which is hoped to drive the enquiry and make connections between the research questions and the empirical data (Yin, 2003). Hence, through interpretive analysis of the case study results, the themes, patterns, and connections will help to provide theoretically informed understanding about MCS themes and patterns for "theoretical generalization" of the observed phenomenon as a theoretical sense of the MCS themes and patterns in its social context (Ryan *et al*., 2002).

4.8. Chapter Summary

In this chapter, methodological issues and the research methods have been analyzed. Starting with the research philosophy, the study briefed the current different paradigms that are commonly used in accounting research. These paradigms are mainstream accounting research (positivism), critical accounting research perspective and interpretive research perspective. In this study, an interpretive research perspective, based on qualitative case study, was employed to achieve the research objectives of the study. Interpretive case study method is adopted because, according to the literature and the nature of MCS research in traditional societies, it is the most appropriate approach to the nature of the research questions.

Case study research design, with the steps of application by Ryan *et al*. (2002) is adopted. The study uses case-study approach to collect and then based on the results from field, data analysis was carried out to identify the patterns of MCS; cultural, administrative and control process. For data collection, interview and observation were employed as a primary data, while document review/analysis was used as secondary data.

CHAPTER FIVE

THE CASE STUDY FINDINGS

5.1 Introduction

This chapter presents the background of the case organization and provides the results that have been obtained from the interview participants. Initially, 18 participants from the case organization have been identified, to carry out a semi-structured interview. The results were obtained from only 17 participants, since the researcher was not able to interview the remaining participant. One Branch Manager was outside the country for medical purposes and he was not able to participate. Attempts have been made to interview the deputy of the Branch manager, but he also apologized for not being able to participate. The interviews were carried out in Somali language and consecutively the transcripts were translated into English, coded and analyzed. The main purpose of this chapter is to present the data gathered from the participants of the case organization and to explain how MCS is designed and used in the traditional clannish society of Somalia.

5.2 The Background of the Case Study

5.2.1 Introduction

Somalia is located in the Horn of Africa together with Eritrea, Djibouti and Ethiopia. The two parts of Somalia (British Somaliland and Italian Somalia) obtained their

independence in 1960, and unified under a Western-style parliamentary system, forming the country currently known as the Republic of Somalia.

Even though there is no formal statistics of the Somali population for the last 30 years, the World Fact-book of American Central Intelligence Agency (CIA) estimated that the population of the Republic of Somalia as 9,925,640[4] (CIA World Fact-book, 2011).

Since independence in 1960, Somalia has experienced three distinct periods; the multiparty democracy period (1960-1969), socialist military period (1969-1991) and the stateless period (1991-present). From the year 1991 until 2000, Somalia has lacked any type of formal government. However, at the beginning of the year 2000, the first Transitional National Government (TNG) was established in Djibouti. During the period between 2000 and the current year, i.e. 2014, Somalia has an internationally recognized state, but it is a non-functioning state that fails to provide the basic public services.

5.2.2 Somalia's Political and Economic Situation: A Brief Review

In the early ten years of independence (1960-1969), Somalia's state was so weak to meet the expectations of the people and to create a sense of national identity to the two unified regions; i.e. Southern (Italian) and northern (British) Somalia. Despite achieving its political independence, but in reality the new state of Somalia lacked any type of

[4] There are other Somali ethnic societies who live in the countries of Ethiopia (seven millions), Kenya (two millions) and Djibouti (one million).

statehood pillars. Being an infant state, the new government lacked any capacity to dispense from the former colonizers' influence and had to rely heavily on the mercy of those former colonial powers. During that period, the society felt the inefficiency of the government to restructure the social life after the colony left the country, and there were no changes until the military government[5] came to power in October 1969. Due to the previous political crisis of the civil state, the people were expecting from the military government some changes, however, the military state exploited the support of the people and seized the power ostensibly with the justification to restore law and fight against corruption. It has worsened the situation and escalated the grievance of the majority of Somali clans (International Alert, 2006). The military government ruled the country for 21 years of oppressive and exploitation. It has demonstrated the worst type of corruption, dictatorship and nepotism (Murphy, 2004).

This situation has encouraged the emergence of the armed conflict among different clans and finally caused the eruption of the civil war in January 1991, whereby the central state of Somalia has been overthrown by rival factions (clan-based militia) and, as a result, all public institutions had been destroyed, and consequently, collapsed. This collapse was followed by an inter-clan fighting that erupted throughout the country, and it was the beginning of statelessness. Following the fall of the military government in January 1991, the country went into chaos and lost its every sign of statehood. Since that time, there was no truly functioning central government in Somalia.

[5] Twenty first of October 1969, the Somali military has overtaken the power in a bloodless coup and ruled the country for 21 years.

In a reconciliation conference held by the Republic of Djibouti in the early of 2000, the major clans agreed on the structure and formula of power sharing among clans. As a result of that reconciliation conference, a transitional state (TNG) was formed. However, because of the failure of the transitional state, subsequent reconciliation conferences have to be held in Kenya in 2004 and in Djibouti in 2009. These transitional states failed due to the power struggle among different clans and their lack of confidence with each other. Thus, nominally there is a Somali State; i.e. Federal Republic of Somalia, while in fact the state institutions are not truly functioning. The period between 1991 and present time (2014), is the period known as the "stateless period" of Somalia, where clannish traditional norms filled the vacuum and currently clannish traditional norms operate alternatively (Lewis, 2004). Due to the absence of state regulatory systems, Somali people employed traditional customary laws, which are developed by the traditional leaders of the different clans and sub-clans, to simplify daily operations of the normal life.

With regard to the economy, Somalia's main economic resources are livestock (40%), agriculture (35%), trade (20%) and other light industries (5%) (World Bank Report, 2012). Even though it faces aggressive competition in the Eastern Africa, livestock is the predominant economic resources until this time, followed by the agriculture which account for about 65% of the export earnings (Little, 2005).

However, during the state absence, Somalia's modern business activities have gained its own story. Since the collapse of the central government in 1991, all types of government institutions have vanished. There are no regulatory bodies or mechanisms

that control and monitor the business markets. For instance, the Central Bank of Somalia lost its control over the foreign currency flow and exchange rate since it ceased operation in January 1991. The domestic market is virtually free of regulations and bureaucratic control (Mubarak, 1997). From 1991 to the present, no one was able to enforce the rules and regulations, and this situation made Somalia's business sector to develop rapidly. Powell, Ford and Nowrasteh (2008) stated that the absence of restrictive government policies, state control and regulations has tended to encourage competition and entrepreneurship. Mubarak (1997), Nenova (2004) and Powell et al. (2008) note that private sector has achieved better under the absence of state regulations, and generally the economic situation of the people had improved during that stateless period.

In the unregulated business market, the reputation and mutual trust between individuals is of vital importance for the shareholders and the management of any business company (Little, 2005). Hansen (2007) argues that Somali business is much influenced by the trust among those in the same clan or region as well as the religious background, which is important in facilitating many business transactions. Therefore, in such a free-for-all business market, wealth owners invest into the people they know and those have good business records and background running the business and had enough experience in the respective field, with the considerations of their tribal background (Little, 2005).

To accomplish internal and external security, traditional clannish leaders had created an environment that promotes local economic activities for trade, investment and other possible business practices and enforce traditional clannish customary laws

(Mubarak, 1997; International Alert, 2006). For instance, the major business markets in Somalia, mixed clan militias are employed to protect security of the business markets. Moreover, establishment of business companies are mainly based on clan affiliations and kinship ties. Similarly, clan networks facilitate business transactions and contracts (Lewis, 2004).

Under such free-for-all business market, service sector is one of the vast growing sectors in Somalia. Telecommunication industry, which is the industry selected for this study, is reported to be the most successful industry of services sector (Nenova & Harford, 2004). According to International Alert (2006) and Leeson (2007), telecommunication industry is the leading sector of the business during the stateless period of Somalia (1991-present). This was the reason behind choosing the telecommunication industry as a field research of this study.

5.2.3 Descriptive Background of TSOM Company

Under the chaotic Somalia, some Somali business people thought of establishing a telecommunication company (hereafter as TSOM[6]) to provide telecommunication services to the Somalis who lost everything during the war. After the civil war erupted in 1991 and all public and private institutions collapsed, the founders of TSOM developed the idea of telecommunication services to facilitate the communication services for the dispersed families in the war-torn country. At the beginning, the founders' focus was only on the south-central regions, where the majority of the founders of the case

[6] TSOM is an anonymous name created to be used as the name of the case organization.

organization hail from. However, later on the company's operation was expanded into all Somali regions. TSOM is one of the largest telecommunication service providers among the five telecommunication companies. Established in September 1997, TSOM started its actual operations in the year 2000. TSOM is a for-profit company that aims to provide communication services for Somalis all over the world.

The main services that TSOM Company offers include the services of mobile, fixed Lines, internet and satellite mobile services. Even though there was another private telecommunication company that existed before TSOM, however, TSOM was the first Company that provided the Global System for Mobile Communications (GSM). Together with the fixed line phone services, TSOM introduced the mobile phone services as well as better internet services in Somalia. The company provides the cheapest telecommunication services in Somalia as well as the largest coverage of telecommunication network.

The headquarters of the company is in the capital city of Somalia, Mogadishu. The company has four major regional divisions, including the headquarters. Apart from the headquarters, which is directly supervised by the CEO, every division is headed by a Regional Branch Manager. The Regional Branch Manager is responsible for all the functions of the main departments of the company in that region. For instance, the Director of Finance Department (in the headquarters) reports directly to the CEO, while the head of the sub-unit of the Finance Department, in a Regional Branch, has to report to the Regional Branch Manager as well as the Director of Finance Department in the headquarters.

As of 2013, the company employs around 2,500 employees as in the payroll. As of year 2013, the total assets (book value) of the company are 75 million USD, with initial capital investment of 1.2 million USD. The gross sales of the last two years (2011 and 2012) average to 2.5 million USD per annum, while the net profit of the year 2012 was 1.2 million USD. Furthermore, the company has around 2000 sites with transmission towers throughout the country. In addition, the company has joined and become a member of the international terrestrial link to connect the foreign communication networks. When the researcher tried to enquire about the number of customers the company serves (market share), the CEO considered this issue as a confidential matter, but he indicated that in the first year of company's establishment, the company recruited 1,500 subscribers. As of 2013, the company has around 3,000 shareholders who are mainly Somali ethnics[7], whether they are from the diaspora or live in the country.

As shown in Figure 5.1, the company has seven main departments that include: Human Resource (HR) Department, Finance Department, Information Technology (IT) Department, Commercial Department, GSM Department, Operations Department and Engineering Department. Similarly, there are three regional branches; i.e. Region A (South-west Somalia), Region B (Eastern Somalia or Puntland) and Region C (Northern Somalia or Somaliland) respectively. Every regional branch manages all business operations of the company in that region.

[7] Somali ethnic societies live in the countries of Ethiopia (seven millions), Kenya (two millions) and Djibouti (one million). There are also around one million Somali diaspora who mostly are scattered in the American and European continents.

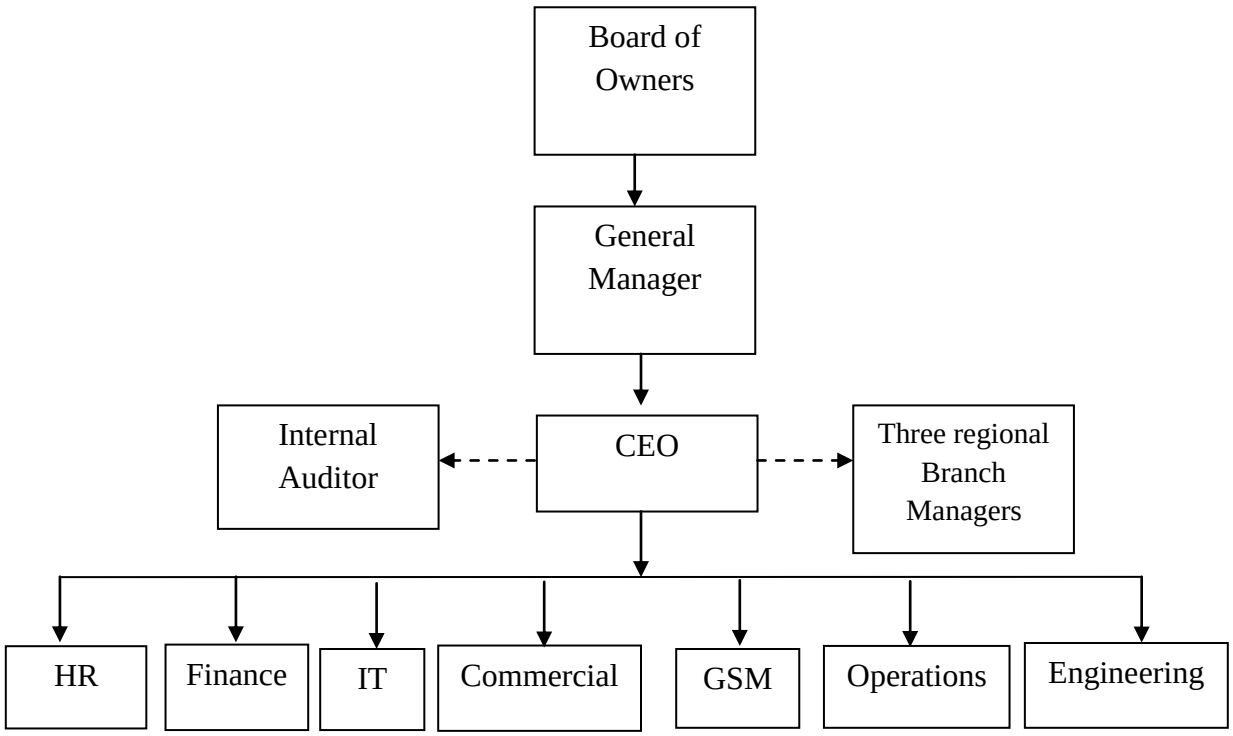

Figure 5.1
Organizational Structure of TSOM

5.3 MCS Themes and Patterns at TSOM

5.3.1 Introduction

This section of the chapter introduces the themes and patterns of MCS that are identified in the practices of TSOM Company. It offers an explanation as to what forms of MCS TSOM designs and uses for its business services. Through the analysis of the case study findings, the major patterns of MCS design and use will be identified and based on that, a discussion and conclusion of the MCS forms will be drawn.

According to conceptual framework, the cultural control practices represent the main factor that directs the entire organizational systems and operations. This means that

cultural issues (including traditional norms, values and religious practices) are the primary factors that structure the development of organizational administrative controls such as organizational governance and its sub-systems. Hence, organizational structure, the structure of governing boards and organizational policies are shaped by the cultural views of the owners and managers of an organization in the context of the respective traditional society (Hofstede, 1984). That is the way an administrative control system is expected to evolve. Lastly, the control process, which mainly focuses on the operational issues of an organization, is the product of the administrative control systems. As a result, control process is the regular habits and routines that are designed to serve the administrative control systems. In that sequence, the three control areas, which have been discussed in chapter four, intertwine and strive for the achievement of an organization's ultimate objectives in the case organization of this study.

5.3.2 The Role of Clan in TSOM Formation

The idea to establish TSOM Company started in the late 1997, when the General Manager (GM) and the Chief Executive Officer (CEO) met in Dubai, United Arab Emirates (UAE). But the process of establishing the company continued until the launch of the company's operations in the early of 2000. Prior to the launching of the operations, the GM and the CEO discussed whether they can take up the business opportunities that emerged after the disappearance of the public telecommunication services as a result of the civil war in 1991. The current GM, who was also the first chairman of the founders since the inception of TSOM, was a business man in UAE and he met the CEO, who also had a small business, in the capital city of Somalia, Mogadishu in 1997.

Initially, the two men knew each other during their study at the Somali National University in 1980s, as the CEO explained:

> *"I met him (the GM) during our study but he graduated before I finish my degree and he started his own business in the neighboring countries".*
>
> (The CEO).

Besides being friends in their earlier times at the university, the two men also hail from the largest two sub-clans of the clan that dominates the capital city as well as the south-central region of Somalia. These two sub-clans were the dominating sub-clans in the capital city since January 1991 when the military government was overtaken by the clannish factions.

After the eruption of the civil war in January 1991, the Somali capital city was the most affected city in the country. In January 1991, the central state of Somalia collapsed and all public institutions, including telecommunication services, disappeared. This situation of stateless caused the emergence of clans and sub-clans to control the city instead. Due to the lack of government, the two sub-clans of the two men (GM and CEO) started fighting over the control of the key areas of the capital city such as the seaport and airport. A deadly four-month war between the two sub-clans caused the automatic division of the city into two major parts that is based on the dwellings of the two sub-clans. A clan borderline that was known as the "green line" was set by the intervening peace keeping forces of the United Nations Mission to Somalia known as "UNISOM" mission[8].

8 At the end of 1992, UNISOM was a peace mission that was decided by the United Nations and led by the USA with the participation of more than thirty countries including Malaysia.

The UNISOM mission brought the deadly civil war of the capital city to an end by setting the green line between the two warring clan militias in 1993. Hence, from 1993 there was a relative stability that allowed the people to gain back their hope of life and started with rebuilding the basic life but under the total collapse of the entire public institutions in the country. All services such as water, electricity, health, education, etc. have totally disappeared. The absence of the public services providers was of the benefit to the Somali entrepreneurs, who started to grasp the opportunity to create local enterprises to provide services alternatively (Mubarak 1997). TSOM was one of the first telecommunication companies that were founded to provide the communication services in the chaotic Somalia.

Primarily, the GM started the business idea of a telecommunication company and shared with the CEO in Dubai in 1997. Since the two men hail from the two sub-clans that control the major two parts of the capital city, it seems that the GM considered the clannish structure of the city which may dictate that any significant project in the city that is not agreed upon by these two sub-clans will be subject to the attacks of the other sub-clan militias directly or indirectly. Considering such situation, the GM thought purposefully, and invited his university friend (the current CEO), to share with him the idea of starting a telecommunication company. Even though the clannish conflicts caused the geographical division of Somali clans, however, business people were the first group that started to eliminate gradually the clannish boundaries of the civil war and started partnering or merging their small businesses to expand its operation into the other clan's areas (Little, 2003).

The two men took several meetings between them in Dubai to discuss about the possible political and social challenges in Somalia. According to the CEO, the GM had a clear thought about the business idea that he was trying to propose as well as the process of setting it up. However, in order to respect the CEO's contribution; he did not suggest the idea in their first meeting. Rather the GM discussed with the CEO about the possible opportunities in the country as well as the possible security challenges. In addition, to show that the idea of setting up a business belongs to both of them equally, the GM proposed about the setting up of the company in their following meeting as a possible business opportunity.

After the two men agreed on the idea of establishing a telecommunication company, they discussed the issues that need to be resolved in order to proceed. The first challenge was how to create inter-network services with the foreign telecommunication companies.

With the assistance of his business friends in Dubai, the GM took the responsibility to find out the legal and business consultants who can help him in handling the possible implications of starting a telecommunication company in a country that lacks all types of state institutions. Legally, both the GM and the CEO were advised to register the company in a country that has government institutions. This step of registering the company in a foreign country would enable the company to obtain a license, open up bank accounts and have a permanent business address. Hence, the company was registered in Dubai, UAE. Having legal existence in UAE, it was intended that it would enable the new company to gain the confidence of the contracting parties.

While the GM was responsible for undertaking the necessary requirements for the company formation in Dubai, the CEO was also busy in negotiating with the clannish faction leaders (known as warlords)[9] who were controlling the different villages in the capital city. Since every warlord was armed and could have harmed the interest of the company, consent should be obtained from each warlord through traditional clannish channels, as well as through bribery methods.

In Somalia, every clan controls their geographical area that no other clan/sub-clansmen can obtain business access unless visible interests of the clan/sub-clan are shown to the leaders of such clan/sub-clan. Therefore, in order to get access into the different regions, business owners should negotiate with both traditional and political leaders of the respective clan/sub-clan. In such process, TSOM CEO had to negotiate with the political leaders of the sub-clans in the capital city as well as the other neighboring regions in the south central regions. Since the collapse of the central state, a political leader[10] represents the clan/sub-clan in their non-traditional issues; i.e. economic, political interest, etc.

5.3.2.1 Clannish Selection of Main Investors/Shareholders

Both the GM and the CEO established the plan for the company's formation and they agreed that each one of them needed to find one trustable business person or business

9 A warlord is a "clan-based militia leader who controls certain areas. In 1991, there were only two warlords in the capital city, each controlling one part of the city. However, after the withdrawal of UNISOM forces in 1994, several warlords emerged from the sub-clans in the capital city. In 1999, the number of warlords in the capital city reached more than seven warlords where each one controls certain villages of the capital city.

10 This is known, sometimes, the leader of the clan militias represents the political interest of such respective clan/sub-clan.

partner who was interested in investing in the company, on the condition that the new business partner should come from the other sub-clans who inhabit the capital city, other than the sub-clans of the GM and the CEO. This is a way of balancing the different clans/sub-clans in the company in order to show that the company belongs to the different Somali clans and sub-clans. If certain clan/sub-clan dominates the company, other clans/sub-clans will associate that company to that clan/sub-clan, which will render the company's interests to the possible risks of clannish conflicts. As a result, a company that is associated with specific clan/sub-clan would not be able to get access to the other clan/sub-clan's areas.

> *"The reason to invite different investors from the different sub-clans was that it was impossible to get access to the other part of the city unless you have a partner from that part. Similarly, if any sub-clan is not considered in the company's formation, the aggression of that sub-clan is expected any time. We decided to avoid clan sensitivities in Somalia"*
>
> (The CEO).

The CEO also highlighted that they realized that establishing a telecommunication company in the country is not a one man or even one clan project because it needed a huge investment as well as a larger network of telecommunication services.

The GM and the CEO prepared the initial arrangement of the company's establishment and the initial capital investment. After the arrangement on how shares would be distributed and the percentage of capital allocation to every founder has been determined, the GM and the CEO finalized the agreement process. Similarly, at the beginning of year 1999, the GM and the CEO agreed on the amount of capital sharing between the founders and decided to invite other business partner from the different clans. However, the GM and the CEO were very careful about selecting the new

owners/shareholders. They set conditions for selecting new founding members. The conditions for choosing the new business partner included that a potential business partner: (1) should be from the close business friends, and belong to the respective sub-clan regardless of the geographical location, (2) should be trustworthy, religious and well-respected by his/her clan/sub-clan members, and (3) have never been involved in the civil war and/or the other clannish conflicts of Somalia.

The process of discussion with potential business partner was too informal, where the GM and the CEO have not prepared adequate information and the details of the company under formation. The GM and the CEO were not able to show any business assessment or feasibility studies which should have been carried out prior to inviting potential business partners.

> *"We did not have any written information. When we met some of the (potential) investors they asked us whether we prepared any feasibility study or even assessed the possible risks. We told everyone that we will carry out an assessment together with you (investors)"*
>
> (The CEO).

After the establishment of these conditions, the CEO and the GM prepared a list of business friends whom they felt could fulfill their conditions. Through a gentleman agreement between the GM and the CEO, six potential investors were selected from a pool of business friends. They set a level of priority in meeting those potential investors. This means that if investor A rejects the offer, then they go for investor B. They met investors one by one and explained their business idea. The CEO mentioned that some investors instantly accepted the offer while the negotiations were rather tough for some others. For instance, the CEO explained the concerns of some of the potential business

partners such as: who will guarantee the safety of his/her money, or even who will guarantee that the sub-clans of the CEO and GM will not withhold the wealth. The reason for raising such questions was that if any business owner denies others' wealth, the only way to get back that wealth is through negotiation of the sub-clan leaders or through an armed solution between sub-clans of the two parties.

In the first stage of the company's establishment, the three co-founders (invited to join the new company) accepted the offer from the CEO and the GM. The three co-founders, who hail from the same major clan of the CEO and the GM but from different sub-clans, were invited to share the process of company's establishment. The three co-founders were one female and two male investors.

Although the five founding members of the company (i.e. the CEO, the GM and the other three investors) are from five different sub-clans, however, the role of every founder depends on several factors. The main factor that determines the founder's/investor's influence is the size of his/her clan. The size of the clan/sub-clan enables the founder to recruit more customers from his/her clan. The GM, who is the most influential founder, is from the largest sub-clan of the five and holds the highest position; i.e. the chairman of the owners' board (Board of Trustees), while the CEO, who hails from the second largest sub-clan, is the second most powerful and so on for the rest of the business partners.

In this concern, there are some founders and/or investors in the company who have no clan relations. Investors who hail from small clans/sub-clans may not have any involvement with the clannish issues.

> *"There are some founding members or investors, who are not from the strong clans/sub-clans, but they joined the company because of their expertise, their economic role or they can help the company in the external relations"*
>
> (Branch Manager, Region A).

A Branch Manager (Region C) illustrated an example of one of the top investors in the company who is not from the four major clans. Rather, he is from the small clans that are accounted in the "half clan" of the Somali clans. However, he is a businessman for a long time and he assists the GM in the external relations. Usually, that owner does not involve in any clan related issues as his clan/sub-clan is not significant in terms of political influence and/or population size in the country. Therefore, the role of similar owners from the small clans is merely for business purposes.

Similarly, the political influence of the clan plays an important role in shaping the investors' role. The third most influential founder in the company is the founding lady who hails from the third largest sub-clan in the capital city. She is the daughter of a very famous politician who was assassinated at the beginning of the civil war in 1991. Thus, in TSOM, the founder who is from the largest sub-clan was appointed as the chairman of the founders as well as the GM. The CEO, who is from the second largest sub-clan, is the executive manager of the company and plays the role of the second most powerful person in the company. Similarly, even though the lady founder does not have a formal position in the company, but she is the third person in the company in terms of influence.

> *"She is not formally appointed for specific position but when the CEO is outside the country she is the highest executive person because she is the third person in the company in terms of personal role and influence"*
>
> (Commercial Director).

The authority of every founder in the company is not stated or written explicitly but it is informally accepted by the founders as well as the other investors/shareholders. Based on the influence of every investor, the subsequent investor has certain influence in the company depending on his/her social and political role in the country. Even though some founders; other than the CEO and the GM, have no official positions in the company, however, based on their clan affiliation and their role in managing clan related problems, they enjoy the influence they have in the company, though it is an informal role. For instance, if the company faces a problem from one of the sub-clans, the founding member or the main investor/shareholder from that clan should take the lead to negotiate with such sub-clan. Therefore, the founder or the shareholder can take decisions in resolving the problems with that clan.

In Somalia's clannish environment, while some clans exploit their size or the number of its people, some other clans/sub-clans employ their military power or their political influence regardless of their size. For example, some of the Somali clans/sub-clans may not be as large as other clans/sub-clans, but, at the same time, that clan/sub-clan has more militias than other neighboring clans/sub-clans or it controls larger area or more strategic region with military forces. So, being militarily stronger may provide a founder some recognition from the other clan's business people.

Although the initial founders are five, however, every founder was allowed to create sub-contracts with any number of shareholders from his/her clan/sub-clan as long as the shares will not exceed his/her capital allocation. This means that every founder acts on behalf of many other shareholders from his/her clan/sub-clan. This sub-contract between the founder and the sub-contract shareholders from his clan/sub-clan is not

formally written or recognized by the company, but such sub-contract is carried out under the process of traditional agreement by making the respective clan/sub-clan traditional and religious leaders as witnesses to the sub-contract. Through such sub-contract, founders represent an unknown number of shareholders who cannot claim their rights directly from the company, but may informally be known by the CEO or the directors.

In the year 2000, the company started its actual business activities in its two main branches of the capital city. To introduce the services, the first batches of SIM cards have been distributed to the customers of the capital city, with some amount of air time credits. The initial capital investment of 1.2 million was accumulated by the primary founding members. However, currently the book value of the company's total assets exceeds USD 75 million. From the year 2004, the company started to expand its services towards other cities of the south central regions. Similarly, the company opened its business services in the Northern and Eastern regions of the country in the year 2009.

During the establishment of the company the majority of the initial founders, if not all, were from the south central regions which means that they hail from the dominant clan of the south central region including the capital city of Mogadishu. The major clan in south central region is one of the four major clans that are recognized by the current Somalia's constitution. The other major clans control the regions of eastern, northern and south-west.

Similar methods of selecting investors and employees in the south central region are used by the company to extend its business operations in the eastern and northern regions of Somalia. In the year 2009, the company extended its activities into the regions

other than south central regions; i.e. northern and eastern regions. To extend the company's business services into the northern and eastern regions, the founding members decided to invite business friends from the major clans in these two regions. To find the potential investors from these two regions, the GM contacted his former friend in UAE, and asked him either to join his company or to find other trusted investors who can help him expand company's services to these regions. According to the CEO, this is the only way to extend business activities into the different regions of Somalia. The CEO justifies the reason for employing such an approach of clan-based friendship:

> *"Because of the clan construction in the different regions, business people have to accept the reality that without tribal considerations, no business can be successfully run. Everyone knows that clan is the key of any aspect of the social life including business".*
>
> (The CEO)

According to the CEO, the process of offering ownership to other business owners in the northern and eastern regions was not as simple. For instance, for the first time, when the GM met with his two business friends in the northern region (known as Somaliland) and offered them to invest in the company's new branch (TSOM northern), the business friends asked him the benefits that they will be able to gain from investing in TSOM company. After a long negotiation, the GM convinced them that they will be able to enjoy the same privileges of the initial founding members. In addition to the profit sharing of their capital contribution, the founding members have the privilege of 30 percent of the total annual net profit of the company. This percentage from the net profit is given to the founding members only as a privilege of the company's "initial ownership" or the right to "foundership".

> *"It was not easy to convince them to join our company because if we did not offer such privileges they may establish their own company or partner with foreign companies in their region and compete us"*
>
> (The CEO).

Similar to south central region, there are other telecommunication companies in these two regions (northern and eastern) that have inter-network agreement to enable Somalis to call any network of the other telecommunication companies in the country. But disputes of the inter-network problems and inter-connection rates usually erupt between partnering companies in the different regions. Therefore, the inter-network calling rates between these small companies in the different clan areas, increases communication costs in Somalia. To avoid such dispute and to reduce the inter-network costs, TSOM introduced the strategy of extending the telecommunication services to other regions but with the ownership of all clans in the different regions. This strategy of offering founding ownership resembles the strategic alliance between companies or the merging of different businesses. However, it is actually a type of "merging clan interests" in the different regions. Similarly, this strategy enables the company to unify the pricing policy as well as offering the cheapest rate in the country while the inter-connection cost between the competing companies is usually higher. The strategy of offering ownership to other business investors become effective in both regions; eastern and northern, as stated by the IT director who is in charge of managing the inter-network affairs of the company.

> *"Our competitors use partnership, but we realized partnership costs us a lot because of the frequent disputes about the inter-connection costs. So, we invested in every region instead"*
>
> (IT Director).

5.3.2.2 Selective Recruitment of Employees

Formally, there is written procedures on employees' selection and recruitment. This process includes filling up the job application forms, submitting curriculum vitae (CVs), submitting required documents as well as interviewing the candidates. Similarly, although it is not formally written, there are several other requirements such as recommendation from a friend or a well-respected Islamic scholar, who is known by the company's officers. These requirements are currently practiced by the company for employment of operational employees.

From the beginning, the initial founding members decided to recruit employees from their respective sub-clans. In order to balance clans/sub-clans, the company practices "clan power sharing" strategy, which is adopted to appear neutral in the eyes of all clans/sub-clans, and that owners and shareholders should come from all Somali clans/sub-clans. Based on this strategy, TSOM was trying to maintain the power sharing balance between the different major clans as well as the sub-clans of the different regions in the company's key management positions. Therefore, the company may unnecessarily employ new employees who are recruited for the purpose of clan balances and to avoid certain clans or sub-clans overtaking the company. Justifying the reason for employing, sometimes, unnecessary employees, Region C Branch Manager stated that:

> *"It is normal to see an employee attached to your office without clear job descriptions or even without defined tasks. It happens for the purpose of clan balance"*
>
> (Branch Manager, Region C)

It was argued that to fill a main vacancy, the founders were supposed to select from their close circles; through kinship or friendship. This policy is known by the CEO as the "selective recruitment" of the employees, where every employee is selected and guaranteed by a founder or by a main investor. The Commercial Director confirmed this:

> *"I was recruited by the CEO for our blood connections and that CEO was a friend of my uncle. Many of the other employees were also selected on that way".*
> (Commercial Director).

The branch manager of region C also confirms that majority of the senior employees are recruited based on kinship ties and friendship to the founders of the company. Through informal agreement between initial founders, every founder has to bring a specific number of employees to work for the new company.

> *"During the establishment of the company, and even at present time, the company recruits employees from the residents of each place. If we do not get the qualified employees from that place, we have to select potential persons (from the villagers) and train them. Sometimes, we may search (for) an employee (from) outside of that district or even outside the country"*
> (Branch Manager, Region C)

To recruit an individual for an important office, the CEO used to contact his close friends for recommendation of the suitable person who can fill the vacancy in that area. The recommended person might be living outside the country. For example, a university student who was finishing his degree in Pakistan was recommended to fill in the position of the deputy branch manager of a regional branch in the south west region. The CEO has to wait for that student to complete his degree and come back. The reason for selecting him was due to the "clan balance" concept.

Before the employment process is completed, an employee should find the guarantor or the founder that has recommended him/her. The guarantee is an unwritten verbal agreement which provides a promise that if the employee faults or misbehaves the guarantor (founder) will be responsible for any loss or damage caused by such employee.

> *"We trusted the employees because they were selected by the founding members of the company"*
>
> (Engineering Director).

The first team of employees after the company's formation was recruited for the Engineering Department. The Director of Technical Division, who was a friend of the GM, was the first person recruited to manage the engineering related matters in the company such as the installation of transmission towers. The Director of Technical Division (currently Engineering Department) also contacted his former classmates at the university to find out about good engineers or technicians from their personal friends or any one that is recommended by their close friends. Particularly, the main advisor for the Technical Department was the Director's university classmate who was working as a chairman of a charity organization in the capital city. Similarly, the cashier and another employee from sales division were selected through a friend who was the uncle of the Commercial Director. But the problem was that the new selected employees did not have the required skills to carry out the necessary tasks of their respective duties. Therefore, since the selected employees have not been chosen based on their qualifications, special training was offered. The training was intended to identify the capabilities and knowledge of the new employees as well as to understand their personalities. To offer the training program, a training contract was signed with an Indian expert from Dubai to provide the

engineering employees with the basic requirements of the telecommunication machines. Employees in the engineering department were taught to run the daily technical issues of the company's engineering unit.

> *"We contacted our friend in UAE to ask him about a good trainer. He found an Indian expert who owns a consultation company. We brought him to Somalia and he trained out technical staff about the skills on how to operate the machines"*
>
> (Engineering Director)

To expand the company's activities in the different regions, or even in the villages of the capital city and other main cities, the company has to select managing officers and employees from the clan/sub-clan of that location or regions. For instance, the directors of departments of commercial, finance, HR and the GSM were recruited based on their kinship ties with the founders or based on the recommendations from their close friends. The directors of commercial, finance and GSM departments hail from the same sub-clans of the CEO and the GM as well as being close friends of them.

Those Directors were employed, during the beginning of the operations, based on the recommendations of the CEO and GM due to their kinship relations with the CEO and the GM. The reason for employing close relatives or friends is that, under the absence of rules and regulations in the country, hiring an unknown employee may subject the company's interests to security problems. Due to the security reasons, the owners will look for the people they know well and those they trust most. Therefore, in the context of the Somali traditional society, kinship ties, personal relationships and trust of the employer towards the employee is essential to protect the company's interests (Makinda, 1991).

Selecting employees through friendship channels and from the relatives continued even after the expansion of the company's activities into other regions of the country but with a slight improvement of the recruitment process. From the year 2009, when the company's operation expanded, the steering committee developed their unwritten categorization of offices and responsibilities. For instance, after the expansion of the company's activities, the candidates are classified into three groups, namely the executive managers, divisional heads and their assistants and the lower level employees. To engage an executive manager such as the Director of Finance or the Director of HR office, clan/sub-clan balances was a sensitive issue that needs to be considered. The company uses what is called as "clan balance in the company" which means that all clans/ sub-clans should be reasonably represented in the company. This is a way of power sharing of the different clan/sub-clans. The company adopts the concept of clan balance in order to appear to the different clans/sub-clans that the company is owned by all Somalia's clans/sub-clans and does not belong to a particular clan/sub-clan. With regard to the lower level employees (i.e. the drivers, the security guards, the cleaners, etc.), the company employs them based on their geographical location, and there is not much consideration about their respective clans/sub-clans.

However, middle level staff or what the HR Director calls the administrative staff is selected based on their qualification and professional skills, subject to their clan origin must different. Even though professional or qualified employees are selected according to their qualifications, however, employees from one clan/sub-clan should not be allowed to dominate the company. Thus, for administrative employees, both clan origin and qualification are considered. The reason is that an administrative employee is required to

have specific qualifications and skills that enable them to handle specific tasks such as that relating to engineering, sales, marketing, accounting and IT duties.

> *"When we want to recruit an employee for a task that requires specialized profession, we have to look for the people who have that qualification. But at the same time, we do not accept that one clan/sub-clan dominate us or dominates in a specific department because that will damage the reputation of the company"*
> (Operations Director).

These administrative employees are mainly selected by their professional knowledge with the consideration that all clans or sub-clans, in that area, should be represented. The HR Director mentioned that the company is very careful to be associated with specific clans/sub-clans, which means that one clan/sub-clan, is highly represented in the company than other clans/sub-clans. By associating specific clans/sub-clans, the company may lose a lot of customers to the competing companies.

In addition, gender is another very important issue in selecting employees. In Somali traditional culture, only male employees can represent their respective clan/sub-clans. Principally, since the female sister can join any clan by marriage and that female sisters are not restricted by the ancestral and clannish boundaries of different clans, they cannot represent their clans in the main positions of the companies. In certain regions, particularly in the northern and eastern parts, female employees in the company are not counted for clan requirement. Therefore, to preserve clan balances in the company, only male employees can represent their respective clans/sub-clans.

5.3.3 Traditional and Religious Values at TSOM Management

Traditional and religious norms and values are highly adhered to in the company operations. Before the employment of any individual, the candidate should go through a screening program which aims to know if such person observes the cultural and religious norms such as honesty, openness, truthfulness and commitment to the religious obligations. Usually the screening process is carried out by the Directors of HR and Commercial Departments or even, sometimes, by the CEO him. Before the process of recruitment started, a recommendation about the religiosity of the candidate is the first criteria to be tested.

Besides the considerations of clan lineage and qualifications, the company contacts an Islamic scholar or an institution to give recommendation about the *akhlaq* (ethics) and the religious commitments of a candidate. The approach of arranging recommendation is generally informal which have no formal procedures. Commonly, the Directors of HR and Commercial Departments seek a recommendation from one of the well-respected sheikhs (Islamic scholars) who hails from the same clan/sub-clan of the respective candidate who is being employed. Similarly, if the candidate has been working for another institution, it is easy to request to bring a recommendation letter from the previous employer. However, formal recommendation letters are not usually enough. Informal ways of knowing the behavior of the applicant is widely used by the HR Department and particularly for the sales and finance positions. The reason for all this screening process is explained by the HR Director, who has illustrated that good religious commitment is a sign for trustworthiness, truthfulness and reliability.

> *"Although we are not very strict about the practices of all religious obligations of the candidate, however, (in employment) commitment to religious obligations is the first thing we have to test before everything else…"*
>
> (HR Director).

The CEO also view that ethical values are more important than skills for employees selection. He believes that the success of their company in Somalia's chaotic business market is due to the ethical values of the individuals working in the company, and not much based on their education or skills. Similar view is also perceived by the Operation Director who stated that:

> *"Honesty and religious values are the key for customer satisfaction and the growth of the company's future value".*
>
> (Operation Director).

To check the religious commitments of a candidate, HR officers confirm that the candidate does not involve in unethical activities such as smoking cigarettes, chewing *qat*[11] or using any other stimulant. For example, if any usage of stimulant is detected from the tracking sources, that candidate will not be employed regardless of the reliability of the tracking source.

In the view of the HR Director, Somali new generations lost all types of ethical values since the collapse of the central state in 1991. The reason is attributed to the lack of good educational institutions and lack of unified curriculum in the country. Therefore, under the absence of the national systems especially the regulatory system, traditional

[11] *Qat* or *Khat* is a tropical evergreen plant whose leaves are used as a stimulant by many people in Africa and Middle East.

norms (i.e. to consider the traditional customary law that regulates social relations) [12] and religious values (e.g. preserve prayers, fasting, religious attire, growing beards, giving *salam* to everyone, etc.) become the most important parameters to be used for employment and to control employees' behavior in the company. However, the HR Director noted that if they realize that an employee uses secretly any stimulant such as cigarettes, alcohol or *qats*, they do not investigate or spy on that employee since such usage is not publicly practiced.

> *"Usually we try to know whether the candidate uses any stimulant such as smoking, qat, tobacco or any similar elements. If we realize the candidate uses such unethical substances we do not hesitate to reject him/her. But if it is reported that an employee uses such stimulants secretly…then we do not spy on him/her"*
> (HR Director).

Depending on the importance of the position, the process of candidate screening include a verbal recommendation from a respected person such as a *sheikh* from the same clan/sub-clan of the candidate, as well as a guarantee from a trusted person usually one of the founders or shareholders in the company. The HR Director explained that the level of candidate's screening would depend on the importance of the vacant position that the candidate will hold.

> *"It depends on the position. The positions like a director of a department, or the head of sales division or any responsibility regarding finance department, is sensitive and we have to be very careful when screening potential employees to these functions… sometimes, we may request for more than one guarantor"*
> *(*HR Director*).*

[12] Traditional norms regulate the hierarchical authorities of the traditional leaders, traditional agreements between clans/sub-clans, observes that all clan members are obedient to clan leaders.

In addition, it was observed that majority of the employees in the commercial and finance departments are those selected and guaranteed by the founders because they were recruited through the founders in the early years. According to the Deputy Finance Director, the functions of commercial and finance departments represent the backbone of the company's activities, therefore, the candidate for such essential positions were carefully screened.

Employing any possible sources, the department of HR attempts to find out more information about the personality of the candidate, such as his level of patience, his obedience to the traditional leader's judgment or decisions, frankness, truthfulness and commitment to the religious obligations. To explain more about this issue, the HR Director indicated that they usually contact someone whom they trust such a religious scholar or a business persons, and who knows the candidate very well. Similarly, after screening about the basic requirements of selection, other religious requirements are also screened.

For example, regularly praying in the mosque is the most important symbol of religious commitment. By contacting the closest friends of the candidate, the religious and ethical behavior of the candidate is tracked. However, usually the tracking of the candidate's information is via oral contact of the respective persons to collect adequate personal information about the candidate. Similarly, employees of TSOM are important source of information about the candidate. The CEO explained that the company seeks information about the candidates from the employees who are of the same clan that the candidate hails from. This is supported by the HR Director who mentioned that clan

channels are the easiest way to track the background of the candidate and screen the candidates.

Not only before employment, but traditional norms and religious commitments are also observed even after employment. After recruitment, every employee is required to maintain the basic religious obligations such as prayers and fasting in the holy month of Ramadan. For instance, whenever the call for prayer is announced, all offices will be closed and all employees will start preparing for the jamaah gathering in the nearest mosque. It was also observed that when noon (*Zuhr*) or afternoon (*Asr*) prayers are called, employees were telling their customers to come back after the prayer is performed for continuation of their services.

The importance of religious appearance is also observed. For example, the common religious appearance such as growing beards, wearing religiously designed pants[13] or *thobe*[14], is encouraged by the company, while ankle-length pants are considered a form of dress resembling western traditions. Although, the religious appearance have no punishment, however, it is commonly disliked by the general view of the company's employees and management, and it may cause indirect denounce of the colleagues. Similarly, it is easily visible that majority of the employees are male employees. Through observation, it was understood that the dominance of the male employees in the company is caused by the general perception of the top management (top management is taken to mean the CEO and the GM, but sometimes included the

[13] The length of the pants should be above the ankle.

[14] *Thobe* or *thaub* is a standard Arabic garment that is an ankle-length with long sleeves generally worn by the Arab or Middle Eastern men.

initial five founders as well as the Commercial and GSM Director). The top management adopted the general view of the Somali society which denotes that it is preferred to keep women in the traditional jobs such as looking after the children and staying indoors. Previously, Lewis (2004) noted that Somalis allow subordinate roles to women and believe that staying indoor is traditionally adopted and religiously encouraged for female sisters. In this regard, without formally restricting the equal opportunities to both male and female applicants, the company's normal practices encourage the male preference.

> *"Employing female staff is not as easy as the male applicant. We have to get the permission from the female guardian; i.e. the father or the husband. Second, if the female applicant has children… most probably that woman would not be able to work long hours"*
>
> (Branch Manager, Region A).

Similarly, the general view of the employees in TSOM, does not encourage the co-existence of male and female in the company's premises. The traditional norms of the Somali society consider that it is not good for the reputation of the clan to allow their daughters to work among other clans-male. Therefore, in line with this traditional view, female employees could only work in the administrative positions that require less interaction with other people particularly with the male. For example, in TSOM Company the very few female employees[15] are working in the call centers where they receive customers' calls and solve their complaints through telephone.

Religious commitment is one of the criteria measured for performance evaluation and promotion. Even though it is not standardized, the importance of religious

[15] The HR Director was conservative to give actual number of female employees but he mentioned that they are very few in the company, and he indicated that the company is accused for gender discrimination by the Somali Civil Societies.

commitment is indirectly communicated to the employees, through informal means such as praising those who are on time for prayers, wearing Islamic attire as well as being honest and loyal to the company. Explaining the importance of the personal values and religiosity, the Commercial Director illustrated one example of an employee who decided to quit the company, but the company retained him for his personal and religious values.

The employee was very religious, honest and energetic in undertaking his duties. The CEO raised the issue of that employee in a meeting of the Steering Committee and decided not to release such employee because the employee was not replicable by any other employee in the company or by a new one. The CEO decided to encourage that employee and retain him in the company. The Commercial Director did not mention the form of encouragement provided; but the employee is still working and currently is one of the senior executive directors in the company. This is in line with the view of the HR Director who believes that the company relies much on the personal values of the employees rather than their qualifications.

5.3.4 The Communication and Information Sharing Approaches

In the traditional societies, familial connections, friendship, kinship-based trusts and informal communication mechanisms are shaped by the traditional norms of the society in which the organization operates (Hopper *et al*., 2009; Tsamenyi *et al*., 2008). In addition, the traditional cultural approaches also create an informal network that invents its information sharing channels as well as the form of relationships. As a result, the flow of information among different divisions may fundamentally be horizontal that keeps the network members of the organization together (Herath, 2007). The control practices of

personal relationships, information flow and sharing channels, and the communication approaches that are identified in the company, are discussed in this section.

5.3.4.1 Information Flow/Sharing Approaches

As noted earlier, financial information is rather restricted in the company. This has created gossips, rumors and negative feelings among employees. Due to the security circumstance of Somalia, it is difficult to allow non-finance employees to know the financial results of the company officially. However, some of the employees believe that relative employees of the CEO, the Commercial Director and the Finance Director are able to get access to any information that they want. In this regard, there is a common rumor which says that employees, who have blood ties with the CEO or with some of the founders, are more informed, and thus, are more satisfied than other employees.

It is difficult to measure the issue of some employees as being perceived more informed or more satisfied than others. However, the Head of Public Relations highlighted that the behavior of the CEO's and the GM's relative employees and shareholders support such perception. According to the Head of Public Relations, the relative employees of the CEO and the GM usually behave as though they are owners in the company or as though they have authority to give orders. A common view of the employees that was observed by the researcher during the stay in the company was that relative employees form part of the "ruling family" (a term used by the employees). The main reason for such a perception is that relative employees appear as though they have extra authority and they try to speak, sometimes, on behalf of the top management. There is also a widely spread anecdotes that relative employees receive higher incentives at the

end of the year regardless of their positions. However, when researcher enquired the HR Director about such privileges, he neither denied nor accepted it since he himself was not able to prove such claims or disprove it. In response to such claims, the Commercial Director justified that extra encouragement or even more authorities may be given to particular members of employees for their high commitment, trustworthiness and sincerity to the company:

> *"If an employee is loyal or more capable or has higher commitment, we may offer additional encouragement to him/her or we may give additional tasks and authorities"*
>
> (Commercial Director).

But the Commercial Director did not clarify the methods of additional encouragement, since the financial results of the company and the procedures of the commission and incentives determination are carried out at the discretion of the top management. Similarly, the statement of the Commercial Director indicates that relative employees of the top management, may enjoy higher commitment with their work, and accordingly become more loyal to the company than any other employees. It has been argued earlier that, in the traditional clannish contexts, loyalty of the employees to the business company is a way to protect the business since the business is regarded as an extension of the clan (Lewis, 2004). Likewise, it was also argued that, in the traditional societies, related employees consider themselves as owners of the business organization which may complicate the decision making process (Nevin, 2007). However, this study was not able to prove or disprove whether the perceived preferential reward of related employees exists or otherwise.

As discussed earlier, financial results are restricted to the CEO and the GM. According to the Internal Auditor, there is a lack of confidence with the Somali aggressive business environment that lacks any type of formal regulatory system. In the absence of mandatory regulations, everyone can carry out whatever business activities he/she wants without regulatory process. Therefore, due to such business environment of Somalia, TSOM management may think that restriction of the company's information to only trusted members is the best way to safeguard the security of their company.

5.3.4.2 Friendship and Personal Relationships

Friendship and good relations among employees are essential in the company. TSOM uses friendship and personal relationships for employees' recruitment, for candidates' screening and for smooth running of the company's daily activities. It has become part of the daily routine for an employee to make round to the other offices and ask about their personal and family circumstances before starting their works. In Somalia, the first issue everyone would ask his/her colleague is the regarding security situation of their villages in that morning. Knowing the security situation of each other is not a new culture in Somalia's history, but it is a common practice that existed in the long history of the Somali pastoralists (Lewis, 2004). In the first meeting of two Somalis, they ask each other "*ma nabadbaa*" (how is the security today).

In the same way, employees would exchange information about the security of the different villages. Then, after exchanging the *salam* (greeting), tea is offered to the office guests. In every office of the company, there is a tea pot (thermos) with tea cups. It has become a culture in the company that whenever an officer from a different office visits

their office, it is necessary that the visiting officer be welcomed and be offered tea. On the other hand, the guest may either accept the tea offer or decline it, but culturally, the guest should sit down first though not necessarily having to accept the tea.

The working hours of the company are from 8am to 5pm, six days a week, starting from Saturday. There is one hour break for lunch and prayer; i.e. 12pm to 1pm. But, through observation, it was obvious that employees in the different departments such as frontline employees have their short breaks around 10 am and 3 pm that are not formally allowed in the company, but are tolerated by their supervisors. For instance, in the morning shift that starts from 8am to 12pm, there are two short breaks that are 15 minutes each, which means every two hours there is a short break. Similarly, in the afternoon shift there is an unofficial break of 30 minutes that is permitted for the Assar prayer with a tea break. During these short breaks, employees usually come down the ground floor, where the cafeteria is, and they openly tease each other over tea. This culture of taking tea together and interacting with one another enables employees to know better each other and everyone knows the details of their other colleagues. The HR Director explained that:

> *"You know we are an oral society. We like personal conversations. At 8am when everyone arrives at his/her office, that employee makes round to the other offices and say salam (greeting) to everyone. It is normal. They share the situation of the day as well as the latest issues in the company".*
>
> (HR Director)

In this regard, the flexibility of the job schedule may pave the way to create informal relationships among employees, which in fact, is visible in the daily business operations of the company. During the short tea or prayer breaks, the employees will exchange information, laughs and rumors in the ground floor of the company's building.

According to the Engineering Director, the culture of informal communication, particularly, the personal conversation causes delay for employees in performing their duties. The GSM Director also commented:

> *"I do not restrict the relationship among employees and friendship ties. I try to focus on the tasks to minimize informality and personal conversations, but still I have to be flexible with them because they are cooperative and they consider me as a friend. We do not want to change their cultural practices; instead we focus on their loyalty and commitment to the company".*
>
> (GSM Director).

As an oral society who prefers verbal communication rather than written communication, an employee can carry out business transactions through verbal communication. For instance, during the interview with the HR Director, everyone could come in and even sit and open their respective matters in the office. This was interrupting the interview sessions regularly which caused the researcher to switch off the tape-recording machine several times. Similarly, during the stay of the researcher in the company's premises, it was observed that employees or customers could enter any office without permission.

Explaining how such openness and flexibility in the company's offices might help or harm company's business operations, the GSM Director views that he does not want to look like a boss, rather he likes to behave like a friend to his subordinates.

> *"My office is open to anyone. I cannot make restrictions or tight schedules because all offices are opened and I can go to any office even to the highest person in the company and ask whatever I want. I agree that such flexible schedules disturb the smooth running of the daily activities, but (we've) no other choices. This culture exists in all institutions"*
>
> (GSM Director).

Directors also give flexibility to their subordinates. The relationship between employees and the subordinates appeared to be a horizontal relationship rather than vertical. During the informal conversation with the Commercial Director, the researcher observed that employees were coming and joking with him like a friend who is of the same level of administration, but the Director highlighted that he did not treat his subordinates as employees. Rather, he considers them as colleagues. Similarly, the GSM Director explained that he likes to refer to his "subordinates" as colleagues or treat them as "friends".

Similar personal relations and friendship is used when dealing with customers. During the presence of the researcher, it was apparent that when customers arrive in the company's offices, the customer looks for an employee he/she knows in order to be served. If the employee is too busy to serve the customer, the employee may transfer the customer to another colleague in another counter. The Head of Sales Division complained that:

> *"Even if other frontline employees are vacant (not serving any customers), the customers may not want to go to them because they do not know them unless the friend employee transfers them to the vacant employee and tells him/her to serve the customer".*
>
> (Head, Sales Division).

The reason why customers look for the employees they know is that these customers were primarily recruited through clan affiliation or friendship invitation of their friend employees. Therefore, whenever the customer comes to the premises of the company, the customer contacts first the employee that recruited him/her. Then, the customer is either served or is passed down to the other colleagues.

> *"The first time when I joined TSOM Company, I was invited by my cousin who was inviting all family members in the city (Mogadishu) to join TSOM. Since my cousin was the person behind my subscription of TSOM network, I usually call whenever I got a problem"*
>
> (Customer1).

The relationships between customers and employees is apparent in the company's premises where it can be observed that a customer may come in the company's buildings and sit waiting his/her employee-friend because the employee is not in his/her office or in the counter. It is common for every employee in the customer care unit (under Marketing division) to handle those customers that mostly he/she know first, since his commissions depend on the satisfaction and usage of the customers under his/her name. A customer explained that he would not feel happy whenever he was dealing with someone he does not know.

> *"Although I am sure every employee can provide the service I want, however, I am a client to a specific employee. You know that employee who registered me receives commissions from my usage? So when I need services he/she has to do the service for me! I want someone that understand my circumstances and can do services in the way I want it"*
>
> (Customer3).

Similarly, in the first visit of the researcher to the company, special telephone SIM Card (easy postpaid number) was issued to the researcher, and surprisingly the Director who ordered the preparation of the SIM Card informed the researcher to send the monthly charges payment to the Director's personal telephone number. In Somalia, telephone money transfer is used for local money transfers and payments. Therefore, every customer has the choice to pay telephone charges either by cash or to use telephone money transfer.

In this regard, the company is trying to formalize the process and procedures of customer services management to make sure that every employee could serve and help every customer. In order to implement such formal procedures of customer services and to minimize personal relationships between particular customers and employees, the company introduced the "queuing digital system".

The Head of Marketing Division mentioned that, in January 2013, the company tried to introduce a "queuing system" which was introduced to enhance customer services, whereby the customer arrives at the company offices and takes a "queue number" from the digital machine. To implement the queuing system, the company incurred a cost by training employees and installing the machines. To ensure its effect, the queuing system was firstly adopted in the headquarters of Mogadishu only. However, within the first week, the company has to temporarily suspend the queuing system because of the complaints from many customers who expressed their discontent about the new "queuing system". To study the reasons for complaints, the CEO nominated an ad hoc committee to provide advices about the best ways of using the "queuing system". The situation was explained by the Head of the Marketing Division.

> *"Many customers are in rush and they want either to finish their services within their timeframe or they leave. To let them leave is not good for us because that customer may unsubscribe our services (quit service) and switch to the competing companies. Since the system is new to Somalia, majority of the customers did not welcome it. It created a lot of grievances from the customers".*
>
> (Head, Marketing Division)

Now, the "queuing system" is halted awaiting suggestions of the ad hoc committee, who is assigned to find the easiest way to implement the system. In this respect, the Operations Director disagrees with the implementation of the queuing system

and views that the decision to adopt this approach or to adjust customers' behavior is dangerous and very risky. He views that the company should have adjusted its systems according to the customers' desire and not vice versa. In addition, the head of marketing division argued that personal relationships and friendship between customer-employee exists in all other companies in Somalia. Similarly, the Marketing Head praised the culture of friendship and he attributed the current achievements of the company to the close friendship between customers and employees that is also common in Somalia's clannish environment.

5.3.4.3 Employees Communication Approaches

Verbal communication is the communication approaches that involve using speech to exchange information with others (Jackson *et al*., 2008). In the context of oral society, who prefers the verbal (or unwritten) mechanisms of transmitting information, individuals would favor the use of verbal communication as a faster and easier way of achieving tasks rather than through formal (written) communication (Merchant & Van der Stede, 2007).

In TSOM, verbal communication is observably practiced in the daily operation of the company. Verbal communication is used in all levels of the company including vertical as well as the horizontal relationships of the people. In this regard, the Operations Director indicated that many times employees use the verbal communication to simplify business transactions. He gave an illustration of the sales division. Every day at 8am, when the frontline employees of the sales division start the business operations they have to collect air time cards to sell to the customers. Equal numbers of air time cards are

given to every frontline employee to serve the customers. However, air time cards with the frontline employees do not finish at the same time. Some employees finish it earlier and ask for additional air time cards. Therefore, when the air time cards finish from one frontline employee, that employee borrows additional cards from the neighboring employee in the next counter in order to serve the customers instead of having to wait longer to get air time cards from the store. The problem is that the borrowing of the air time cards from one another usually was not recorded by neither employees. This has created the difficulty as to who is responsible for the sale of the cards. Such informal transactions in business may be the result of the personal trust and friendship among employees as well as that with their bosses.

Explaining the negative effects of the verbal communication, the Operations Director complained that because of the communication informality, the company incurs a lot of losses and expenses. For the informality of the communication, the Deputy Finance Director, who is also the chief accountant, complained about the lack of accurate records in the sales division. He noted that:

> *"Every morning the sales division distributes thousands of air time cards for selling to agents and customers directly. However, at the end of the day the sales division can only give us the amount of cards sold throughout the day, but they (sales division) cannot give us who were responsible to sell the cards. The problem is that if there is a discrepancy between the numbers of air time cards given by the storekeeper and the numbers that have been sold by the frontline staff, who will take the responsibility? The sales staff cannot provide us who is responsible for the differences, if any".*
>
> (Deputy Finance Director).

The Deputy Finance Director mentioned that he reported the problem of not writing the air time card transactions among employees several times to the Commercial

Director as well as the CEO. However, according to the Deputy Finance Director, the CEO did not take any action to give strict orders to the Commercial Department or even to the sales division to maintain the accuracy of record keeping in the sales division's transactions. The Deputy Finance Director considered that the CEO himself may not have much interest about the process of recording and record keeping. The problem of not using formal records existed in the company since its inception, but now it is becoming more complex as the company is growing.

> *"I mentioned this issue several times and I felt that they (the top management) are not interested to focus on the recording issues since it (recording) may be insignificant for them (the top management). Our office was complaining about this issue since the earlier days of the company's activities".*
>
> (Deputy Finance Director).

In addition, it was observed that employees from different departments were collecting and carrying SIM cards with them while looking for customers in the market to subscribe. As mentioned earlier, employees receive commissions by recruiting new customers. Therefore, to recruit new customers, employees usually get SIM cards from the Operations Department and bringing these SIM cards in their pockets to look for potential customers outside the company. Surprisingly, these distributed SIM cards, were not registered in the company. Since these SIM cards are prepaid numbers, it is only registered under the name of the employees who collected them from the Operations Department. Hence, the only available record is the list of the numbers registered under the name of the employee who distributed these SIM cards. Therefore, since there is no record of the number of SIM cards distributed to the employees, the Operations Department does not know how many SIM cards have been distributed to the customers.

Even though the cost of a SIM card generation is as small as one USD $1, but the company should have recorded the number of these SIM cards generated and distributed.

The informal or verbal communication is also used for providing financial results of the company to the shareholders or investors. As mentioned previously, under the unstable situation of Somalia, the financial information may be a sensitive issue that cannot be easily provided to every shareholder or investor. The reason for not disclosing financial results is the fear that such financial information may reach to the political fighting parties or to the competing companies. In addition, it is also not allowed to reveal financial results even to the employees due to the fear that employees may also disclose these results to their colleagues of the competing companies. As a result, at the end of every year, the financial results of the company are provided only to the CEO. However, the Deputy Finance Director emphasized that the Finance Department can provide financial results orally to the founders or shareholders if anyone of them contact the office, because the finance office is permitted to provide verbal information about the company's financial performance but only to the founders and other shareholders.

5.3.5 Centralized Decision Making: The CEO-GM Centered Control

During the start-up of the company, founders did not discuss about the structure of the company's governance such as the hierarchical authorities, responsibilities and the job descriptions of the different positions. The only issue that the founders verbally agreed on was that the CEO and the GM are responsible to complete the process of the company's formation.

Based on their friendship and the personal trust, the initial founding members agreed verbally (unwritten) that the GM is responsible to establish company's foreign relationships and partnerships, while the CEO has to undertake the establishment of the operational aspects of the company in Somalia. It was a tough time for the CEO since he had to deal with the clans and the lawless environment of Somalia. Explaining the process of the company establishment, the CEO commented:

> *"It was tough time. Everyone was looking at me and at the GM to face the reality of Somalia's situation. I have to deal with the local issues, such as negotiating with the clansmen and their armed militias. I have to recruit employees as well as marketing company's service. So I had to supervise all activities. My friend (the GM) also was alone in doing his job in the other countries to sign interconnectivity agreements with the foreign telecommunication companies".*
>
> (The CEO).

Since the company's formation was at its initial stages, the business operations were limited to the capital city with several thousands of subscribers. The few employees in the key organizational functions were the relatives of the founders who have been employed because of their family and the personal links that they have with the founders. The CEO and the other initial founders used to cooperate and undertake the main functions of the company's management, while they assigned the day-to-day routines to their relative employees. For instance, to fill the vacancies of the newly started company, every founder was asked to bring one trusted employee who can undertake a specific job in the company. This approach was adopted to preserve the secrecy and security of the company's information during its initial establishment. Due to the security crisis in the country, every employee was recruited by the guarantee of a founder who was responsible for any wrongdoing committed by an employee. During those early years of

2000 to 2004, the control of the company's entire activities was centered on the personal controls of the CEO.

According to the Branch Manager of Region A, the decisions of the company, in the first five years, were tightly centralized, where the CEO and the GM were the only two persons who had specific responsibilities and could decide on all the issues regarding the company's formation and establishment. As the father figure of the entire company, the CEO gained the confidence of the other founding members as well as the employees. According to the GSM director, in the first five years, there were no formal meetings of the company's management. After consulting with the GM and other initial founders, the CEO used to handle operational activities through his tight personal control. The Commercial Director also clarifies the reasons that made everything in the hands of the CEO.

> *"The CEO was the main source of the company's information, particularly on the clan and the security issues as well as on the behavior of employees. That is why he directly supervised the company's daily operations in the different sites of the capital city"*
>
> (Commercial Director).

Although it was not written, the company's activities were practically divided into two major areas namely; administrative functions and technical functions. This categorization of the company's operation was not written, but it was an arrangement adopted by the CEO to handle the operational issues in an easier manner. His two closest assistants; i.e. the current directors of the Commercial and of the GSM Departments, were his trusted persons. The current Commercial Director was assisted in the administrative functions such as sales, marketing and customers' management issues. The

customers' management activities include the tasks of accounts receivables collection and solving customers' complaints. On the other hand, the current GSM Director was responsible for the technical and engineering functions. The technical and engineering functions included all responsibilities relating to the company's network services.

These two assistants of the CEO were supporting him in these two major divisions of the company. All other employees were subordinates of these two assistants in the two divisions. For example, employees in the technical division were carrying out the tasks of managing fixed lines, BTS (Base Transmitter System), call centers and administering the network problems in the different sites.

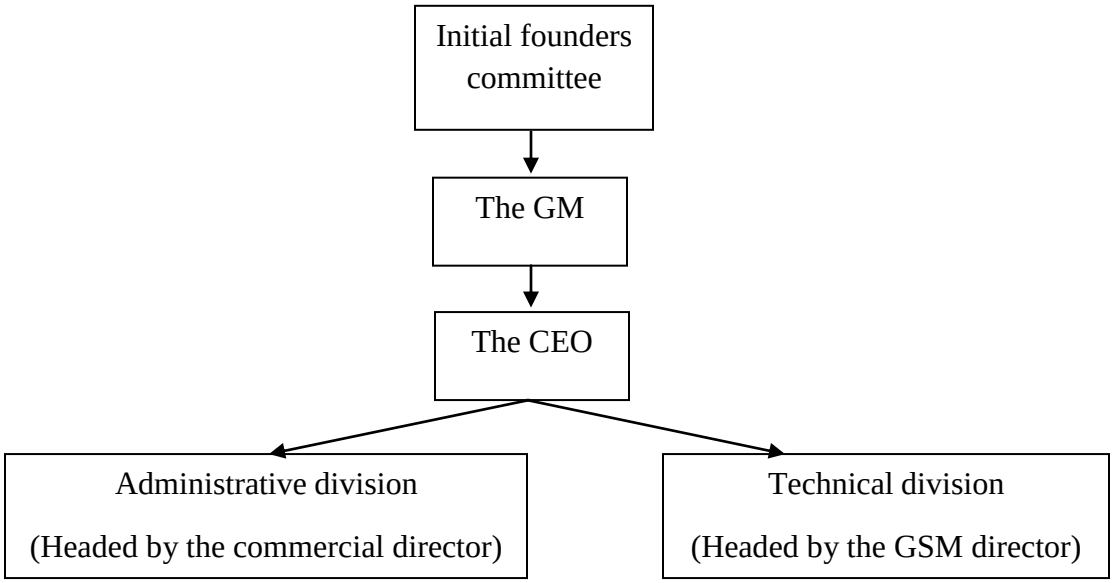

Figure 5.2
Organizational Structure in the Years 2000 to 2004 (verbal)

However, the security personnel and the cash office of the company were not included in these two divisions. Rather it was directly supervised by the CEO. The reason

was that security issues needed careful handling, since it associates with the clannish militias (warlords) and politicians. Therefore, the CEO was, and still is, the direct supervisor of the security personnel since the company's inception in 2000. Equally, the function of cash control was directly supervised by the CEO. The Deputy Finance Director commented that:

> *"During that time (first five years of operations) the CEO did not like to disclose how he manages cash. There was no accountant or auditor. There was no discussion about financial reports in those years. (Smiling) the CEO carried out everything"*
>
> (Deputy Finance Director).

In addition to the operational activities of the company, the CEO was responsible also to deal with the difficulties caused by the conflicts of the different clans. According to the Commercial Director, to solve the unpredictable crisis of the factional militias, the CEO had all the authorities to deal with such environment and make decisions regarding the business operations with the different clans' areas.

Apart from the CEO and the GM, the other founders' duties were not explicitly known. The other initial founders did not have routine tasks in the company though they had to undertake any issues regarding their respective clans/sub-clans' areas. According to the GSM Director, the other initial founders were assigned verbally to assist the CEO with the security issues, particularly negotiating with the threatening parties; i.e. the warlords and their clan militias. For instance, if the company faces any difficulties from a certain clan/sub-clan area, the founding member from that area is supposed to handle the issue on behalf of the CEO. Problems from clans and their armed militias were part of the routine.

> *"It was a normal activity to treat clannish militiamen who want to get money by their military power. Sometimes we used to defend ourselves by preparing our security guards, while in some cases we had to negotiate. Every case was depending on the expected price"*
>
> (Branch Manager, Region C).

In fact, though the role of the other initial founders was not official, they, however, informally operated as a committee that deals with the clan-related matters. Such committee was not recognized in the organizational structure, but mostly they undertook any issue that has a clannish nature which needs a traditional treatment. The traditional treatment of clan matters is to negotiate based on the clan customary norms which is recognized by the different clans of the respective regions. For instance, in some areas, any casualty that was caused by clan conflict is managed according to the traditional compensation norms of the clans/sub-clans.

Though the company was established and business operations were running smoothly, in the first five years there was no clear and formal separation of the authorities in the company. The Head of Marketing Division, who was one of the first group's employees during the establishment of TSOM, highlighted that there was no demarcation line among the top management authorities as well as the other steering committee members; i.e. Directors.

The Head of Marketing Division views that some directors had extra authorities and might have exercised the power of the CEO even in his presence in the company. The Head of Marketing Division might mean the Commercial Director who acts as the de facto Deputy CEO even though he has not been officially nominated as a "Deputy CEO".

In this regard, other directors and employees would usually refer to him (Commercial Director) on their operational problems even in the presence of the CEO. The reason for such power was explained by the Deputy Finance Director who stressed that the Commercial Director is the right hand of the CEO and that the CEO highly trusts him (Commercial Director), where, in some cases, the CEO transfers his authorities to the Commercial Director. The Commercial Director enjoys such extra influence whereby other directors would refer to him on any issue related to the company's problems as he himself (Commercial Director) admits that:

> *"…may be due to the seniority (in the company)… or they (other directors) believe that I have more information about the company than any other directors".*
>
> (Commercial Director).

With regard to the role of the GM, he was, and still is, the core person when it comes to the external relations of the company. Of course the current CEO and the current GM were holding these two positions since the company's establishment.

Most of the time, the GM carries out his duties in his Dubai office that was established to serve as a connecting point to the other world. TSOM Dubai office was opened before the business was started in Somalia, to facilitate contacts and agreements with the foreign parts particularly suppliers of telecommunication tools and machines as well as dealing with the other foreign companies for interconnectivity and managing inter-network issues. As mentioned previously, Dubai office was opened to obtain a recognizable license, to open up bank accounts and to create accessible business address for the company.

5.3.6 Decision Making Process Decentralized

At the beginning of 2006, the civil conflicts between what was known as the "Union of Islamic Courts" (UIC)[16] and the Transitional Federal Government (TFG) erupted in the southern and central regions of Somalia. The situation deteriorated and almost half a million people were displaced internally. This conflict caused the military intervention of IGAD countries[17] for the purpose of peace restoration in Somalia.

Even though the military action was aimed to support the newly installed TFG, however some of the major clans in the south-central regions perceived that IGAD mission sided with one of the other major clans who are against their clan in the south-central regions and they declared war against both the TFG and IGAD peace keeping forces as well as the against-clans. The conflict affected the whole country and spread into many different regions, which has led to the worst second civil conflict after 1991 civil war.

Although the effect of the conflict has extended into all south central regions, the conflict, however, affected severely the capital city, where TSOM's headquarter is located. As a result of the conflict, the CEO was not able to handle the daily problems of the company as the conflict was affecting the normal operation of the company as well as the network services.

The fighting between clannish militias and the government troops supported by IGAD peacekeeping forces damaged many transmission towers, network equipment and

[16] The Union of Islamic Courts is also known as "Islamic Courts Union" or the "Supreme Islamic Courts Council".

[17] Intergovernmental Authority on Development (IGAD) is a regional organization for the Horn of African Countries; i.e. Djibouti, Eretria, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda.

the wires of the fixed lines. According to the HR Director, a number of employees were injured while they were carrying out their normal duties in the company. The Commercial Director described the situation and their decision to adopt a flexible operational system in the company:

> *"During (the) past years the conflict has a purely clannish nature (no external intervention). Therefore, traditional agreements and resolutions were the functioning rules in the majority of clannish conflicts. However, in the beginning of year 2007, the newly established state*[18] *escalated the clannish conflicts among different clans with the support of external powers, whereby some clans perceived that the new government is serving for the interests of certain clans and not for all Somalis. Therefore, some clans considered that peacekeeping forces are politically supporting some clans against others. This was the toughest time for the company. We were not able to move freely to the different branches and regions or even within the capital city (Mogadishu). We had to delegate operational activities and allow lower level employees to take decisions"*
>
> (Commercial Director)

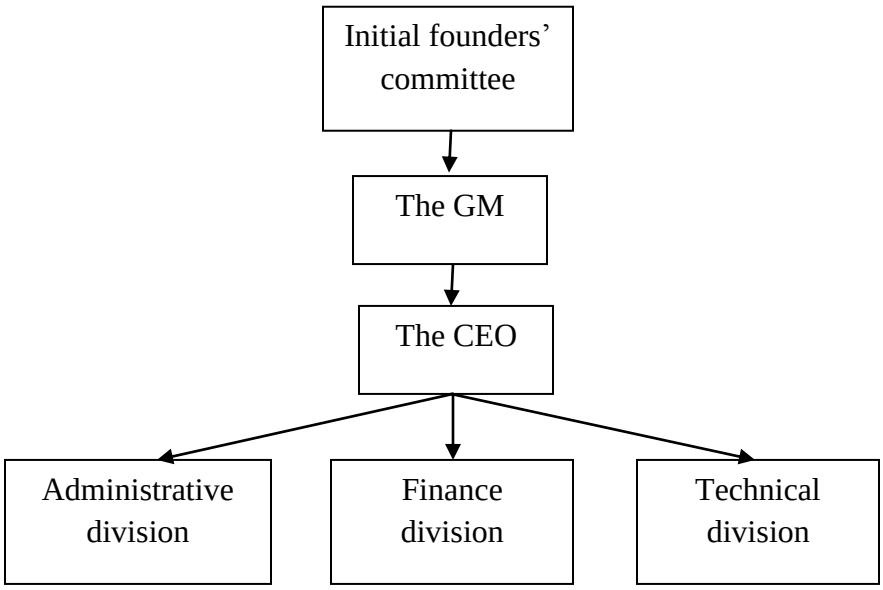

Figure 5.3
The Organizational Structure during the Conflict Years (adopted in 2006-2009)

[18] After a year of reconciliation conference in Kenya, the TFG was installed and relocated to the Somali capital city (Mogadishu) with the IGAD peacekeeping forces.

To adapt with the new circumstances, the CEO called a meeting with the founders and asked for an adjustment to the management system. The founders suggested that the CEO should adopt more flexible decision making process and delegate the operational decisions to empower heads of divisions and field managers. After the meeting of the founders, the CEO decided to introduce a formal and flexible organizational management. The new organizational management consisted of three main divisions in the headquarters, namely; the administrative division, finance division and technical division. The company's major activities were assigned to these three divisions.

In addition to the three administrative divisions, five small branches have been established in the south central regions. Two branches in the capital city and three branches in the neighboring provinces of the capital city. According to the GSM Director, who was, and still is, the key person of Engineering Department:

> *"In the conflict years of 2006/2007, we were not able to oversee business operations directly and we realized that our employees have no written job description and clear duties. We have to write their duties and authorize them to take decisions during this severe conflict, because we wanted to maintain communication services to our customers in this war time, otherwise the customers will leave us because it was the most need time for communication services"*
>
> (GSM Director).

5.3.6.1. Flexible arrangement in TSOM

To implement the flexible arrangement, the CEO decided to delegate a lot of authorities to the officers in the different divisions of the capital city as well as the branch managers. For the purpose of smooth running of the operational work, the CEO transferred the main tasks related to the customer services to his key assistants in the company. For example, in the capital city there are two main branches of the company; southern part of the city

which is controlled by the sub-clan of the GM and the northern part that is controlled by the sub-clan of the CEO[19].

In this time of conflict, the CEO defined the initial duties and authorities of each division and transferred his operational authorities to the field managers (Directors and Heads) to take decisions. The administrative division was undertaking the duties of sales and marketing as well as the public relations, while the main responsibilities relating to the engineering and telecommunication matters were assigned to the technical division. The finance division was working on the tasks of cash custody and the logistics of the company. All other business operations of the company fall under these three divisions, while the CEO was supervising activities from distance in his temporary location in the capital city. In this regard, the main operational functions of the branches in the regions have been transferred to the Branch Managers, but Branch Managers should be with a constant consultation with the CEO.

To transfer the operational tasks of the company, the CEO listed all the main activities in the headquarters and assigned to the directors of the three divisions. According to the CEO, the organization of the operation into these three divisions was adopted for the purpose of improving the process of service delivery and to reduce customers' complaints that resulted from the conflicts in the capital city. Since TSOM manages the largest number of customers, it has to consider the competition of the

[19] This partitioning of the capital city was applied during the United Nations Peace Operations (UNISOM) in Somalia in 1992, which failed in early 1994 when the warlord General Mohamed Farah Aidid declared war against what he called "the western invaders" as he perceived that UNISOM is overtly siding and empowering the against-clans. General Aidid was one of the most popular warlords who led the worst civil war against the first transitional government that was formed in 1991 after the downfall of military state.

telecommunication companies under the chaotic of Somali business market. Explaining the reasons for the new changes, the CEO mentioned that:

> *"… in the first several years (2000-2006), we had (organizational) management that was very simple and very centralized, but that system was no longer workable after the expansion of the company into the different regions and specifically during the military conflict between UIC and TFG… we have to come up with a new way for survival. We were very flexible and I transferred major decisions of business to the field managers including even my signature. I did this to ensure that operation of the company continue as it was before the conflict".*
>
> (The CEO).

Justifying the reasons for delegating decision making authorities, the CEO also highlighted that decentralized decisions can make service delivery faster during the civil conflict and it was also intended to boost officers' self-confidence in decision making. The Commercial Director notes that:

> *"This change of the operational procedures was done because of the restrictions caused by the conflict and that daily conflicts hindered the smooth running of the activities in the main sites and officers. Therefore, to make services faster, the CEO authorized all managers to take decisions on his behalf"*
>
> (Commercial Director).

For instance, Branch Managers were responsible for hiring and firing employees in their respective regions but with prior consultation of the CEO. However, in any decision that was taken by any Branch Manager, the issue of clan/sub-clan balances should be maintained. Similarly, Division Directors and Branch Managers could make decisions regarding the discounts offered to the customers, promotions given to the agents, negotiations with clan militias and traditional leaders in their respective clan areas.

In this regard, the managers of different branches provide up-to-forty percent of discounts to their customers as well as twenty percent of selling discounts to the sellers/agents of air time cards. Furthermore, Branch Managers and the other Directors of main Divisions were assigned to decide the issues relating to employees' leaves, transferring employees from one department to another, proposing employees promotion, rewarding particular employees and temporarily suspending of an employee from work. The Directors and Branch Managers could take decisions on those mentioned issues and ask for endorsement of the CEO.

In a similar way, the Commercial Department has the authority to provide certain discounts. For example, the Head of Sales Division can provide a discount of twenty percent to the clients, while more discounts can be provided by the Director of Commercial Department. With any additional discount above forty percent, the CEO should be consulted. Since the start of the flexible and decentralized management approach, the CEO was relieved from the pressure of the operations and it also enhanced the process of service delivery in the company. In this respect, the CEO explains:

> *"Decentralization of decisions is good for the morale and confidence of the field managers. It reduced the decision making process. Previously field managers used to consult me on every transaction before we decentralized decisions, but now I am much relieved and majority of the decisions are made by the Directors and Branch Managers"*
>
> (The CEO).

Despite the fact that decentralizing decisions has improved a lot of aspects of the company's operation, however, decentralization was not without its challenges. The current HR Director believes that the decentralization of authorities increased operational cost and that it has brought additional burden to the company. For instance, according to

the HR Director, delegation of authorities to field managers has led to many complaints from some of the middle level managers and the frontline employees. These complainants perceive that such decentralization causes power misuse and mismanagement from the inexperienced directors or managers. Therefore, HR Department had to solve several conflicts between directors as well as employees. However, with such complaints, decentralization is still relevant and effective for the company's performance. The Director of HR Department highlighted that:

> *"With its problems and the complaints from many frontline employees, decentralization is more effective than centralization"*
>
> (HR Director).

The HR Director also did not hesitate to emphasize that decentralization is better than centralization, at least in the Somalia's circumstance. According to him, decisions are made faster and the morale of Directors and Branch Managers become better. Similarly, the Commercial Director agrees with this view.

> *"Before 2006 the company has one figure person (the CEO), but now we are full of experienced managers who can handle everything"*
>
> (Commercial Director).

The HR Director reasoned that decentralization of decision making enabled the directors to gain self-confidence and learn more by making decisions. Similarly, as noted by the Commercial Director, empowering of the directors to take decisions saves times by reducing processing time as well as reducing customers' complaints.

The argument that decentralization is better in Somalia's circumstance is not new in the academic debates as similar opinion was adopted by Lewis (2004), who views that any centralized system may not be appropriate to the Somalia's culture of self-pride.

However, decentralization and empowerment of field staff may be nominal arrangement that was intended to solve temporary difficulties that resulted from the prolonged civil conflict. This issue will be discussed in the coming section.

5.3.7 Establishment of Policy Manual

Since the establishment of the company, the CEO and the GM were planning to extend the business operations of the company into all Somali regions. As stated previously, investors and shareholders from different clans/sub-clans are usually invited to invest in the company. From the year 2008, the process of selecting business partners from the Northern (Somaliland state) and Eastern (Puntland state) regions was on the way. The GM was responsible for negotiating with the potential investors from these two regions. Similar to the "selective approach" that has been used to select investors and employees in south central regions, new business partners (investors and shareholders) are also selected based on their clan affiliations in those two new regions. For instance, the Branch Manager of the Northern Region is a former business friend of the GM. After the fundamental agreement with the new partner in the northern region, the GM had to present the issues to the CEO and the other initial founders.

According to the CEO, the suggestion of the GM was accepted but the GM and the other two founding members, namely the founding lady and one of the GM assistants in UAE were assigned as an ad hoc committee to prepare the platform for inviting the northern and eastern regions' business investors. The main tasks of the ad hoc committee was to prepare the company for expansion specifically on the issues of organizational structure, governing boards, role of investors from the new regions and their rights as

founding members. These issues were discussed and settled before the new regions' investors join the company.

The ad hoc committee started to discuss the possible implications of the company's expansion. Before the emergence of the company's expansion, everything was simple and personal relationships were the dominant culture in the company's daily operations. However, the company's growth to the new regions necessitated the establishment of policies and procedures of the company. After the expansion of the company to the regions of northern and eastern Somalia, a more formal policies and procedures have to be adopted:

> *"In our earlier years, the operation was simple and could be handled by few persons. But we realized that if we open new branches and extend activities into different regions, employees number will increase, salaries and incentive schemes had to be standardized and written rules and regulation had to be adopted…that was the task of the new ad hoc committee*"
>
> (HR Director).

5.3.7.1 Vision/Mission Statement of the Company

Vision/mission statement, organizational structure and policies and procedures were the essential issues that had to be resolved before any expansion took place. In the year 2009, the company has written its vision/mission statement. It is written as "we do not only focus on today's needs, but also to develop technologies for the needs of tomorrow". This is the general statement for TSOM Company. It was best described by the Commercial Director:

> *"In the earlier years we did not discuss about the vision, mission, or even the objectives of the company. We started the business and started offering our services to the customers. Now, after the company became one of the largest*

organizations in the country we have to create a common understanding for all employees in the company; goals, organizational structure and other policies"

(Commercial Director).

The Commercial Director also indicated that the vision/mission statement may not clearly describe the actual value that the company offers to its customers. However, he believed that the vision/mission statement represent a strong guideline for a better achievement of goals. Similarly, the objectives of every department were written to construct the responsibility of each department. To do this, the CEO assigned each of the directors and branch managers to develop the main tasks of their respective Departments/Branches. Directors and Branch Managers were informed to draft the objectives of their respective departments and branches in English language. In this respect, the Branch Manager (Region C) emphasized how they have written the objectives and the main tasks of their respective departments/branches:

"We have to write the objectives and the routine activities of the department and/or branch. Each officer has submitted it (objectives and main routine tasks) but in English language. It was difficult because many of us do not know English"

(Branch Manager, Region C).

But the main challenge in writing or communicating vision/mission statements or other policies was that of the language. The vision/mission statements and policies and procedures were written in English, while majority of the employees were not good in English Language.

"Even though our vision/mission statements were written in English language, however, we encouraged that everyone tried to remember it by heart, but you know that Somalis are oral society and they do not like to read. We are trying our best to inform them (employees) of the importance of vision/mission statement in achieving goals….the main challenge is the language barrier".

(The CEO)

Employees communicate and explain the company's services in Somali Language, however, since vision/mission statement and other policies were written only in English language, which was rarely used in Somalia, employees do not understand much about it. Therefore, they did not have much concern about reading or understanding vision/mission statement and other policies that were not written in Somali language. The key reason for not having those documents in Somali language was explained by the CEO:

> *"Our first language is Somali language, and as you know, Somali script is not well-developed… there are a lot of English terms that do not have matching Somali terms. We were not able to translate our vision/mission into Somali language. So, we have written company's information in Somali language but some information such as; vision/mission statement and our values…. It is only in English".*
>
> (The CEO).

In Somalia, the current written Somali script which is developed and adopted in the year 1974, is still undeveloped and yet to be standardized. There are different Somali dialects and different terms that are used in the different regions. Therefore, business companies try to use the common Somali terms that do not show specific region or specific clan's dialect.

Establishing the vision/mission statement of an organization is a way to direct individual's behavior and actions towards achieving organization's goals (Ferreira & Otley, 2009). Additionally, a written vision/mission statement and clear goals play an important role in determining the relationship between the organization and its stakeholders such as customers, suppliers and the society at large (Chenhall, 2003). However, having written vision/mission statement and goals alone does not guarantee

better systems of the organization, unless it is communicated properly (Simons, 1995). The challenge of not communicating the vision/mission statement and company's goals is a major problem that TSOM faces. During the informal conversations with some of the sales employees, the researcher observed that those employees have not much concern about the future of the company since they never heard anything related to the long term sustainability of the company. The only thing that they could remember is the services provided to the customers, which they know it by heart and do not need to refer to the brochures. Similarly, there is a general perception that has been observed in the sales division. Employees in the sales division perceive that they do not need to understand or learn about the vision/mission statement or future plans of the company, and the only issue that they have to work on is to achieve the target profit of the company. Such perception of employees may show that individuals in the company are lacking the binding engine that keeps the individuals together, to direct their behavior and actions towards the long term goals of the company.

5.3.7.2 Policies and Procedures of the Company's Operations

The second issue that had to be resolved was to establish the policies and procedures that should describe the governance structure of TSOM such as the organizational structure, hierarchical authorities and responsibilities of the different management bodies.

In the year 2008, a formal meeting that was attended by the CEO, the GM, the Commercial Director and some of the initial founders was arranged to discuss the implications of the expansion. According to the CEO, it was the first time a formal meeting was held to discuss about the organization's management structure. The key

issues that were discussed in the meeting included the capital allocation for the main investors of the northern regions, the shareholders from northern sub-clans, new clan balances, calling rates, salary scales[20], commissions and incentive packages in the new branch.

Since it was the first time that the company extends its business operation into a major clan's area other than south central clans, the issue of authorities and power sharing of main investors from the different major clans emerged. Prior to the expansion of the company's operations into the new regions, the founders were from one major clan; i.e. clan of south central regions. However, when the company had to extend its operations in the northern regions, main investors from different major clans will join the company which certainly will affect the decision making process as well as the interactions among different founders who hail from different major clans. In other words, the expansion of the company will lead to the diversity of the owners and investors and that different major clans will affect the decision making process of the company's top management. Due to political clannish rivalry of the Somali clans there is sensitivity between different major clans that usually may affect the other socio-economic environment of the people.

In addition, there is further political predicament between the northern part, which was colonized by Britain, and the rest of the Somalia. Even though the northern part of Somalia (Somaliland) declared its separation from the rest of Somalia, of course without recognition of the international community, however it is a troubling matter that

[20] Since there is no central state that standardizes salaries scales in Somalia, there are many discrepancies in salary scales in the different regions.

distresses any Somali government since the independence and the unification of the two parts of the country in 1960. As a result of the political unrest of the two Somali parts, clans from the two parts also are affected, which in turn, has created an explicit animosity towards the people of the Italian Somalia; south-central and the eastern Somalia. Such a dislike between the northern clans and the rest of Somalia's clans also was a potential problem that was challenging TSOM management to extend its business activities.

> *"The GM discussed with me (CEO) about the expansion of our services into the new regions. We decided to find our previous friends to help us establish the new branches. It was not easy for our friends in the northern regions to accept our offer because of the clan sensitivity in the northern regions since this region has declared its secession from the rest of the country. Our northern brothers believe that they should be treated as an independent country although they are not recognized as a country"*
>
> (The CEO).

Accordingly, due to the possible implications of the abovementioned issues on the company's expansion, the CEO appointed an ad hoc committee that is chaired by him and included the Directors of Commercial and the GSM departments as well as the founding lady. The duty of the committee was to develop the policies and procedure manual that could make clear company's management systems and defines the hierarchical decision making process, responsibilities and the job descriptions of the different positions in the company. Similarly, the ad hoc committee was responsible to present the possible resolutions to the potential political and clannish matters from the northern regions. Hence, the CEO and the GM understood the importance of adopting a more formal organizational management that suits to the different major clans and sub-clans in the different regions.

"The first thing that our committee discussed was the nature of the company in Somaliland state. They asked us to establish their own company and then to co-operate with us. But we rejected that suggestion. Finally, we were able to finalize their share in the company, their rights as founders, their share in the Board of Trustee (BOT).We have to write also the organizational structure and the policies and procedures. Due to the clan sensitivity, we have to offer the two Branches in Northern and Eastern, special autonomy, where they can make decisions freely but with the consultation of the CEO and the GM"

(Commercial Director).

The organizational structure, policies and procedures were set for the purpose of the new Branches in the two regions; i.e. Northern and Eastern. However, as noted earlier, the company's growth to the new regions necessitated the establishment of the organizational structure, vision/mission statement and the policies and procedures to formalize the management system that were constructed on the friendship, personal trust and kinship ties of the initial founders and the top management of the company.

5.3.7.3 The First Formal Organizational Structure of The Company

The policy manual was prepared by the committee and submitted to the initial founders meeting for further discussion and approval. In the new policy manual, an organizational structure was constructed that consists of the Board of Trustees (BOT), chaired by the GM, executive committee and the heads of divisions. Although the initial founders are recognized as the company's BOT, however their correct status might be "board of owners" not the board of trustees. The current organizational structure that is portrayed in Figure 5.4 shows the different functions and levels of management as well as the departments of the current TSOM.

According to the policy manual, there is a BOT at the top most headed by the GM of the company followed by the CEO. The idea of the BOT was introduced in the year

2007 but it was not formally adopted by the company before the development of the policy manual in the year 2009. Therefore, based on the policy manual, the formal arrangement of BOT and its members were finalized in the year 2009. In this organizational arrangement, the initial five founders agreed that founding members from the different regions should be included in the BOT. In this regard, the CEO indicated that the members of the BOT are not elected but every founding member of the initial owners and anyone of the main investors from the major regions (clans), who is considered as important for the business development, will easily be accepted to join the BOT.

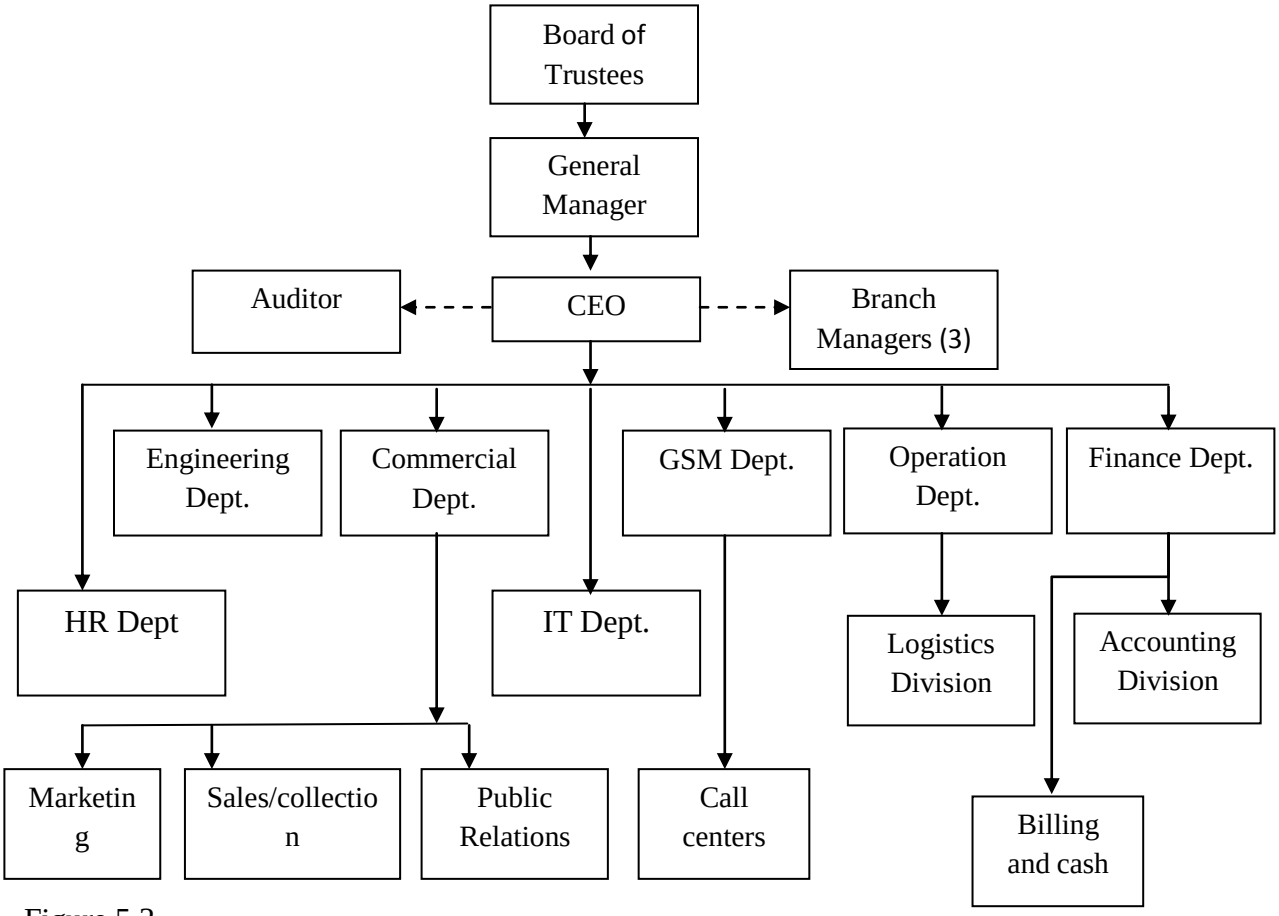

Figure 5.3
Current Organizational Structure of TSOM (in the Policy Manual)

Outside members or other experts who have no shares in the company were not members of the BOT. The CEO claimed that he tried to invite outside experts to BOT membership, however, other initial founders objected the suggestion claiming that they do not trust the outsiders, particularly if they are Somalis. During the establishment of the BOT, the CEO also suggested that foreign experts could be invited to the BOT membership to advise the top management, but that suggestion was not also welcomed by the BOT members for the reason that they might have communication problems with the foreigners. The CEO commented:

> *"It is not easy to convince my friend (initial founders) to invite someone who has no shares (in the company) to be a member of the BOT. You know I suggested inviting experts and professionals to the BOT, but my friends showed their unwillingness to that idea".*
>
> (The CEO).

According to the policy manual, the holders of both the CEO and the GM positions shall be elected by the BOT members in every three renewable years. However, since the inception of the company there was no formal election that took place to change the CEO or the chairperson of the BOT. According to the Branch Manager (Region C):

> *"Due to the kinship and friendship ties of the owners, formal election of the two top officers (CEO & GM) seems to be uneasy in the company. It is not easy to replace them. Who can replace these two officers? (joking)…they might be replaced with investors from their sub-clans".*
>
> (Branch Manager, Region C).

Usually the main founders agree informally that the CEO and the GM will continue their offices. The Commercial Director revealed that initial founders and the other main investors, who are all friends of the CEO and the GM, usually approve

informally the continuation of the CEO and the GM in their positions. The main reason for not making formal election of the CEO and the GM is that they are from the largest two sub-clans in the capital city, which denotes that their replacement is very difficult for the clannish as well as the country considerations. Similarly, the initial founders and the main investors were initially selected by the CEO and the GM. Therefore, it might not be easy for the initial founders and investors to replace them.

The BOT is the highest authority in the company's governing bodies while the steering committee is responsible for the operational activities of the company. In the policy manual, both the BOT and the steering committee, which is made of the CEO and all the Directors, are stated as the "governing boards of the company". Although the policy manual did not provide the details about the role of the BOT, it, however, mentions briefly that the BOT is responsible for setting the strategic plans of the company such as directing and supervising the company's general activities and electing the chairperson of the BOT. Similarly, in Section 7 of the policy manual, it is noted that BOT will approve, in its formal meetings, the major decisions related to the company's expansion, amalgamation and cancelation of business decisions.

Based on the policy manual, BOT shall meet at least twice a year, or whenever the CEO or the GM asks for an emergency meeting. However, since the establishment of the company in the year 2000, there were no regular meetings of the board of owners or the BOT. However, the CEO or the GM sometimes may request an emergent meeting for the present members of the initial founders and the main investors of the company.

> *"I never heard of a formal meeting of the board of owners since I joined the company. The only thing I know is that the top management (the CEO, the GM, the Commercial Director, the founding lady and the GSM director) plus any*

member they want meet any time there is a need to discuss and approve the outstanding issues"

(Branch Manager, Region A).

Through such meetings, the CEO and the GM carry out the strategic, and sometimes, operational decisions that they wish to approve by the founders without formal meeting. The reason for not holding regular formal meetings was justified by the CEO:

"Due to the high trust in us (the CEO and the GM), the other founding members have no problem to give us full authority to take decisions or implement projects on their behalves. Usually they may not be able to come to one place to meet, so I contact them and explain what we want to do and seek their approval. Some of them (founders) would fully agree, while some of them hesitate, but (they) give us permission to continue our plans"

(The CEO)

Therefore, to obtain the consent of the BOT members in their informal meetings, the CEO contacted every one of the BOT members and explained the plans and projects that were intended to be carried out and accordingly sought their approval. This is the way the CEO and the GM collected informal support of the owners to approve what the company wants to achieve. This approach of decision making shows that personal relationships and trust help TSOM top management to obtain the confidence of the BOT members and act on their behalf. The abovementioned discussion indicates that the policy manual is just a nominal one that might have been developed perhaps for ceremonial purposes (Meyer & Rowan, 1977). According to Meyer and Rowan (1977), ceremonial system or practice is that an organization employs to demonstrate fitness and external legitimacy of organization's operations regardless of the benefits and efficiency of those systems and practices.

With regard to the role of steering committee, it is the most active governing body that manages the entire company's operations. There are seven departments in the current organizational structure that makes the main functions of the company. The CEO manages these seven departments of business operations:

> *"We have what we call the steering committee consisting of the directors of the main divisions of the company. The Directors of Engineering Department, Commercial Department, Human Resource Department, IT Department, GSM Department, Operations Department and the Finance Department make up the steering committee (who) meet every Thursday and exchange company's information as well as discussing future issues"*
>
> (The CEO).

The CEO is the chair of the steering committee and when he is not present, the Director of Commercial Department undertakes the chairmanship of the Steering Committee. The Steering Committee seems to include only the Directors, while the managers of the three Regional Branches could not regularly attend the weekly meeting as the Steering Committee meeting takes place in the capital city. The Branch Managers are supposed to report directly to the CEO and keep his contact regularly.

During the changes of the organizational structure and extending company's operations into northern regions, there were not many developments in the job descriptions of the Directors as well as the field employees. Accordingly, the CEO admitted that they were still unable to develop very clear job descriptions for the steering committee members and the BOT. The HR Director believes that, the lack of job descriptions of the operational employees, i.e. Directors and Heads, might lead to the

conflict among different directors and the misunderstandings of the different officers. The HR Director comments that:

> *"We tried to develop clear job descriptions for every department and every division. But our employees do not want too formal duties (written) because that will affect their performance".*
>
> (HR Director).

The HR Director meant that if individual duties of every employee is clearly set, that certainly will restrict the flexibility that currently exist with the operational activities of offices. At present, there are not much restrictions about the employees' punctuality or their absence. In addition, the current performance system does not require the personal productivity of individuals. Therefore, if performance is tied up with the individual work efficiency, that might affect their compensations as well as their reputations. It seems that what the employees are afraid from is the possible free riding culture which might exist in the present system of friendship and informality.

5.3.8 Financial Control and Performance Measurement

After expansion of the business services, the number of investors and owners of the company has grown from a small group of relatives; i.e. owners from the south central regions, to hundreds of stakeholders who are from different major clans and sub-clans. Before the expansion of the company into the new regions such as the northern and the eastern, the number of investors was small and they used to settle the company's problems in their informal discussions that are held over the lunch or in the cafeteria:

> *"Before the expansion of the company, all investors were close friends who can settle everything in their informal meetings. During that time we used to finalize issues in the restaurant and on the tea tables. At the end of every month or year,*

we used to discuss orally about the financial information. At that time, the number of employees and owners was small and we could have convinced everyone by verbal discussion, but now we are grown and it has become difficult to contact everyone through verbal communication. As a result, we have to develop the basic standards; including the policies and procedures of the day-to-day activities, to make things clearer to our individuals"

(Commercial Director)

From the beginning of the company's operation, the financial documents were already designed. In the beginning cash unit was established and the head of cash unit was appointed. Accounting functions, including cash custody, collection and payments, was the responsibility of the Head of Cash Unit. Since the accounting information is the source for the preparation of the financial annual plans, the CEO has given a special consideration to the direct control of that unit. Therefore, accounting unit is one of the oldest and most organized divisions in the company. The duties of selling, purchasing, receipt of cash, cash payments, checking and recording of transactions are separated and assigned to different personnel. Similarly, vouchers of cash receipts and payments, payroll, purchases slips and sales invoices are well organized and kept in the accounting division. However, since the start of the company, the disbursement of cash payments is the most restricted part of the cash which requires the approval of the CEO and the Finance Director.

"Functions of accounting unit are disseminated to the employees of the division. We have accountant and chief accountant. There is an accountant in the HQ and in every Branch we have assistant accountant. We have cashiers who receive cash sales as well as collections from customers. We have assistants who keep and handle air time cards and supply it to the sales division. Then we have other employees who handle collections of the credit sales".

(Deputy Finance Director)

After the adoption of the formal organizational structure and that the company's functions were divided into several departments, accounting was put under the Finance Department which directly reports to the CEO. However, the function of cash control is still directly supervised by the CEO and the major cash-related decisions are taken by him. Though there are no, in the policy manual, clear duties of the accounting division, however, accounting division organizes and keeps financial documents as well as preparing financial reports and submitting it to the Finance Director and the CEO. However, the company does not use specific accounting standards and even the CEO did not give much concern about the accounting standards that suite to their company. Commenting this issue, the Internal Auditor noted:

> *"We do not use any type of accounting standards since there is no mandatory regulatory system in the country. Therefore, we just try to apply the generally accepted accounting practices that we assumed to be proper accounting procedures. They (CEO or top management) are not interested in what form of accounting is being used. The most important thing is the sales figures in the report".*
>
> (Internal Auditor).

5.3.8.1 Planning, Budgeting and the Budgetary Control

Even though companies may vary in the process and the approaches of setting plans, every organization should know where it is directing. TSOM is not much different. During the interview with the CEO, he exhibited a document that was written in Somali language and titled the "management control systems" (MCS). The document was developed in the year 2012. The first part of MCS document, includes planning and budgeting. This document presents five major planning areas of activities and budgeting units; (1) increasing numbers of subscribers, (2) enhancing employees' awareness, (3)

improving services to retain customers, (4) plan of expansion and development, and (5) plan of sales (cash projection and sales projection). Formally, the company establishes its annual financial plans that are fragmented into several short periods or intervals of the annual plans. For instance, they develop annual estimated sales, expected revenues, estimated costs as well as the expected bad and doubtful debts. These issues are mainly related to accounting functions.

> *"We have our own financial plans that are usually developed by an ad hoc committee. In addition to the Director of Finance Division and Chief Accountant, there is a committee that is assigned to collect information from the different departments and to develop the annual financial plans of the next year"*
>
> (Deputy Finance Director)

The budgeting process usually begins during the period between October and December every year. Usually, guidelines about the future planned activities are prepared by the key operational directors particularly the Commercial and the GSM Directors. Based on these planned activities, each department is required to prepare its financial budgets and to submit them within a specific period of time usually by October of every year. The process of budgeting is a mix of bottom-up and top down approaches[21]. For instance, the department of finance collects the data from the different departments and prepares the first draft of the budget but with preplanned guidelines of future activities of every department that was set by the top management.

[21] The bottom-up budgeting approach assumes that budgeting process begins at lower-level projects to create a collective budget for the entire organization, while in contrary, top-down budgeting is an approach in which the budgeting process starts from the top management of the organization down to the lower levels of the management (Atkinson et al., 1997).

In this regard, the Commercial Director highlighted that the budget figures are set by the accounting division upon consulting every department and then the budget that was agreed by the majority of the departments is passed on to the Steering Committee to finalize it. Usually, the budget drafts are submitted to the Steering Committee and the CEO assigns some of his directors to review the budget drafts.

Although the budgets of all departments are prepared, however, apart from the sales budget, budgets of the other activities do not get much attention from the Steering Committee as sales activities determine the overall performance of the company. According to the Deputy Finance Director, the budgets of the other departments; other than Commercial Department, is based on the previous budget with slight changes in the figures.

This issue of only focusing on the Commercial Department's budget was expressed by a Branch Manager who view that his Branch is budgeted projects are not usually taken into considerations unless it concerns commercial activities of the branch.

> *"I do not have much understanding about the benefit of budgeting because at the end of the day we (Branch Managers) do not have much authority to include whatever is necessary for the development of the Branch".*
>
> (Branch Manager, Region A).

On the other hand, some budgeting items are only estimated and managed by the CEO. The costs that are related to security problems, clan balances and clan conflicts are not included in the budgets, but considering the socio-economic and political situation of the respective period, costs of such items are estimated by the CEO with the consultation

of the GM and other initial founders. In addition, the CEO handles any long term investment project and usually there is no capital budget for such investment projects.

Even though the company considers the long term investment projects as important, but the company does not have a clear "capital budgets". Investment in the long term projects is considered necessary in the company. For instance, to build a site requires a huge capital investment to cover the costs of equipment and its installation as well as the security personnel of that site. The long term investment of such projects needs special plans and financial budgets.

According to the Commercial Director, building new sites in the different regions require a prior agreement with the residents or their traditional and/or political leaders. The issues that every company has to consider before building any new site includes employment opportunities provided to the residents of that area, security personnel, buildings, machines and equipment. In addition, in every village, in which the company intends to build a new site, the company usually offers special shares or ownership percentage to the villagers, unless those villagers fail to pay the minimum shares required for the membership. This is a common practice of all companies regardless of what products or services they are offering.

> *"Usually, if we decide to build a new site, we have to consider a lot of things; the residents, the influential persons of the residents, security, who can we employ from the place and who will invest in the company".*
>
> (The CEO)

In some regions the company may face a hostile competition from the other telecommunication companies due to the influence of the traditional leaders in that area, who may explicitly support a specific telecommunication company. Therefore, in such

regions, the company has to assume less sales and higher losses. This may necessitate the consideration of the possible challenges from that region as well as its business advantages. However, it seems that the top management of the company does not develop specific budgets for long term projects.

> *"When we decide to open a branch in a new area, we have to contact the influential business leaders to join us in investing in their region. It is for the benefit of all of us; the company and the business people in that area"*
>
> (Commercial Director).

By this approach, the company collects the necessary capital from the main investors and shareholders of the potential region to invest in the establishment of the new branch. This type of investment is not usually planned by the company. According to the GSM Director, when the company decides to establish a new site, or repair an existing one, then the main investors or the shareholders are ready to pay.

Despite the fact that long term planning and budgeting is essential for any company operating in an environment like Somalia, it is apparent that the main focus of TSOM plans and budgets are on the short term issues, and particularly on the sales. This means that the company has yet to develop a capital budgeting for its long term or strategic projects.

The only notable strategic or long term planning is that of the human capital development. The company plans for a "capacity building" program that is intended to train employees. There is regular training for the employees. The training is planned according to the staff categories such as training program for executive managers, training program for frontline employees and, sometimes, special training offered to specific department such as training packages offered to the sales employees.

> *"We hold regular training for our staff. For example, we offer training for the executive managers. There is training for frontline employees, who deal with the customers. Other trainings are also offered for financial staff. Special training might also be offered for sales and marketing division and so on"*
>
> (HR Director).

To execute the training program, the company uses different sources. For instance, to train the middle and lower level staff, the company seeks training from the local training institutions. However, for the executive management; i.e. Directors, the company outsources the trainers usually through the company's Dubai office. It was previously indicated that the researcher himself participated as a trainer one of the training programs offered by one of the local universities in the year 2010. That training was intended to improve customer care skills of the frontline staff.

Regarding the research and development of the company's future, the Director of Commercial Department highlighted that the top management of TSOM did not think about the importance of research and development. However, practically the company uses short surveys to analyze their market share. To carry out a survey research, the company assigned a number of employees or employed university students to collect survey questionnaire from the customers, and sometimes interview those customers. Hence, based on the information collected from the survey, the company analyzes its market share and might develop specific strategy to increase the market share of the company. In addition, to assess and predict customers' satisfaction, the Marketing Division sometimes, analyzes the number of customer complaints recorded by the call centers, and as a result, the company has to plan and set budgets for improvement of the customer services.

"To assess our customers' satisfaction, we analyze complaints received by the call centers in every three to six months and based on the results, we can plan for improvement"

(Commercial Director).

"When we identify that the complaints of this month is more than that of the last month, we may interview some selected customers whom we know or whom we felt that would tell us the truth, and by doing so, we can plan for the betterment".

(Head, Marketing Division).

It is obvious that the company's short term plans and budgets dominate the company's operation, while less concern was offered to the long term plans of the company. In other words, the company's budgets mostly focus on the "action planning", particularly those that are related to the financial activities of the company. Apart from their staff training plan, and infrequent market research, the company did not give enough concern about the capital budgeting, research and development and future plans.

The reason for not giving enough concern on strategic issues might be due to the unstable environment of Somalia, which does not encourage the long term investments. Similarly, it is possible also that strategic plans did not get enough attention for the fear that rapid changes in the Somali politics and economics within a year or even within months might occur in anytime.

"We would like to set it (strategic plans), and we are keen to develop long term plans for the company's future, but you know, Somalia's situation does not encourage us to focus on the long run"

(The CEO)

From 1991 when the central state collapsed, it was difficult to predict the socio-political and economic situation of Somalia, as there were a lot of drastic changes in the political environment that have occurred in the last two decades. The worst political

changes were that of 1994[22], 2000[23], 2004[24], 2007[25] and 2010[26]. Accordingly, in Somalia's lawless environment, business risk is very high and the uncertainty is beyond the predictable state.

5.3.8.2 Financial Performance Measures and Reporting

According to the Commercial Director, the idea of having formal performance measures was debated as early as the year 2009, when the management was thinking to extend the company's operations beyond the capital city. The CEO asked his two executive directors; i.e. Commercial and the GSM Directors, to develop the basic criteria for formal performance measures that can be used as a standardized tool of performance evaluation. The Commercial Director highlighted that the company's first formal performance measurement system was developed at the beginning of year 2012, which was approved by the company's BOT.

The MCS document that was offered earlier explains the importance of determining employees' performance and that it is intended to simplify the measurement of individuals' achievement as well as the performance of teams. In this MCS document, there is a section that explains the performance measurement and compensation plans of the company, where it states that "clear standards should be developed for the

[22] Fighting between United Nation peacekeeping forces and the militias of the warlord Mohd Farah Aided exploded.

[23] Transitional National Government (TNG) was established in Djibouti.

[24]Transitional Federal Government (TFG) was established in Kenya.

[25]Terrible fighting erupted between IGAD peacekeeping forces and the militias of Islamic Union Courts.

[26]Severe fighting erupted between TFG and Al-shabab militias (Al-Qaeda linked Islamic insurgent).

measurement of employees' performance at the organizational level as well as at the divisional level".

In the document, there are various key performance indicators (KPIs) for business performance measurement. The KPIs are categorized into two major areas of measurement, namely the indicators of financial success and non-financial success. The indicators for financial success include: capital growth, market share, subscribers usage and incremental performance. Similarly, the indicators for nonfinancial success include: operational efficiency, service quality, marketing victory and coverage spread of the company's network. These KPIs were developed to guide the measurement of organization's operations.

Even though the company has developed its KPIs for both financial and non-financial activities, however, the KPIs for financial performance indicators are observably implemented, while there is no sign about the use of nonfinancial success indictors. For instance, achievement of sales target, increase of the subscribers' number and the service usage are evidently measured through financial reports of the Commercial Department. To evaluate the achievement of the company's financial performance, a monthly financial report is prepared by the Finance Department and submitted to the CEO at the end of every month. Financial results are also used to evaluate the achievement of the company's operations for the month and to compensate employees on a monthly basis. The CEO receives the monthly financial report and by consulting the key operational directors, i.e. the Commercial, the Finance and the GSM, the CEO analyzes the financial results and finalizes the ratios of commissions and the amount of

incentives for each month. Hence, based on the monthly financial results of the company, employees receive their shares of the commissions and incentives.

The financial results of the company are sensitive to release to the public as well as to the employees. For the fear that hostile political parties may misuse the financial results for inappropriate purposes, the management withholds it. This issue was also revealed by the internal auditor when he explained that the company is reluctant to provide written financial information even to the shareholders because of the security circumstance in Somalia.

> *"… It is difficult to give formal (written) financial information to the shareholders because we do not trust (that) they can keep it in a safe place. Thus, we inform them (shareholders) by verbal or by sms (phone message). We just give it (financial results) to the CEO and he can give it to the other owners".*
>
> (Internal Auditor).

However, employees are not pleased with the financial results being withheld, for the reason that their commissions and incentives be affected. Hence, employees are worry about the computation of their commissions and incentives since the financial earnings of the company are not transparent. In this respect, justifying the reasons for not disclosing the financial results to the employees or shareholders, the HR Director agreed that the application of the current financial ratios is not reported to the employees or even to the shareholders.

> *"We have clear KPI indicators by which we know what everyone have achieved and what we can estimate what he/she deserves. But, at the end of every month, when commissions and incentives are being distributed, employees feel that the processes are not transparent. Therefore, employees cannot predict their commissions and incentives"*
>
> (HR Director).

In addition, financial results are not discussed in the meeting of the steering committee or the BOT, rather the CEO is the one who manages and takes any financial related decision. The IT Director commented:

> *"I never heard financial results of the company being presented to the meeting of the Steering Committee to discuss. The only thing I remember is the sales report or collections of the month…nothing else. I am not sure"*
>
> (IT director).

This approach of not releasing financial results to the Steering Committee creates an environment of ambiguity between the top management and the employees.

> *"Sometimes our employees think that the financial results (performance) are not properly reported and such perception gives them negative impact about their trustworthiness. But you know there are no other choices because we know that our employees are honest but not all of them".*
>
> (Branch Manager, Region C).

The lack of full transparency of the financial information discourages employees. They feel that they were not trusted even though they are the people who made it possible for the company to achieve such financial results. Therefore, they usually gossiped about the top management that they do not fully report the amount of the annual profit. This issue has caused rumors since TSOM is considered as one of the most profitable companies. Nevertheless, in the view of many employees, a large amount of the company's annual profit is retained without reasonable justifications. However, the view of profit retaining was denied by the Commercial Director who argued that a very small percentage of annual profit is retained for sustainability purposes and for the high

uncertainty of the Somali business market. In this regard, the Commercial Director reasoned that:

> *"Due to the high uncertainty of the Somali business market, we are usually very prudent for reported profits".*
>
> (Commercial Director)

Similarly, the Deputy Finance Director also explained the reasons for company's management not releasing the financial information and was rather conservative, because Somalia is an unstable market, and hence, company's business may be subject to unpredictable risks.

> *"We cannot disclose everything about the revenue and profits. If we disclose the real profits of the company, those political factions may use it against us (company) to claim unbearable taxes"*
>
> (Deputy Finance Director)

In addition, the internal auditor of the company claimed that disclosure of financial information is not compulsory in Somalia since there are no mandatory regulations that enforce the management to publish or disclose financial reports. Therefore, according to the internal auditor, TSOM is only obligated to provide financial information to its owners and shareholders.

> *"Since the collapse of the central state, there was no regulatory system that imposes financial regulations or asks for financial reports. We are supposed to provide the necessary financial information to the owners of the company and the shareholders. For the owners and shareholders, we provide the financial information through informal ways … usually by telephone".*
>
> (Internal Auditor)

With regard to the nonfinancial performance measures, the MCS document that was developed in 2012, demonstrates the specific KPIs in order to evaluate the

nonfinancial aspects of the company's operation such as the company's operational efficiency, network coverage and the service quality. However, the company does not formally implement these nonfinancial performances indicators.

> *"Since I joined this company (3 years ago) I never heard about service quality or problems of network coverage"*
>
> (IT Director).

Despite the fact that these KPIs are formally written, nevertheless, according to the Marketing Head, the KPIs are still in its development stage that needs further development and serious involvement and support of the company's top management. Similarly, the Operations Director viewed that KPIs were not clearly defined to make them understandable to all the employees of the company. So, it appears as though the nonfinancial performance indicators exist officially, but there are no evident to show that these indicators were practiced.

5.3.7.3 Employees' Compensation System

TSOM has its own written policies and procedures for employees' recruitment that have been developed for the purpose of business expansion. As previously noted, company employees were mostly recruited through informal mechanisms; i.e. by selecting them based on their clan/sub-clan affiliations or through friendships.

In TSOM, HR Department is supposed to handle the recruitment process, promotions, compensation plans and incentive packages. In the earlier years of the company's formation, the recruitment of an employee was carried out through kinship ties or friendship that was undertaken via initial founders of the company. However,

starting from the year 2009, when the company's business services have been decided to extend into the Northern and Eastern regions, the Steering Committee categorized employees into executive, administrative and the lower level employees.

Although this categorization is not written, however, it was the starting point for developing the basis for the evaluation process of every category of employees. The MCS document that was developed in 2012, explains the performance measurement for employee appraisal. The document provides two approaches for assessing individuals' performance. Apart from the monthly salary, which is an entitlement, both team-based and individual-based performance appraisal approaches were used. The application of the two approaches was explained by the HR Director.

> *"We use both individual-based and team-based performance measurement. Although our employees prefer the team-based approach but we use both approaches. For example, in the Commercial Department we evaluate the sales of each individual, while in the other departments we use only team-based performance measurement approaches"*
>
> (HR Director).

Explaining the reason for preferring team-based performance evaluation approach, the Branch Manager, Region A, attributed that preference to the fear that if one fails to achieve the target, then his/her personal reputation will be affected among the peers or work colleagues.

Individual-based performance appraisal is used for the sales division. Since the Commercial Department is the backbone of the company and represents the profit center, its employees enjoy the highest incentives and commissions but with the toughest tasks. In TSOM, sales commission is the amount given to each person based on his/her personal sales or the percentages from the amount purchased by the subscribers under the name of

the respective employee. Similarly, if an employee recruits customers (subscribers), he/she can gain sales commission on the amount used by the subscriber. In addition, employees in sales division receive certain percentage of the sales of that month. The percentage of the commissions for an individual is based on the amount of sales of the respective person and the sales of the respective month. The larger the sales for the month, the higher the percentage of commissions paid to the employees.

On the other hand, incentives that are paid to the employees are usually based on the overall sales of the month. Employees of the Commercial Department receive monthly commissions as well as their share of the incentives that is given to all employees. The commission of the Commercial Department's employees depends on their target achievement. The more sales they achieve, the higher will be the commission they gain, and vice versa. Not only the employees of the Commercial Department, but also everyone in the company, can receive commission by recruiting customers (subscribers). For instance, anyone who recruits a subscriber, the subscription will be registered under his/her name (in the database) and based on the amount purchased by that subscriber, the recruiter (employee) will gain certain percentage of the purchases of that subscriber. Through that approach, company's employees can increase individual gains as well as the team-based incentives. According to the HR Director, more than 30% of the employees' monthly earnings come from the commissions of the company's sales.

> *"Everyone is encouraged to recruit new customer and then we register that customer with the name of the employee who brought that customer. Then based on the amount used by the customer, specific percentage of the amount is given to the employee"*
>
> (Head, Sales Division).

Employees may also give a sub-contract to their close relatives and friends, who are not employees in TSOM, to recruit more customers or invite customers from the other telecommunication companies. This sub-contract is not official in the company, but it is a common practice that is known by the top management. Based on the personal agreement, these sub-contractors receive part of the percentage that is gained by the employee under which the customer is being registered.

To encourage customers' recruitment, the company sometimes, may give additional promotion to the sub-contractors (not employees) who recruit a good number of customers or maintains customers for a longer period. That is the way Commercial Department achieves its sales target. If the Department, for instance, fails to achieve its sales target they might be given up to three months to recover the shortfall during the quarter. This is to give the Department an overall evaluation of its achievement for the quarter since the company assesses its financial performance every quarter. However, if the Department fails again to achieve the sales target within the quarter, there is no punishment except that they will lose their commission and incentives.

In this regard, there are other nonfinancial benefits given to the employees which have been introduced in the year 2012. These include; paid vacations, sick period and disability benefits. For instance, in the policy manual, every employee has one month vacation per year. Similarly, there is one-month salary that is given to each employee that is called employee "pension". However, according to the HR Director, employees do not take their personal vacations unless for medical purpose or marriage.

> *"From 2012, we have introduced one-month paid vacation annually as well as sick pay, disability pay and one month additional salary that were given to everyone at the end of the year"*
>
> (HR Director).

Before the adoption of the abovementioned policy, there was also disability pay. For instance, there was a once occasional accident in the conflict zones, where one employee was injured or even dies. Therefore, the CEO and the GM used to estimate certain compensation amount for the victim or for his/her guardian in case of death. Such compensation amount was usually decided by the discretional estimation of the CEO with the consultation of the GM and the amount paid to the closest kin of the deceased. Before the introduction of the disability benefits, informal arrangements (usually clan settlement) were used by the company to compensate for the personal damage/loss of the employees.

Similarly, the process of punishment is written in the policy manual of the company. If a major misconduct is inflicted on an employee, the first step is to investigate the case. Usually, the HR Director and another Director appointed by the CEO are assigned to conduct the investigation of the misconduct and then submit the results of the investigation to the Steering Committee headed by the CEO. Hence, based on the recommendations of the investigating committee The CEO takes the appropriate actions. However, as explained by the HR Director, the CEO takes all the decisions that concerns punishment and reward of employees, with the consultation of whoever he prefers. This is also supported by the IT Director who argued that the CEO used mostly his own approaches to solve employee problems and he (the IT Director) views that informal approaches of dealing with employee problems might suit the current chaotic situation of Somalia.

In this regard, informal approaches are mostly used when firing an employee who holds an essential position or an employee who hails from a large sub-clan. For instance, the HR Director highlighted that if there is an intention to dismiss one of the key employees; particularly those in the executive positions or heads of divisions, it was usually done through the founding members, and specifically, the guarantor of the respective employee. Otherwise the issue of employee dismissal may lead to a clannish conflict since the company is owned by different clans/sub-clans.

> *"If there is a problem with one of the key employees, it is not easy to fire formally and publicly. We have to consult with the guarantor of that employee. Usually, we fire through the founder (who was the guarantor of the employee), and we have to replace with another employee but from the same sub-clan of the fired employee"*
> (HR Director).

The reason for using informal approaches is to show a high degree of respect for that employee, to protect the employee's dignity among the peers of the different clans/sub-clans.

> *"We try our best not to fire employees, but if it is necessary, the guarantor has to convince the employee to resign since that employee was originally employed by the guarantor. This is done to avoid hurting the reputation of the employee"*
> (HR Director)

Similarly, any misbehavior of an employee will be considered by the HR Department. For instance, individuals in the company are evaluated for their integrity, ethics and their religiosity. Even though it is not written in the guidelines of the policy manual, but the ethical behavior and religious practices are considered a common sense and something that has already been recognized in the religion. Therefore, if the employee is reported to have what the company considers as an unethical behavior such

as smoking in the public places, chewing *qat* (a green tree leaves), or not attending the prayers, the employee may lose his/her job.

> *"It does not need to write this in the HR policies and procedures, it does not need to include in the personal duties. It is the basic principles and practices of the religion…"*
>
> (HR Director).

During the performance appraisal of the employees, the HR Director is required to include in the employee's report about his/her *akhlaq (*ethics) and how that employee practices the basic requirements of the Islamic religion. Everyone accepts that compliance with the religion is not a negotiable issue and it is even considered during the applicant's interview for employments.

The other important issue in TSOM's staff management is the relationship between the employee and his/her guarantor. For example, the failure of an employee to perform his/her ascribed duties, is a serious insult to the relative founder/investor, who was the guarantor of that employee. An inappropriate behavior of the employee or the failure to achieve personal duties will damage the credibility of the guarantor and it may prevent the future employment from the sub-clan of that employee or his/her guarantor. Therefore, to protect the integrity of the relative founder/investor in the company, and to preserve the quota of the clan/sub-clan in employment opportunities, employees will normally strive to avoid any misbehavior or wrongdoing so that they were not questioned on their commitment.

> *"It is an approach that our employees proudly strive to show their honesty for the company for the purpose that potential employees from their respective sub-clans deserve further employment".*
>
> (Commercial Director).

In Somalia's culture, there is a common fairytale or a perceived belief that if a person is lazy or frequently faults, such behavior is associated with his /her sub-clan origin, which means that the laziness originated from the sub-clan of that lazy person. Therefore, everyone in the company struggles to keep the name of his/her clan off from any reputational impairment. It is an intrinsic motivation that encourages employees to work honestly for the purpose of preserving their integrity and the reputation of their respective clan members.

5.4 Conclusion of the Chapter

In chapter five, the study addressed the findings from the participants of the company. In this chapter, the study presented the MCS themes that are developed by TSOM Company, in the traditional Somali society. Firstly, apart from a brief highlight about Somalia's political and economic environment and the background of the case organization, the chapter offered the control themes that are identified in the case organization; i.e. TSOM Company. The main control themes that have been identified in the company researched include; the role of traditional *clanism* on company's formation, investors and employees selection, organizational structure, familial connections, personal relationships, change of control approaches and the financial and employees performance measurement mechanism. Figure 5.4, summarizes the main control themes of the study.

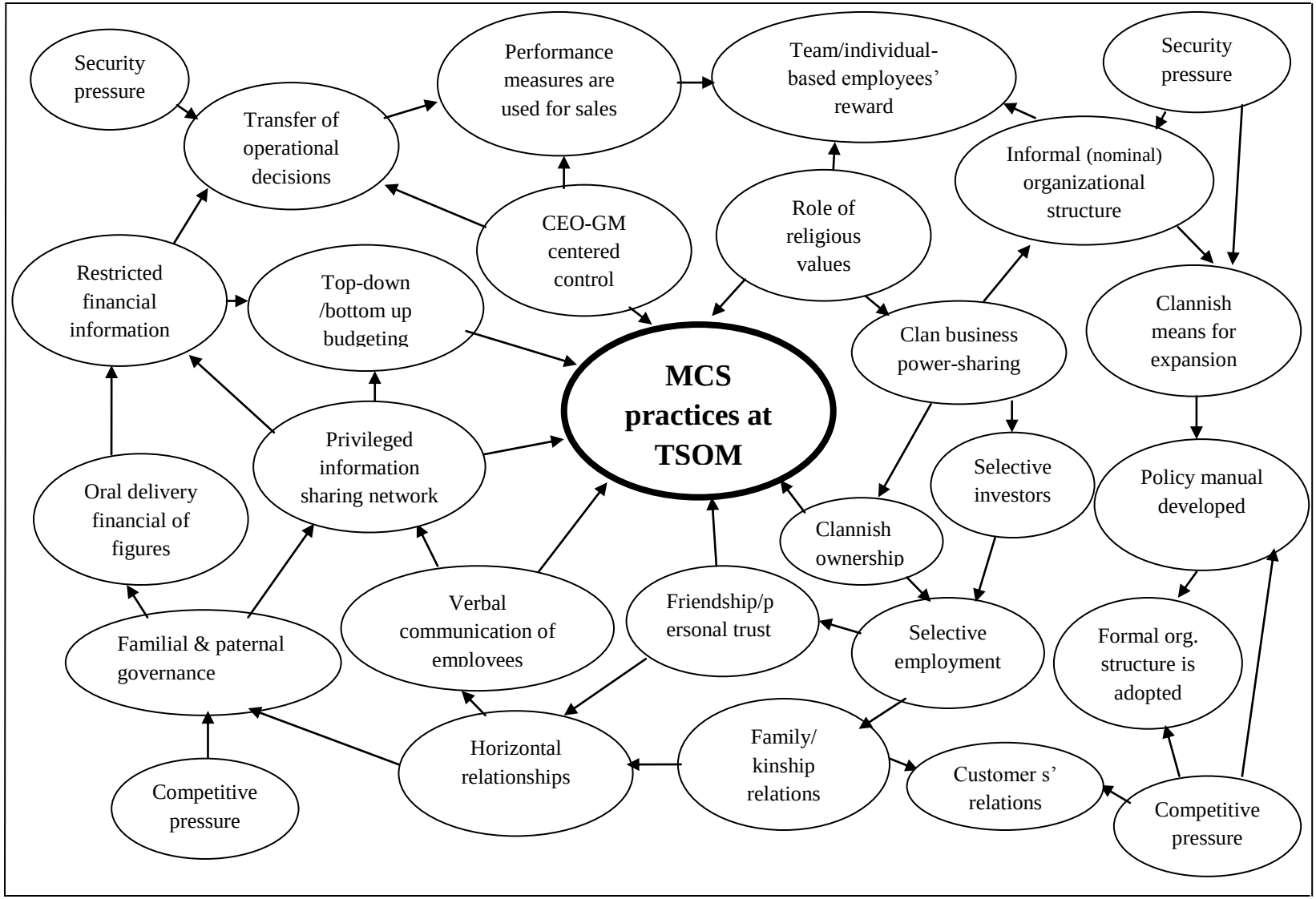

Figure 5.5 *The path of control themes at TSOM*

CHAPTER SIX

DISCUSSION AND CONCLUSION OF THE FINDINGS

6.1 Introduction

In the previous chapter the findings of the study was presented. This chapter addresses the MCS themes that have been identified in the findings and is presented according to the framework of the study that was discussed in chapter three. The framework of the study offered three main control elements that have been identified in the literature. These control elements are cultural, administrative and the control process. Therefore, based on the framework's control elements, the next section of the chapter classifies the MCS themes according to the framework components. Similarly, this section discusses how the company's control practices, in the traditional society's context, become institutionalized. Furthermore, this section highlights how external and internal factors played the role of MCS themes development under the traditional society context. Finally, in chapter six, the study is concluded.

6.2 Cultural Control Themes at TSOM

In chapter three, it was discussed that control approaches, as a function of MCS that is used by specific society, is affected strongly by the cultural norms, beliefs and values of the respective society (Ansari & Bell, 1991). As a result of such cultural norms, control approaches are the product of its environment, in which the control practices takes place

(Minkov & Hofstede, 2011). In a response to its societal constructs, an organization is expected to interact with its surrounding's socio-cultural, political and economic factors in which it operates (Stoica, Liao & Welsch, 2004). Based on this assumption, the study anticipates that cultural control practices is constructed by the traditional norms of the society, which in turn, plays an essential role to guide the emergence of control approaches of the respective organization. In this concern, traditional norms are considered as the primary factor that structures the development of certain control approaches in the different societal contexts. In this section, it is highlighted the cultural control themes at TSOM that were identified in the findings of the case organization.

The findings of the study demonstrate clearly the role of the traditional cultural arrangements of the company's formation, investors' selection, employees' recruitment and the operational decisions related to the expansion of the company's business into the different regions. Similarly, as noted earlier in chapter five, personal relations, kinship ties, friendship, and the balance of clans in the company, have become a major factor for the establishment of TSOM. Moreover, traditional cultural arrangements are employed in the daily business operations of the company. The following main cultural control themes were identified in the company.

6.2.1 Clannish Control Practices in the Company's Formation

From the start of the company's business operation, the concept of "clan balances" was the main factor that structured the first stage of the company's establishment. This has been reflected by the arrangements that have been made by the CEO and the GM. The

CEO and the GM, who were the key persons of the company's formation, have employed the "clan balance" or "clan power sharing" tradition as a form of control that is imposed by the traditional clannish culture of Somalia's clans.

Based on the "clan power sharing", the CEO and the GM had to invite new investors from the sub-clans other than their sub-clans in the capital city. The central aim of such balancing clans/sub-clans is to appear as though that the company does not belong to certain clans/sub-clans and to be able to collect adequate capital from other main investors to fund the potential telecommunication equipment.

As an informal way of traditional control, the number one strategy that was implemented by the company was to invite the most influential investors from different sub-clans in order to establish a "clan power sharing" system to ensure the company's future continuation. In this regard, the approaches for selecting the main investors from the different clans/sub-clans, shows that even though clan power sharing concept is necessary for the company formation, nonetheless initial founders attempt to control the influence of the traditional clannish culture on the company by setting strict selection requirement that limits the type of people who are joining the company. Therefore, no one can freely join without the terms for the company's membership. The membership conditions include that the potential investor: (1) should be a close business friend and belongs to the respective sub-clan, (2) should be trustworthy, religious and respected in his/her clan/sub-clan, and (3) should have never been involved in the conflicts of the Somali clans.

Furthermore, the socio-political influence of the clans played an important role in shaping investors' role in TSOM. The influence of every founder depends on the founder's influence in his/her clan/sub-clan. Every owner/investor has specific cultural role, in the company that is derived from the traditional influence of his/her clan/sub-clan. For instance, there are formal control authorities for the CEO and the GM, which is provided by their co-founders of the company as the top two persons of the company. However, the formal authority of the CEO and the GM, in the company, resulted from the informal influence stemmed from their respective sub-clans' traditional influence in the south central Somalia.

In this regard, the management roles of the other initial founders are informal since they have not formally defined authorities in TSOM. However, every founder or main investor plays an informal control role that is derived from the traditional weight of his/her clan/sub-clan. Even though the role of each founder/investor is not written, but it is practically accepted by the different people in TSOM. Moreover, due to the clannish influence of each person in the company, no one is ready to violate the accepted traditional power sharing system, since everyone represents his/her clan/sub-clan in the company's management. Through that power sharing culture, every clan/sub-clan's position in the company is known. Accordingly, the selection of investors and employees is carried out through the socially accepted traditional control practices of the society. In this regard, traditional norms are practiced for investors' selection, shares distribution, employees' recruitment, employees' punishment and their release from the job.

As noted earlier, traditional cultural norms are considered a better control mechanism that provides better social harmony among members in the company, which in turn, is necessary for the company's continuation due to the absence of state regulatory institutions that would have regulated the public life of the people. This is socially accepted norms that should be respected for better congruence of the employees. Due to the homogeneity of the Somali traditional norms and religious values, traditionally accepted norms and values have created an environment that makes individuals observe the socially constructed control practices. Such homogeneity may pave the way for better goal congruence of the company's employees. Hence, the clan power sharing, clan/sub-clan balances, clan-based hierarchical influence, familial relationships, friendship and personal trusts are notably the socially constructed control practices that are accepted in Somali traditional society. These social (clannish) control approaches are explicitly, and even systematically are reinforced by everyone in the company since it provides better harmony among different individuals in the company as well as the society at large.

The traditional control approaches are also symbolized by the religious values that are used mainly for employees' recruitment as well as for employees' monitoring. Every employee should adhere to the religious commitments both in practices and in appearance. To recruit an employee, a candidate should go through screening process that is aimed to identify how the candidate observes the religious obligations such as prayers, religious attire and fasting the holy month of Ramadan. In addition, an individual should signify the necessary religious appearance such as growing beards, wearing religiously designed cloths, being honest, truthful and commitments to all religious obligations.

Moreover, avoiding any stimulant is an obligation that is assessed for the ethical aspects of the employee in the company.

These cultural controls have, therefore, acted as the major factors that shape the MCS themes of the company. The above-mentioned control practices are not surprising since the prior studies (Jackson et al., 2008; malmi & Brown, 2008; Ouchi, 1979; Tsamenyi et al., 2008; Uddin, 2009) have also reported similar evidences that denote the role of cultural norms on the MCS emergence in its societal context. Clans, beliefs, and symbol-based control practices are reported to be the key control mechanisms that are mobilized in the traditional societies, which in turn, structure the development of specific control strategies of the companies operating in the traditional society's contexts.

6.2.2 Kinship Ties, Friendship, Personal Relationships and Trust in the Company

The traditional familial relationships, friendship among individuals in the company and the personal trust are the key pillars that are observably practiced in the company's daily operations. Such culture has contributed to make TSOM the largest, and the leading, telecommunication company in Somalia.

Since the start of the company's business, blood ties, friendship and personal relationships were the best tool for selecting the main investors and shareholders. To select the initial founders and the other main investors (from the other regions), the CEO and the GM used their friendship channels and personal relationships. Likewise, to find out the key workforce for the main company's functions, both familial and friendship connections of the founders were the prevalent mechanisms. The abovementioned norms

and values have not only been used during the company's start, but it has also been the major factor of investors' selection as well as the employees. After the expansion of TSOM into the different Somali regions, the same traditional clannish mechanisms of kinship ties and friendship channels are applied to invite investors and recruit employees.

Similar approaches are applied for recruitment of the customers. To create a pool of network subscribers employees are encouraged to exercise the blood connections as well as their friendship channels. For instance, kinship ties and other informal channels are used as a control mechanism not only for employees' recruitment, but also for marketing and selling the company's services. In order to recruit more customers, an employee was, and still is, supposed to employ his/her personal relatives and other close links that extend outside the company. As noted earlier, employees provide sub-contracts to their close relatives and friends, who are not employees in the company, to recruit subscribers or invite additional customers from the society. Specifically, through clan links the company has expanded its telecommunication network into the different regions. To the present it is evident that in every region or clan area, specific telecommunication company is dominant based on the kinship ties of the owners to the people of that region except TSOM which was able to appear as a company that belong to all Somali clans/sub-clans. Kinship ties are also encouraged to increase the number of customers, where additional commissions are given to the sub-contractors who recruit more customers or to maintain customers for a longer period.

The traditional familial relationships, friendship among individuals in the company and the personal trust also provide a sense of collective and mutual

coordination and understanding among individuals in the company. This is reflected by the personal understanding of all individuals (knowing each other, helping each other, etc.), and the social respect during the dismissal of a wrongdoer. Such traditional mechanisms might provide a sense of belongingness and job security as well as friendly cooperation during hardships and difficulties. Furthermore, as highlighted earlier, the informal relationships among employees made the work schedule a flexible one, where there are no much restrictions during working hours. This was elaborated by the GSM director who commented that:

> "*I cannot make restrictions or tight schedules …….. I agree that such flexible schedules disturb the smooth running of the daily activities, but (we've) no other choices"*
>
> (GSM Director)

Such flexibility of employees and Directors practices make the relationship of the employees rather horizontal, where their personal relations appear as friends with less formal hierarchical order. Having tea together, joking, assisting each other during the office hours and the oral communications show how informal friendships and personal relationships override the formal control practices in the daily routines of the company.

In such a traditional control practices, TSOM has created the largest telecommunication network in Somalia, and through such traditional control mechanisms the company obtains and maintains its customers. These findings confirm the previous claims that the traditional norms of specific society contributes to the emergence of certain MCS forms that matches with the society traditional norms and values (Efferin & Hopper, 2007; Jackson et al., 2008; Uddin, 2009). However, what might be unique in

Somalia's clanism is the "clan power sharing" concept which creates the norms of respecting each other for ancestral connections. The concept of "clan power sharing" has affected all governance and operational control practices of the company, such as investors/shareholders selection mechanisms, employees' recruitment and firing approaches, customers' recruitment, employees' promotion and satisfaction of employees and finally personal relationships and information sharing channels.

6.3 Administrative Control Themes at TSOM

As discussed in chapter three, administrative control involves the matters related to the overall structural system of the organization that institutes the hierarchical duties, responsibilities and the flow of information as well as the process of decision making.

In the framework of the study, it was assumed that the structure of governing boards, policies and procedures, information flow, friendship and the communication mechanisms are shaped by the traditional norms of the society, in which the organization operates (Hofstede, 1984; Hopper *et al*., 2009; Tsamenyi *et al*., 2008).

In addition, the administrative control practices are symbolized by the vision/mission, policies and procedures, governing boards, information flow among hierarchical bodies and the communication mechanisms that govern organization's activities. In addition, informal relationships, i.e. kinship-based trusts and familial relations are also practiced as administrative control approaches. This section discusses the main administrative control themes that are identified as control practices in the company.

6.3.1 Clannish Governance and the Centralized Decisions

In the first five years of the establishment, the company did not have clear (written) vision/mission statement, organizational structure or policy manual. During this period, the company's management was mainly centered on the CEO and the GM personal controls. Furthermore, kinship ties, friendship and the personal trusts among the initial founding members were the prevalent approaches of the company's governance. This has been demonstrated by the way the CEO, the GM and the other initial founders shared the roles and authorities of the company. Despite the fact that it was a verbal agreement, the GM was responsible for the company's foreign relationships and looking for partnerships, while the CEO has to undertake the establishment process and the operational functions of the company in Somalia.

Since it was the early stage of the company's operations, in a chaotic hostile environment, the initial founders of the company, including the CEO and the GM, employed their personal relationships, familial ties (clannish connections) and their close friends to establish the company and to recruit the necessary employees who can be trusted for the fragile company in Somalia's business market. During that time there was no official organizational structure that defines the hierarchical authorities of the company's management. Hence, the CEO used his personal centralized controls over all operational activities as well as strategic issues. In this regard, the CEO appointed two assistants from his close circle; the current Commercial Director and the current GSM Director. The first Director being his relative and the second Director being the GM's

relative, the CEO sought their assistantship in the two functions of the company's operations.

During this time, the CEO and the GM were the key decision makers in the company, and their authorities were not limited to their positions. For instance, the main decisions of the company were, and still are, strongly subject to the personal control of the CEO and the GM. This included: recruitment of employees, determining employees' compensations and employees' dismissal and the decisions related to the expansion of the company's operations as well as inviting new investors from the different regions of the country. Although, the CEO and the GM are considered as responsible to the BOT members, however, practically, it is vice-versa. The founders and investors depend on the decisions made by the CEO and the GM. Similarly, since the inception of the company, the CEO and the GM were holding their positions and no one was able to question them.

The main reason that made the CEO to centralize the operation of the company's management was the security circumstances that are related to the different clans/sub-clans in the country, as well as the stage of the company's establishment.

> *"The CEO was the main source of the company's information, particularly on the clan and the security issues as well as on the behavior of employees. That is why he directly supervised the company's daily operations in the different sites of the capital city"*
>
> (Commercial Director).

In the time the CEO was running the day-to-day activities of the company and the GM was in charge of the external relations, other founders were also playing different governance roles. Though the other initial founders were functioning as a committee,

who deals with the clannish matters, however their administrative roles were not officially clear. For instance, other initial founders were assigned verbally perhaps by the GM to assist the CEO with the security issues, particularly negotiating with the threatening parties; i.e. the warlords and the clan militias in the different regions. They mostly undertake any issue that have a traditional nature and needs a special treatment according to the respective traditional norms. The traditional treatment of clan matters is to negotiate with the clan militias based on the clan customary norms which are recognized by the different clans of the respective regions.

As can be drawn from the above discussion, it is apparent that, in the early years of the company's formation, the entire business governance was strongly reliant on the personal control of the CEO and the GM. Major decisions were centralized and are taken at the discretion of the CEO, but with the consultation of the GM. However, no one would question his actions, since he was the one managing TSOM for the last 15 years, which made him a "paternal figure" in TSOM and as a result, he enjoyed the acceptance of the other initial founders. Since the inception of the company, the CEO has a considerable authority in appointing, promoting and rewarding employees, while HR department is possibly used for a mere validation of the CEO's decisions. The recruitment of employees, determining employees' compensations and their dismissal was directly handled by the CEO. Furthermore, the incentive packages, rewards and performance management schemes of the individuals were made at the discretion of the CEO. According to the HR Director, the HR office did not exist officially, but the functions of personnel management was held by the CEO's assistant in the administrative division; the current Commercial Director.

Since majority of the employees were employed through founders recommendations and selections, there was less official process for recruitment. Accordingly, it is obvious that there were no specific policies for staff appraisal and performance measurement in the first five years of the company's formation. Similarly, the company did not have formal organizational structure as well as defined responsibilities of the different organizational functions. The roles of the different positions were not classified in the company's business operations. In this period, the company's information might be limited to a very few people such as the initial founding members including the CEO and the GM.

However, due to the clannish conflict of 2006/2007, the company had to change the decision making and control process by dividing the functions into the different divisions and branches. After reorganizing the organizational functions, the CEO assigned the main operational tasks, which are related to the customers' services, to the Directors and Branch Managers. The reason for transferring operational decisions was to smooth out decision making and to make faster the service delivery during the conflict.

> *"This change of the operational procedures was done because of the restrictions caused by the conflict and that daily conflicts hindered the smooth running of the activities in the main sites and offices. Therefore, to make services faster, the CEO authorized all managers to take decisions on his behalf"*
>
> (Commercial Director).

Although the decentralization of operations control was adopted unwillingly due to the temporary conflict of Somalia, however, the CEO and the Commercial Director view that delegating authorities to the field managers and directors empower their morale

and enables them to learn better by making decisions. Furthermore, transferring authorities saves the processing time of the services, which in turn, reduced customers' complaints.

The confirmation of the company's management that decentralization of control process has been debated earlier by Lewis (2004), who noted that any centralized system, may not be appropriate to the Somalia's traditional culture of self-pride. However, even though the CEO has decentralized decision making process, during the conflict, in practice the power seems to be in the hands of the CEO, where he currently controls almost all operational activities of the company. This issue is discussed later in this section.

6.3.2 Development of the Policy Manual

Although it was written after almost nine years of the company's establishment, the vision/mission statement of TSOM was written and the policy manual was established. The reason for writing the vision/mission and the policy manual was that the company was going out beyond the borderline of the initial founders' sub-clan's area. As noted earlier, the company's initial founders were from one major clan that inhabits in the regions of south central Somalia. However, due to the growth of the company and the competition of the other telecommunication companies, the top management has decided to adopt more formal governance system as well as better defined organizational hierarchies and authorities.

A policy manual was established, to describe the vision/mission statement, formal organizational structure and the other different hierarchical authorities of the company. Formally, the policy manual defines the authorities of the BOT, the GM, the CEO and the executive positions of the company. However, the policy manual does not provide adequate detail about how the main bodies of the governance; i.e. the BOT, the GM and the CEO practice their authorities.

In this regard, the policy manual mentions that BOT is responsible for setting strategic plans of the company as well as supervising the general activities of the company. In the policy manual, the BOT is the highest body in the company's organizational structure, while in practice; the CEO is the highest decision maker of the company. Most likely, the remarkable issue that proves the above statement is that the policy manual mentions that the CEO and the GM should be elected every three renewable years. However, no formal elections have ever taken place since the inception of the company operations. Usually, when the term of the GM and the CEO ends, the initial founders extend the mandate of the CEO and the GM informally. This was mentioned by the Branch manager of Region C, who stated that:

> *"Due to the kinship and friendship ties of the owners, formal election of the two top officers (CEO & GM) seems to be non-existent in the company".*
>
> (Branch Manager, Region C).

Therefore, although in the formal organizational structure (as shown in Figure 6.1), the BOT headed by the GM is the highest authority of TSOM, however, it is observable that the actual power to be in the hands of the CEO, possibly sharing with the

GM. As previously mentioned, the formal organizational structure shows that BOT is the highest authority in the company, but the control practices in TSOM seems everything and everyone depends on the CEO. Similarly, according to the policy manual, the BOT shall meet at least twice a year, or whenever the CEO or the GM asks for an emergency meeting, while in practice, there are no regular meetings of the BOT.

> *"I never heard about (formal) BOT meeting .... since I joined the company"*
> (Branch Manager, Region A).

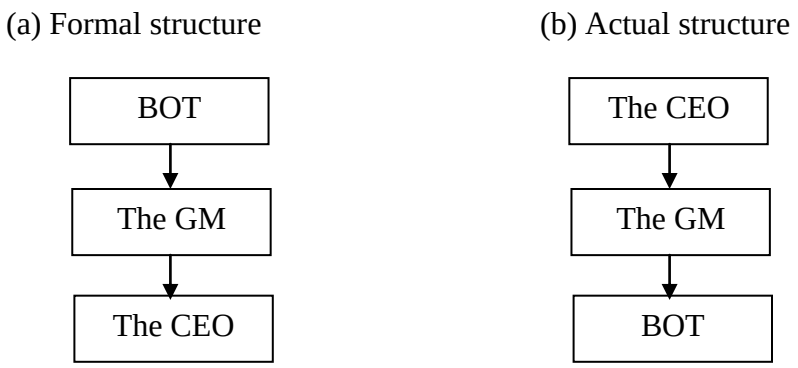

Figure 6.1
The Power Relationship of the Highest Authorities

To acquire the consent of the BOT members, the CEO or the GM may request an emergency meeting for the present members of the initial founders and the main investors. Through informal approaches, the CEO explains the programs that he intends to carry out and accordingly sought their approval. This is the way the CEO and the GM collect the informal support of the BOT to approve what they want to achieve. Being in the position for almost the last 15 years enabled the CEO to acquire enough experience with the different clans/sub-clans matters and had created strong relationship with the

various traditional and political leaders. Hence, the CEO obtained the confidence of both employees and BOT members that made him the paternal figure in the company who is entrusted both operational and strategic decisions.

On the other hand, the Steering Committee has better role in carrying out their operational duties compared to the BOT. The Steering Committee manages the entire company's operations. The members of the Steering Committee are the Directors of the key Departments who are chaired by the CEO. Therefore, Directors are responsible for the operational activities such as annual budgets preparation, implementing performance evaluation and employees' compensations. The Directors implement organizational operations with the supervision of the CEO. However, despite the fact the traditional clannish control practices dominate the company's management, some formal control mechanisms exists, such as budgeting, KPIs for performance evaluation and employees motivation. These control practices will be discussed later in this chapter.

6.3.3 Changes of Control Practices at TSOM

During its lifetime, the company has witnessed several changes in its control practices. The company was established in 2000. During the first four years, the company was in its initial stages of establishment. The main tasks that have been carried out during this initial stage included: (a) building network sites, (b) generating capital investments, (c) selection of employees, (d) establishing partnership with foreign suppliers, and (e) the selection of investors from the different clans/sub-clans. During this initial stage, the company's first administrative structure was founded such as the technical and administrative departments. The management of the company, during the initial stage,

was mainly in the hands of the CEO. Even though the CEO had two assistants, however, he tightly used to control over all operations of the company. For instance, in this time, he allowed his two assistants to run the two divisions; i.e. technical and administrative, but still the security and cash units were controlled by him directly.

The first change of the control practice has taken place in the year 2004. Before 2004, the company's operations were at its initial stage. The CEO was the core person in decision making and control with few assistants and employees. From the year 2004, when the company has to be extended into the different villages and districts of Mogadishu City, the CEO decided, with the consultation of the GM and the other initial founders, to divide the company's operation into two major functions, namely the Administrative Department and the Technical Department. He assigned two assistants as heads of the two departments. Apart from the Cash Unit and the Security, all other major functions of the company were assigned to the two assistants.

During this time, although the CEO delegated some responsibilities, however, there were not many changes in the company's operational control as well as the strategic issues. The same methods of investors' selection and employees' recruitment existed. Similarly, friendship between employees and employers, familial governance practices of the initial founders (including the CEO and the GM), and the tight and centralized control practices were prevailing. Furthermore, the personal trust and reliance on family ties were very strong rather than adopting the formal control procedures. Therefore, during the period between 2004 and 2006, the company's control system was also strongly reliant on the familial and personal control practices which were highly influenced by the social situation of the owners and the surrounding environment.

The second control practices change was during the conflict between the UIC and the TFG in the south central regions in the years of 2006/2007. Due to the severe conflict in the capital city and its surroundings, the CEO had to empower the Directors, the Branch Managers and the heads of divisions to take decisions instead of waiting instructions. Although this step was meant to temporarily adopt with the conflicting circumstance, however, the CEO did not take any retreat from his empowerment of his field managers (i.e. Directors, Branch Managers, and Heads) and he kept delegating routine tasks to the field managers. The CEO admired the empowerment of field managers because tasks delegations had improved the service delivery time as well as the processing time. Moreover, the delegations of tasks to field managers have boosted the self-confidence of the Directors and the Branch Managers. This control change of the operational control practices had enabled the CEO to delegate a lot of operational tasks to the other officers for better operational achievement.

In the year 2008, again the company has witnessed another control practices change. However, this change came when the top management decided to extend the company's business services into the other major clan's area. It was the time the company decided to invite investors or business partners from the other Somali major clans in order to expand the company's network coverage and to create the largest telecommunication network in Somalia. Unlike other changes, this time there was a formal change of the control practices. An ad hoc committee was assigned to prepare the platform for the company's expansion. The major control practices changes that have taken place during this time were introduced for the purpose of the company's expansion such as: developing organizational structure, developing vision/mission statements,

forming governing boards, discussing the role of investors from the different regions/clans, determining the rights of the new invitees (from the other major clans), and the development of the policy manual. During this time, the change of control practices has been carried out through different formal process. An ad hoc committee was nominated to discuss the possible implications of the company's expansion into the Northern and Eastern regions. This committee suggested developing vision/mission statements, new organizational structure and policy manual of the company.

Similarly, to improve the quality of performance evaluation system, the company developed MCS methods that explain both financial and nonfinancial success indicators. The financial success indicators include: capital growth, market share, subscribers' usage and incremental performance. The nonfinancial success indicators also are operational efficiency, service quality, marketing victory and coverage spread of the network. However, although these MCS methods are still in development, the financial success indicators are mainly used while the nonfinancial indicators are yet to be implemented.

Overall, there were changes of the control practices that have resulted from the internal requirements of the company as well as the demand of the external environment such as the fear from competition. Before the 2008 changes, the main changes of control practices were carried out by the CEO but consulting with the GM and perhaps some of his clos founding members. During that time, the size of the company was small and the main operations were limited to the south central regions where the major clan of the CEO inhabits. However, the other major changes of control practices emerged during the conflict and after the company have to be expanded into the other clans' regions. This time, an ad hoc committee has involved the change of control practices that was

appointed for the purpose of change. This committee proposed the changes of the control practices for the planned expansions.

6.3.5 Information Flow Network in the Company

"Clan power sharing" in the business, is the parameter through which all clans are represented in the company's ownership and employment. This means that in filling up the key vacant positions in the company, clan origin is the main factor that determines whether the person is accepted or rejected.

Therefore, since both investors and employees are recruited through their familial links, it is apparent that information flow also goes through the same network. Familial connections represent the central route for sharing information in the company. As noted in chapter five, the most important information for the company's stakeholders is the financial information which is restricted to the CEO and the GM as well as their close circle. Some employees believe that some individuals receive better financial information due to their blood connections with the top management or with the initial founders. Hence, according to the general perception, related employees can get access to the information they want. In this regard, there is a common rumor which says that employees, who have kinship ties with the CEO or with some of the founders, are more informed and they are more satisfied than other employees. Although such claims are mostly anecdotal hearsay, however, the behavior of the related employees in the company may support the perception of the employees that related employees appear as though they have extra authority in the company and sometimes act on behalf of the owners. The related employees are known as the "ruling family" members which is a common term

used among employees other than related members of the top management. The other perception adopted by the employees towards the relative is that related employees receive higher incentives at the end of the year. No matter of what the justifications of TSOM are, it is obvious that inequity of information sharing and reporting relationships is perceived by many employees. Nonetheless, such perception may affect the loyalty of the employees to the company, which in turn, may lead to the belief that the company is associated with specific clan/sub-clan. Even though it is rumors and perception, however, based on the Somali clannish culture and the scholarly evidences from the similar clannish social environments support such claim (Efferin & Hopper, 2007; Jackson et al., 2008).

6.3.6 Informal Communication Practices

The traditional culture of verbal communication among employees is common and is considered as an easier method that helps employees to carry out their daily routines rather than using bureaucratic approaches. According to Merchant and Van der Stede (2007), oral information sharing and transmitting among individuals is a faster and easier way of achieving tasks rather than through formal (written) communication mechanism. In TSOM, verbal communication is mainly used by the frontline employees to manage customer relations. For instance, verbal communication is used for providing SIM cards, inter-counter borrowing of the sales items, serving the customers or even providing financial results to the shareholders as well as circulating the financial ratios of the commissions and incentive packages.

Verbal communication is used as an alternative mechanism of maintaining formally documented transactions all the day. Although using verbal communication may cause some important information to be lost due to the lack of documentation, however, verbal communication is considered a better mechanism for the employees in the traditional societies since informality is prominent and overrules any formal procedures of the business operations. In this regard, although formalization of business transaction is necessary in the modern business, however, verbal communication is one of the most prevailing traditions in the developing countries, particularly in the traditional society. As a result, sometimes, such informality and traditionalism of communication might contribute to the success of the businesses in the traditional social context (Jackson et al., 2008). Informality of management control could be an alternative, in the developing countries, since conventional western management controls mainly failed in many of these countries due to their traditional norms (Wickramasinghe & Hopper, 2005).

6.4 Control Process Themes at TSOM

Control process involves in the operational aspects of an organization. It is the management control process that is designed to achieve the operational activities of the organization including financial control activities and the employees' compensation. The importance of control process has been emphasized by Anthony and Govindarajan (2007) in their MCS techniques typology. In their typology, the control process of MCS include; planning and budgeting, performance measurement and motivation management.

In the framework of this study, it was assumed that the administrative control systems of the company will certainly structure the form of control process that is used by a company operating in a traditional society like Somalia. Therefore, control process is considered the consistent routines and practices that are designed to serve the administrative control system of an organization.

In the findings of the study, MCS control process is represented by the planning and budgeting, performance measurement and reporting and employees' compensation. In this section, it is offered the main control themes that are assumed to demonstrate the practices of control process identified in the findings of the study.

6.4.1 Financial Control and Reporting Practices

Since the start of the company's business, there was some form of financial procedures. From the beginning of the company's operations, the cash unit already existed and the cashier was also responsible for the accounting transactions. For example, the financial documents such as the vouchers of sales, purchases, collection sheets from receivables and the accounting records were in use. Moreover, accounting functions, including cash custody, cash collection and payment, was the responsibility of the Head of the cash unit.

Since the accounting information is the backbone of the company's operation, the CEO has given it a special consideration and he was directly controlling the unit. Therefore, accounting unit is one of the oldest and most organized divisions in the company. Since then, the vouchers of cash receipts and payments, payroll, purchases slips and sales invoices are well organized and kept in the accounting division.

Currently, the company has an accountant in the headquarters as well as assistant accountants in every branch. Similarly, there are cashiers who receive cash sales and follow up collections from debtors. Furthermore, there is Chief Accountant (who is also the Deputy Finance Director), Finance Director and the Internal Auditor. In this regard, it is evident that financial duties such as selling, purchasing, receipt of cash, cash payments, recording of transactions and checking it are separated and assigned to different persons. The separation of financial duties into different persons emerged after the adoption of the formal organizational structure, where the company's functions were divided into several departments and accounting division was put under the Finance Department which directly reports to the CEO. However, the company does not use specific accounting standards. According to the Internal Auditor, the company is not interested in using or adopting specific accounting standards since there are no state rules that enforce the financial reporting and accounting standards.

Although in the earlier years of the company's operation, there was no clear financial policies and procedures, however, from the time TSOM management had realized that their business has to be expanded into the other clan/sub-clans' zones, general guidelines of financial procedures was included in the policy manual. These guidelines describe the separation of duties of the Chief Accountants, the Internal Auditor, the Finance Director and the CEO. According to the available documents, during the conflict of 2006/2007, the functions of Finance Department have been separated into the Divisions of Cash Collection and Accounting. To cope with the circumstance that was created by the war, the CEO adopted more decentralized decision making process and delegated mainly the operational activities of the different branches

and divisions. Therefore, the duties of selling, purchasing, cash receipt, cash payments, checking and recording of financial transactions were separated and assigned to different employees. The Finance Director was assigned to oversee the financial transactions of his subordinates. However, in practice, the function of cash control is still directly supervised by the CEO and the major cash-related decisions are taken by him. Therefore, cash payments are the most restricted transactions of the Finance Department which requires the approval of the CEO. No payment can be made without the knowledge of the CEO or the Commercial Director, as his acting deputy, during the absence of the CEO. Similarly, the disbursement of any amount beyond $500 USD is restricted to the approval of the CEO even if the amount is in the budget. However, amounts that are within the limits of $500 USD can be processed without the signature of the CEO provided that it is included in the approved budget.

According to the short financial procedures mentioned in the policy manual, Accounting Division organizes and keeps financial documents and has to prepare financial reports and submit it to the CEO. However, as noted earlier, financial reports are neither disclosed to the public nor to the shareholders. It is restricted to the discretion of the CEO. Therefore, the financial results of the company's performance are communicated to the shareholders through verbal approaches such as oral explanation and telephone messages. Such restrictions of financial information were made for security reasons. Nonetheless, there are some employees who believe that specific employees and shareholders might get access to the financial results due to their family links with the CEO and the GM. But those claims could not be proved academically as the Commercial Director considered it as personal perceptions and rumors.

6.4.2 Financial Performance Measurement

The primary tool that the company uses for performance management is the annual budget which is the duty of the Steering Committee to prepare it annually. Usually, the CEO, with the Commercial and GSM Directors, set the plans of the intended activities that will be carried out in the coming periods. Those plans list the main activities of the respective Department in the coming period and based on those intended activities, the financial budgets of each department is ordered from the Director of the respective Department.

As previously discussed, directors are ordered to prepare the budgets of their respective departments to submit the first draft of the budget to the steering committee, latest by October of each year, for review and approval. Apart from the sales budget, other department's budgets usually are considered routine activity that might not get much attention from the top management. The reason is that commercial operations of the company (i.e. sales and marketing) determine the overall financial performance of the respective year. Therefore, budgets of the other departments are usually based on the previous year's budget, of course, with the consideration of the new activities in the respective period.

Similarly, in order to ensure the achievement of the company's financial targets, KPIs were developed in the beginning of 2012. The KPIs are categorized into financial success indicators and nonfinancial success indicators. The main financial success indicators include: capital growth, market share, subscribers usage and incremental

performance. Similarly, nonfinancial indicators that are developed by TSOM include: operational efficiency, services quality, the network coverage and the marketing victory. However, the KPIs for financial performance indicators are observably implemented, while there is no sign about the use of nonfinancial success indicators. Based on these KPIs, the Finance Department prepares monthly financial reports, particularly on commercial activities, to evaluate whether the targeted results of the period are achieved or not. Financial results are used to evaluate the achievement of the business operations for the respective month and for the purpose of rewarding employees. However, financial reports are only submitted to the CEO and accordingly he analyzes and finalizes the ratios of commissions and the amount of incentives for each month. Hence, based on the monthly financial results of the company, employees receive their shares of the commissions and incentives.

6.4.3 Employees Compensation Practices

Based on the financial ratios that are determined by the top management, employees' commissions and incentive packages are planned and paid. In TSOM compensation system, both team-based and individual-based performance appraisal approaches are used. Apart from the monthly salary, which is counted for 13 months per year (one month additional salary is paid as annual bonus or sometimes called annual pension), team-based compensations are based on the amount of the monthly revenue of the company, while individual-based compensations are based on the individual sales that employees make as agents. Usually, employees recruit customers and every customer is registered under the name of the employee who has recruited him. In this approach, employees

receive specific commissions from the amounts that the respective customer used, but it is an indirect compensation approach which is counted for employees informally. Furthermore, recently the company introduced other nonfinancial benefits given to the employees that include: paid vacations, sick period, and disability benefits. However, according to the HR Director the nonfinancial benefits are not fully implemented yet since it is still new with the company.

Likewise the reward system, the company also practices certain punishment approaches that are formally written in policy manual of the company. According to the policy manual, in the HR section, the misconduct of employees is a serious issue. For instance, if a major misconduct is inflicted on an employee, the first step is to investigate the case and then submit the findings to the Steering Committee for appropriate actions. However, the company rarely punishes wrong doers unless it is a major issue such as involvement of clan conflict, disloyalty or financial embezzlement. In this regard, to avoid the direct firing of an employee, informal approaches are regularly used particularly for an employee who holds an essential position or an employee who hails from a large sub-clan in the respective region. Informal ways of dismissing the employee is to convince the respective employee to resign instead. This approach is usually done through the relative members, specifically the guarantor of that employee. Such approach was reasoned to protect the reputation of the respective employee and to avoid the possible clannish conflicts.

On the other hand, the failure of an employee to perform his/her ascribed duties, is a serious insult to his/her guarantor. For example, an inappropriate behavior of the

employee or the failure to achieve personal duties will damage the credibility of the guarantor and it may prevent the future employment from the sub-clan of that employee or his/her guarantor. Therefore, to protect the personal employee's and guarantor's integrity, an employee should strive to avoid any misbehavior or wrongdoing in the company.

Observing the traditional norms and religious values are also commonly required. These values are already instructed in the religion and traditionally accepted by the society members. As a result, if an employee is reported to have what the company considers as an unethical behavior, such employee may lose his/her job or damage his/her reputation among the society. Clan reputation is an important issue that every Somali has to preserve. Even though it is not written in the policy manual, however, the traditional and religious norms are perceived to provide an indirect motivation to the employees to work honestly for the purpose of maintaining their integrity in the company (Stringer et al., 2011). Therefore, everyone in the company struggles to keep the name of his/her clan off from any reputational impairment. It is an intrinsic motivation that encourages employees to work reliably for the purpose of preserving the reputation of their respective clan members.

6.5 Demonstration of MCS Themes in Relation to the Conceptual Framework

Chapter three of the study discussed the conceptual framework that was intended to guide the study and to explain the MCS of the case organization. According to Figure 6.2 below, there are three control components, namely: cultural control, administrative

control and control process. Cultural control occupies the largest circle which means that cultural issues are the primary factors that structure the development of other control components such as administrative and control process. Depending on the cultural control factors, the administrative control is structured. And likewise, the control process, which mostly focuses on the operational aspects, is assumed to be the product of the administrative control. In that sequence, the three control areas; cultural control, administrative control and control process, intertwine and pursue the attainment of the organization's ultimate goals.

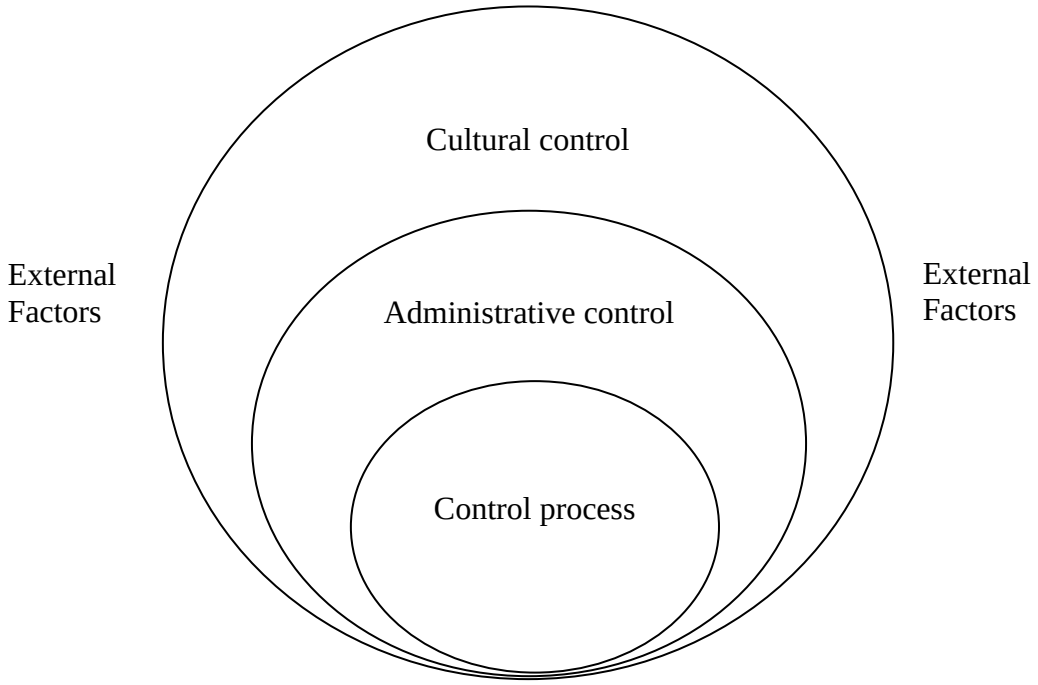

Figure 6.2
The Conceptual Framework for MCS in the Traditional Societies

As noted earlier, the framework has been adopted to guide the field study and to explain the control themes of the findings. Basically, the framework provides a

reasonable explanation about the main control themes that have been identified in the company as demonstrated in Figure 6.3.

For example, the framework enabled us to understand the control forms of the company formation such as clannish ownership, customary rules and paternal leadership of the CEO and the GM (example: clannish selection of investors and employees, kinship based relations, mutual respect among individuals and the role of cultural and religious values/practices in the company's decision making process). Similarly, the framework enabled us to understand the role of familial governance on the evolution of certain management control techniques such as the horizontal relationships, paternal control over major activities, verbal communication, narrow information sharing network and the financial information that is restricted to a specific group of stakeholders; i.e. the CEO and his close friends.

Basically, the major control process exists in TSOM tasks control. For instance, basic accounting procedures, financial reports preparation, budgeting, compensation procedures and generally KPIs for financial success indicators are put in place. Although it was adopted recently, KPIs development shows that TSOM is directing towards better MCS development in the future. This was started by 2012 when the CEO decided to improve the management controls of TSOM; however, such MCS development could be as a result of a normative isomorphism that is created by the influence of the knowledge acquired outside the company.

However, the framework offered partial explanations about the issues of "clan business power-sharing", which is used as a platform for better reconciliation between clannish customary norms and doing business in such a traditional social context.

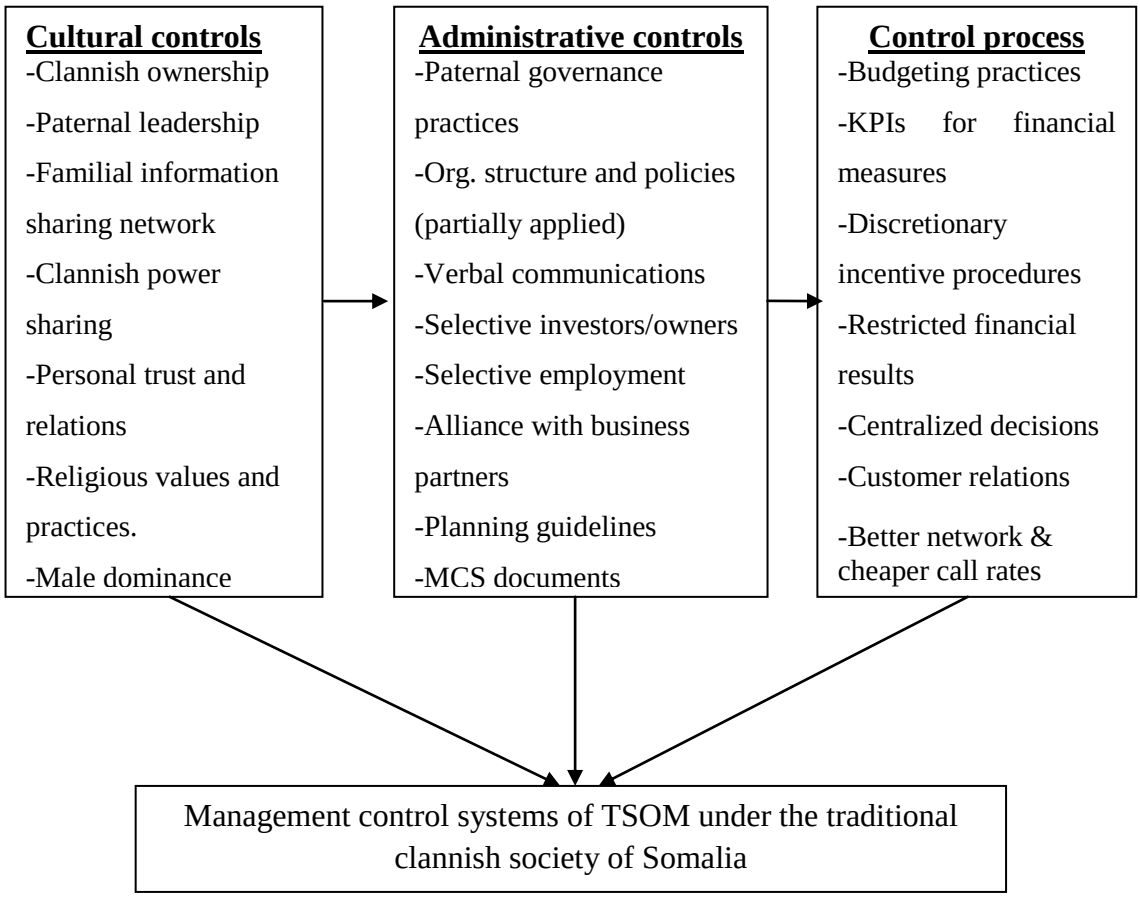

Figure 6.3
The Control Themes Identified in the Study Findings

As stated previously, the unique Somalia's traditional culture that is widely accepted and recognized is the "clan power sharing", upon which all other governance and control systems are built on. Clan power sharing is the only way to satisfy all different clans/sub-clans in the different regions. Through selective process of investors and employees, the company can satisfy clans/sub-clans. However, what is interesting is that the selected investors and employees may not have significant authority in involving

making decisions, whereby decisions are centralized and are mostly made by the CEO. Perhaps, this is a way of legitimizing the company's business activities in the respective clan area (Jarvenpaa, 2009) or, at least, to appear, in the eyes of different clans/sub-clans, that the company is neutral and it is not serving specific clan/sub-clan. Similarly, clan/sub-clan balancing may be ceremonial practices (Meyer & Rowan, 1977) to prove that the company is complying with the traditional norms of clan-based power sharing, which is constitutional in Somalia for the last two decades. According to Meyer and Rowan (1977), ceremonial systems or practices are to demonstrate fitness and external legitimacy of organization's operations regardless of the benefits and efficiency of those systems and practices.

On the other hand, the relationships between individuals in the company demonstrates another scenario of "trust among people of different clans", which shows that management members and employees, from the different clans/sub-clans, created an environment of harmony, at least, in business affairs. This is reflected by the horizontal relationship, personal trusts and paternal leadership of the company management. Similarly, the practices of discretionary management of commissions and incentives as well as restricting financial information to specific stakeholders might dissatisfy some of the employees, but may not affect the balances of the different clans.

To summarize the main findings of the case organization, in the traditional clannish society of Somalia, the following table provides the main results that reflect the characteristics of company's MCS practices:

Table 6.1
Summary of General MCS Findings

MCS	General findings
Clanism	*Clanism* is used for "clans' power sharing in the company to avoid clan conflict and to attract customers. *Clanism* is also used for the process of investors/staff selection as well as for staff dismissing. *Clanism* also plays an important role in information sharing, friendship, personal relations & trust.
Beliefs and religious values	Religious values are used as a screening tool for employees' selections. Practices of religious obligations are observed and are considered as an informal tool for measuring individual's trustworthiness. Religious sects/*mazhabs*/groups have no significant influence.
Other religious symbols	Religious appearance such as: attire, beard & praying of prayers during working hours are necessary but not written in the policy manual.
Vision/mission statements	The company has vision/mission statements written in English language but it is not clear to the majority of the employees as many of them are not good at English language.
Organizational structure and policies	The company has formal organizational structure that classifies different levels of authorities. However, the CEO almost dominates all authority levels. Similarly, there is a policy manual that contains several sections including: hierarchical authorities, HR and finance.
Governing boards and mechanisms	TSOM has board of owners (BOT), the GM, the CEO & executive committee. Apart from ad hoc committees that are based on the need, no other governing bodies exist. Job descriptions of bodies are not clearly defined. CEO supervises all activities closely and directly controls over cash & security and takes major decisions. No formal meetings of BOT and no formal renewal elections of the BOT.
Process of MCS change	Some control systems change took place, but the process is not clear and mostly centralized by the personal decisions of the CEO with the knowledge of the GM.
Planning	TSOM leans on short term planning. Guidelines of the short term plans are provided to each Director and asked to put it in detail. Usually, the Steering (executive) Committee finalizes the plans.
Budgeting	Mostly operating budgets are prepared by TSOM. The Finance Department usually collects data from different departments & prepares the first draft to submit to the Steering (executive) Committee to finalize. No capital budgeting
Performance evaluation	Monthly, quarterly and annual reports are prepared to evaluate company's performance. Sales volume and ratios are used to evaluate the sales target achievement of every period; month, quarter, or year. Financial indicators are used such as: capital growth, market share, subscribers' usage, etc. Nonfinancial indicators are developed but are not implemented. Employees' punishment mostly informal.
Information flow and networks	Accounting documents are well-designed and used. Based on the accounting data, financial statements are prepared. Financial information/results are partially disclosed in verbal methods to the shareholders and employees. No specific accounting standards are used. Financial statements are not audited.
Compensation and reward system	Individual-based compensations exist; i.e. salary, individual commissions. Team-based incentives also are used to motivate employees. Nonfinancial benefits include: paid vacations & sick leaves.

In addition, as mentioned several times, the main purpose of the study was to understand, interpret and report the MCS that is designed and used by the organizations that are operating in the traditional clannish environment of Somalia. Hence, as a qualitative research, “how” and “why” questions that seek to understand the process of doing things and the reasons behind it. Therefore, this section concludes with the reasons behind MCS forms that are practiced by TSOM.

Although there might be some ambiguities about the rationality and reasons behind the way things are practiced in TSOM, the company undertakes its control practices for the following reasons:

1. The company adopts the concept of “clan power sharing” to ensure that the company can extend its branches into the different regions without violating the traditional clannish norms that informally regulates the socio-economic transactions in the country. Based on such norms, the company decided to balance and “check-and-balance” the relations of founders, main investors (from different major regions) and shareholders. Similarly, the power sharing norms determine the authorities of every founder/investor in the company. Therefore, the person from the most influential clan/sub-clan (in the respective area) is supposed to hold the highest authority of the company and the second most influential founder should also serve as the second person in the company and so on. There are some founders who have no official authorities but still are influential in the company

by representing the company for the security negotiations with the clans/sub-clans.

2. Employees' recruitment through kinship ties/founder guarantee. This approach is used for two reasons. Firstly, to employ only those trusted to hold positions, particularly for sensitive and important positions. Secondly, to appear in the eyes of the public (different clans/sub-clans) that all clans/sub-clans are reasonably represented in the company. Furthermore, such approach of employees' recruitment is considered as the most appropriate approach in the chaos Somalia as a security shield. Equally, clannish arrangements are used for employees' dismissal and punishment.
3. Preserving traditional norms and religious values. This approach is justified that employees who have stronger religiosity would perform better in terms of honesty and ethics. Moreover, it is a way of customer relationship management. The Operations Director explained that *"honesty and religious values are the key for customer satisfaction and the growth of the company's future value".* In addition, traditional norms are necessary to be observed by everyone in the company. Due to the absence of state regulations, traditional norms are the main mechanisms for social harmony of individuals for better goal congruence.
4. The use of kinship ties, friendship and personal trust. These control practices are apparently used but it is, most likely, the outcome of the traditional clannish culture that encourages the biological associations among individuals in the company as well as their relations with the customers. It is reasoned that, under the clannish environment of Somalia, familial relationship is a way to attract

customers and to retain them. However, the reasons for regularly practicing of familial relationships, personal trusts and informal relationships were somehow ambiguous, but might be due to the traditionalism that is still preserved by the company. The GSM Director tried to describe it as follows: "... *I agree that such flexible schedules disturb the smooth running of the daily activities, but (we've) no other choices. This culture exists in the (similar) institutions".* Such description shows that some of the routines may emerge through taken-for-granted and unconsciously accepted cultural assumptions (Busco & Scapens, 2011).

5. Transfer of the authorities/decentralization of decision making. This is rationalized for the security situation of that time; i.e. 2006/2007. However, after the slight change of the security circumstance, the company still perceives that decentralization is a better approach for the company's services management.
6. Decision making process at TSOM. The case findings show that major decisions are either taken by the CEO or he should be consulted before making any decisions. This means that both operational and strategic decisions are actually centralized. According to the Commercial Director, the main reason that makes the CEO to take major decisions (centralized) is his role as a "paternal figure" in the company and that he is the most informed person in terms of the company's information.
7. Development of administrative control processes. As was discussed earlier, from the year 2008, the company started to develop a policy manual. This step was rationalized as a tool to guide the company's development for the planned

expansions. Furthermore, it was also intended to attract the potential investors who will join the company from the different regions (clans).

8. Informal communication and information sharing approaches. Verbal communication and the information sharing channels are not justified by the TSOM management; however, this type of control approach is most likely caused by the traditional culture that demonstrates the nature of the society and its traditional culture which existed before the company's establishment.
9. Accounting and reporting in TSOM. Although the role of accountants/auditors are not clear in the company's decision making, nonetheless the main documents of financial transactions are organized and perhaps is used for the purpose of updating top management for better and informed decision making. Similarly, financial reports are prepared but not revealed except to the CEO. The reason for not disclosing financial information is justified for the security and higher uncertainty of the Somalia's hostile environment.
10. Performance measurement and employees' compensations. Although before 2012 there were no clear measures for the company's performance, however, KPIs for performance indicators were developed in January 2012. The main aim of this step was to enhance performance management of the company's services control. However, the company applies only the KPIs for financial performance indicators, while there was no sign about the use of nonfinancial success indictors. The reason for not applying nonfinancial performance might be due to the less expertise regarding the nonfinancial performance measures' use. With regard to the employees' compensation system, the company uses both team-based and

individual-based performance appraisals. Both approaches are rationalized that they are used to encourage employees to meet the company's sales target and to recruit more customers.

6.6 Institutional Factors of MCS Evolution at TSOM

The previous section of this chapter has discussed the findings of the case organization. This section focuses on the institutional factors that might have contributed to the evolution of MCS in TSOM as well as concluding the findings. In chapter three, the study has presented the role of institutional theory; the OIE and NIS approaches, to explain how internalized routines and socio-cultural pressures may contribute to the emergence of certain organizational practices and structures (Busco & Scapens, 2011; Quinn, 2011; Scott, 2008).

To remind again, the main focus of OIE approach is to provide an analysis and explanation about organizational internal process such as habits, routines and rules that are produced and reproduced by the organization (Guerreiro et al., 2006; Scapens, 2006). In this regard, Scapens (2006) notes that habits are considered as individuals' features while routines may characterize the regular activities of both individuals and/or groups. Explaining how management accounting and control practices evolve into institutionalized routines, Busco and Scapens (2011) emphasized that organizational individuals gain experience in coping their "rational" patterns of behavior that tend to become, later on, transformed into routinized behavior. Furthermore, Busco and scapens (2011) underlined that the taken-for-granted (institutionalized) routines infuse the

organization's culture that also provides a sense of psychological safety and socially validated and shared assumptions.

Based on such assumptions, MCS practices that have existed before the formalized rules, perhaps becomes, through the time, documented control techniques and might guide the organizational actions of the respective firm (Quinn, 2011). For instance, the MCS forms that are used by an organization, or even within the same organization, might be different due to the documented and taken-for-granted routines of the different organizations. The reason for the possible variation of MCS practices of the different organizations is the organizational values and beliefs that are embodied in its routines as well as the organization's localized needs (Busco & Scapens, 2011). Thus, as a result of its local requirements and the requirements of the organization's environment, the forms of MCS routines may be structured by the organizational needs.

On the other hand, NIS approach assumes that an organization's internal structures, processes, rules and routines are shaped by the external factors of the environment in which the organization operates (Ribeiro & Scapens, 2006). The basic assumptions of NIS are that, within the context of a particular society, organizational actions and processes are monitored (Moll *et al*., 2006). Similarly, NIS assumptions presume that the similarities between organizations, in a particular environment, places greater emphasis on the external rather than internal organizational factors (Scapens, 2006). These external factors may shape the internal structures, systems and practices of an organization (Moll *et al*., 2006). According to DiMaggio and Bowell (1983), the process of congruence between external factors and internal structures is validated

through what is called “isomorphism”. Isomorphism is the process that forces one unit in a society to resemble other units that face the same set of environmental conditions (Hassan, 2005). Under the isomorphism concept, there are two components namely; competitive isomorphism and institutional isomorphism as discussed in chapter three of the study. In addition, based on the NIS assumption, the external factors of TSOM perhaps represent the societal traditional norms, religious values and the political situation of the country. Furthermore, the competition (under the absence of formal regulations), fulfilling customers’ wants and the technological development and innovations in its societal context, might also play an important role for shaping the internal routines of the company. Therefore, based on the aforesaid assumptions, the two institutional approaches; i.e. OIE and NIS, and how institutional factors interplay is discussed below.

6.6.1 MCS Institutionalization at TSOM- the Internal Factors

Despite the fact that traditional clannish control practices override the formal control practices, however, according to the case study findings, there are institutionalized control practices that were aimed to enact a certain form of MCS that might guide individuals’ actions towards the achievement of the organization’s goals.

Even though it was adopted informally and without formal procedures, the first notable MCS institutionalized, and taken-for-granted, routine might be the process of investors’ selections and employees’ recruitment. It is based on the previously mentioned concept of “clan power sharing”. Therefore, over time, this practice has already became

an institutionalized routine that is used since the establishment of the company and it is an accepted mechanism that is used to achieve the organization's goals. It has already been discussed that routines are the way the things are actually carried out in the normal activities by an organization's individuals (Busco & Scapens, 2011), while rules are the "formally recognized way in which things should be done" (Burns & Scapens, 2000; p. 6).

In the previous section of this chapter, it is asserted that the culture of "clan power sharing" is used as a control instrument that enables the company to make "check and balance" between clans and sub-clans, perhaps, to handle matters in the hostile clannish environment. Therefore, due to the clannish environment, the strategy of "clan power sharing" has become a routine that is produced repeatedly and relatively stable throughout the company's life. In this regard, although the practices of investors' selection and employees' recruitment, based on their clannish links, may not be formally written in the company's policy manual, but it became a common understanding of the actors (Quinn, 2011), that is accepted and institutionalized. As an institutionalized routine, the initial founders developed and practiced the clannish selection of the investors through the membership conditions that they set for the selection of the potential investors: (1) potential investors should be a close business friend and belong to the respective sub-clan; (2) they should be trustworthy, religious and respected in his/her clan/sub-clan; (3) they should have never involved in the conflicts of the Somali clans. Moreover, through clannish links employees are also recruited.

The other noticeable routine that also has become common practices in the company is the verbal communication among employees. The culture of verbal communication is practiced as an easier method to carry out the daily routines rather than using bureaucratic approaches. The oral communication routine is used for information circulation among individuals, and it also works as an easier way of achieving tasks rather than through formal (written) communication mechanism (Merchant & Van der Stede, 2007). In addition, through verbal communication means, TSOM frontline employees create and maintain customers' relationship and they also, sometimes, use the verbal messages as an information sharing instrument.

At TSOM, there are several events that also show the institutionalized arrangements of organizational control. For instance, the CEO initiated the first organizational structure in the year 2000. The organizational structure was unwritten but the CEO adopted it to ease the control of the company's operations. Based on the new organizational structure, the company's operations were divided into two main departments; i.e. Administrative and Technical. Under this organizational structure, the CEO directly supervised the business operations and particularly he handled the cash unit and the security. Apart from the roles and authorities of CEO and the GM, there were no defined roles or responsibilities in TSOM's policy manual. Although the process of establishing the first organizational structure could be through informal discussions of the initial founders, however, the establishment of the organizational structure should have assisted the company to adopt new control practices, which in turn, employees might have practiced it as a way of doing things.

In a more formal way, the top management developed a more hierarchical organizational structure in the beginning of 2009. Before the development of this organizational structure, a committee was established. The main tasks of the committee was to provide recommendations about the company's expansion into the other major regions, specifically on the issues of hierarchical authorities and structure, governing boards, role of investors from the new regions and their rights as founding members as well as the general policy manual.

Based on the recommendations of the committee, the main departments of the company were introduced. The implementation of the new organizational structure was possibly due to internal and external factors. Perhaps, the previous experience of the tasks delegation and the empowerment of the Directors/Branch Managers, have assisted the development of the new organizational structure, which is an internal factor that enabled the company to carry out such structure change. Similarly, by transferring authorities to the field managers; i.e. Directors and Branch Managers, it saves the processing time of the services, which in turn, reduced customers' complaints. Hence, such process was introduced to do activities differently which could be an internal routine that is aimed to improve the customers' relationships with the company.

However, the most evident institutionalized process is the formal MCS tools that have been developed and formally recognized as a way activities should be done (Busco & Scapens, 2011) for better performance measurements. For instance, the control practices of setting guidelines of intended activities, budgeting, performance evaluation and compensation plans are practiced to satisfy certain institutional requirements that are

expected to guide the company's operations. Furthermore, the establishment of KPIs for measuring both the organizational and individual performance and the incentive plans are good examples of institutionalized routines. It has already been argued that, within organizations, the budgets are regularly prepared, performance of individuals are monitored and reports are produced as a routine fashion that are guided by specified rules and procedures (Burns & Scapens, 2000).

The regular training of the new employees (particularly the technical staff) is another evidence of the institutionalized process in the company. The training program which is known as the "capacity building" program of employees, is a strategic planning that is offered according to the staff categories such as executive managers, frontline employees and, sometimes, special training for specific department; e.g. sales employees. Training was offered by the company to provide clear outcome of the performance measures that the company will use for the future valuation of the company and the individuals' performance.

> *"We hold regular training for our staff. For example, we offer training for the executive managers. There is training for frontline employees, who deal with the customers. Other trainings are also offered for financial staff. Special training might also be offered for sales and marketing division and so on"*
>
> (HR Director).

This process of training employees might be intended to revitalize employees' knowledge towards formalizing of MCS in the company. As a reproduction process and a tool for the MCS progress, training was offered to the staff to improve their awareness about the performance measurement and employees' compensation plans. It can be

argued that the training program was offered to assist the institutionalization process of the performance management.

To conclude, the process of institutionalization of the control practices occur at the organizational level of TSOM as well as the individual level. The control practices that TSOM adopted involves the categorization of company's activities into two administrative departments in earlier years (before 2006), and into seven administrative department during the company's expansion in 2008. The new organizational structures were created by the CEO and these became routinized and formally practiced in TSOM. After the adoption of these routines, it was taken for granted and became accepted norms without further justifications (Norhayati & Siti-Nabiha, 2009). In this regard, the roles of the CEO, the GM, the other influential founding members and the related Directors (i.e. for Commercial and GSM Departments), may represent the main focal positions of the organization that mediate the institutional realm and routines of the TSOM MCS. Therefore, the control practices of the clan power sharing, kinship based information flow, personal friendship, verbal communication, information financial information sharing and informal customer relations management (friendship and kinship tied recruitment) are perhaps the control framework that have been taken-for-granted as institutional realms in TSOM social context.

6.6.2 MCS Institutionalization at TSOM- the External Factors

As previously mentioned, the basic assumption of NIS postulates that an organization's internal structures and processes are shaped by external factors under which the

organization's operations take place (Siti-Nabiha & Scapens, 2004). At TSOM, certain external factors might play an essential role in the emergence of the internally routinized MCS practices. The establishment of the different organizational structures, during the company's lifetime, might come under mimetic pressure perhaps that TSOM had to introduce new organizational structures to respond to the customers' requirements (potential investors). Therefore, due to the possible challenges, which the company might face from the potential investors who hail from the different clans, the company had to develop the new policy manual that offers the governance system of the company including the organization's hierarchical authorities. In this regard, since there are no political pressures or regulatory requirements, the introduction of the new policy manual, could be considered a mimetic isomorphism, which means that an organization looks for successful similar organization to imitate its behavior particularly when there is uncertainty (Hassan, 2005).

The other evidence, that could be considered a coercive pressure from the political situation, took place during the conflict of 2006/2007. In this circumstance, the company has been affected by the conflict between the UIC and the TFG. Due to the security reasons, the CEO consulted with the key initial founders and he was advised to adapt with the new political situation and transfer the main operational functions of the company to the Directors and the Branch Managers. The CEO rationalized the action of authorities transfer and the flexibility of the decision making process:

> "*….we have to come up with a new way for survival. We were very flexible and I transferred major decisions of business to the field managers including even my signature. I did this to ensure that operation of the company continue as it was before the conflict".*

(The CEO).

Moreover, the Commercial Director provided further justifications that delegating authorities to the Directors and other Managers made the services delivery faster and, in addition, it boosted the self-confidence of the Directors and the Managers.

> *"This change of the operational (decision making) procedures was done because of the restrictions caused by the conflict and that daily conflicts hindered the smooth running of the activities in the main sites and officers. Therefore, to make services faster, the CEO authorized all managers to take decisions on his behalf"*
> (Commercial Director).

For such reason, the CEO transferred the routine practices of daily controls over business activities to the Directors and the Branch Managers. By delegating some authorities, the Directors and the Branch Managers realized their importance in decision making and this enhanced their satisfaction. This was expressed by the Commercial Director.

> *"Before 2006 the company has one figure person (the CEO), but now we are full of experienced managers who can handle everything"*
> (Commercial Director).

Although decentralization of some authorities were applied due to a temporary situational security factor, however, the CEO still perceives that decentralization is very useful for the empowering and encouraging the Directors and the Branch Managers. Such response to the external pressures of the political situation seems to be a coercive isomorphism that affected the internal practices of the company.

As for the financial management and control, the company does not have to follow certain accounting standards and they even do not understand what accounting standards are. Similarly, the policy manual does not detail the financial responsibilities of the CEO, Finance Director or any other officer towards disclosure of financial reports. However, the company employs certain accounting practices, e.g. documentation of financial transactions, the existence of accounting division, the accountants, Finance Director and the Internal Auditor. Furthermore, in the year 2012, the company developed a preliminary draft of MCS written in Somali Language that focuses on the KPIs for the performance measurement and employee compensation approaches. All these formalized control practices play an important role in ensuring institutionalization and particularly intended to evaluate the company's overall performance, which in turn, may assist the company to increase its legitimacy and accountability towards its stakeholders.

The other notable external factor that should have contributed to the development of the company's internal routines is the "the traditional clannish norms" which is based on the *clanism* of Somalia. As mentioned in the first chapter of the study, in the year 2012, traditional clan leaders of Somalia approved the national constitution of the country. The constitution recognizes the major Somali clans and explicitly defines how different major clans should share the political power of the country as well as the economic resources. Therefore, due to the '*clanism*", the company hopefully would strive to satisfy the different external parties. The main external parties are the investors and shareholders who represent their clans/sub-clans in the company and any violation of the "clan power sharing" norms may subject the company to the risk of clannish conflicts. Ansari and Bell (1991) argued that, under the traditional societies' setting, formal control

systems are only necessary to legitimize the organization's activities with external parties.

The development of policy manual, particularly the KPIs and the other MCS techniques (i.e. the MCS document prepared by the company in 2012), certainly is a way to improve the efficiency of the company's operations and the quality of its services. This is a competitive pressure to respond to the market needs which, if not acted, may lead that customers join other competing companies in the telecommunication market. It was already discussed that to survive in the competitive markets an organization may adopt the cheapest and most efficient ways to do things (a competitive isomorphism) (Moll *et al.*, 2006).

The company has also developed locally certain MCS techniques. These include the MCS document that has been exhibited by the CEO during the interview. This document presents KPIs for financial and non-financial success indicators. These MCS techniques were developed locally by a committee that included the main Directors. As said earlier, administrative employees are mainly selected by their professional knowledge with the consideration of their clan/sub-clan origin. Moreover, employees who have been employed in the earlier years of the company's establishment had to obtain their degrees while they were working. In addition, training programs are offered to the employees depending on their specializations. Therefore, the locally developed MCS documents as well as the other finance related control process certainly have been influenced by what employees learned from the formal courses or professional training that they attended. Hence, the influence of the knowledge acquired outside the company shows the role of normative isomorphism on the company's routines (Scapens, 2006). As

noted previously, organization's structures, methods and procedures are defined by the dominant professions, professional bodies, or members of certain occupation (Abernethy & Chua, 1996). Similarly, professionals who are working in the company, such the CEO who have a degree of economics and the Commercial Director who also have a business background also might exert pressure on TSOM to develop more formal MCS process and policy manuals.

However, under the absence of state or regulatory institutions in Somalia, the main observable external pressure is the clan customary norms, security issues and the business competition. Despite the lack of state regulatory enforcement mechanisms, other informal institutions including social conventions (traditional customs) and religious beliefs and values are generally accepted ways of conducting transactions that imposes restrictions on the behavior of organizations as well as individuals, that might pressure the organization for conformity (Jarvenpaa, 2009).

According to Scott (2001) the three institutional foundations; i.e. regulatory, normative and cognitive, usually define the nature and meaning of organizational activities. These institutional elements are transmitted through symbolic systems, relational systems and routines and artefacts (Jarvenpaa, 2009). Based on this view, in Somalia's traditional clannish environment, business organizations have to conform to the established (cultural) cognitive structures under which the organization operates.

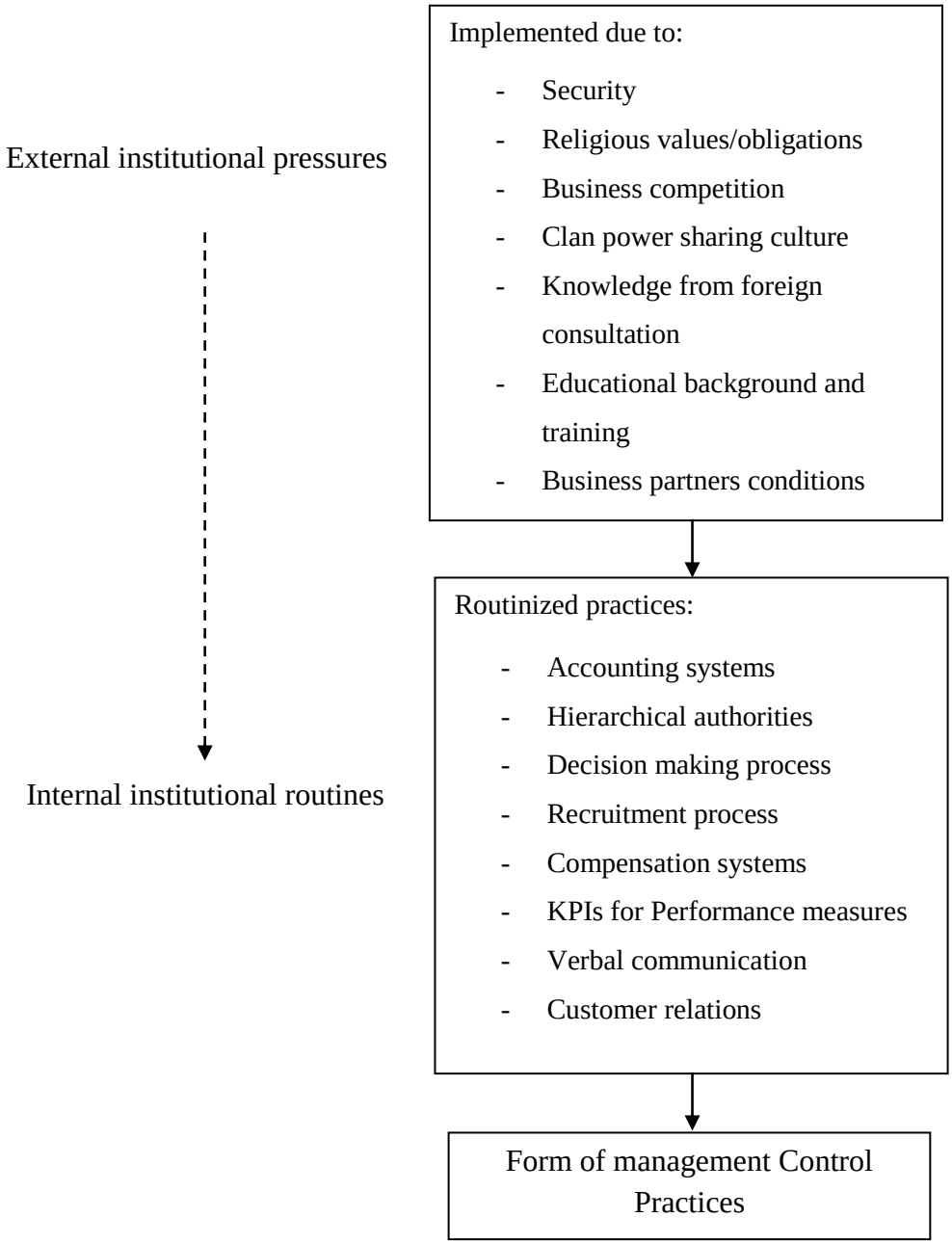

Figure 6.4
Institutional Factors Interplay

In this regard, TSOM is one of the most successful business companies under the traditional clannish environment of Somalia. Its success can be measured by the

profitability, its ability to grow faster than other telecommunication companies in Somalia and its capacity to reconcile with all Somali clans in all regions. According to Jackson et al. (2008), mostly the success of African business organizations, especially in Sub-Sahara, is attributed to the organization's conformity and interaction with the local social context of its society. Furthermore, Jackson *et al*. (2008) also argue that any business organization (in Sub-Sahara Africa) that seeks success within the western management paradigm will hopefully fail due to the total difference of the individualist (exploitative) Western culture and the collectivist (benevolent) African traditional values. But this argument is still premature and further researches are needed to empirically substantiate it. Therefore, within the context of traditionalism in the majority of the Sub-Sahara Africa, further studies are needed to enable us to gain better understanding of the traditional society's environment.

6.7 Contribution of the Study

The main purpose of the study was to understand, interpret and inform the forms of MCS that is designed and used by the organizations operating in the traditional clannish environment of Somalia. In the next section, both theoretical and practical contributions are discussed. Then, the limitations of the study are presented followed by the future research perspectives. The section ends with the conclusion of the chapter.

6.7.1 Theoretical Contribution of the Study

The primary aim of the study was to carry out a comprehensive overview about the MCS routines of the case organization, without focusing on specific details of particular MCS

techniques in the company (Chenhall, 2003; Tsamenyi *et al*., 2008; Uddin & Choudhury, 2008; Uddin, 2009). The study is one of the very few studies conducted on the business organizations operating in the traditional societies, which is an emerging research issue that has recently appeared in the academia (Efferin & Hopper, 2007; Tsamenyi *et al*., 2008; Uddin & Choudhury, 2008; Uddin, 2009). As one of the few studies, that bring the nature of MCS forms in the Sub-Sahara Africa to the academia, it provides significant insights on the control forms in the traditional societies particularly Somalia's context which may represent the dominant cultural setting in the Sub-Sahara African nations (Jackson *et al*., 2008). Based on the findings, the following are the main contributions of the study.

Firstly, the study contributes to the growing MCS research in the traditional societies which little is known. Furthermore, the study contributes to add to the small but emerging MCS knowledge in the developing countries, particularly in the traditional social contexts.

Secondly, in a response to the increasing calls for more researches about MCS routines in the different socio-cultural environment, the study attempts to yield empirical insights on how organizations may develop their internalized MCS rules and procedures while simultaneously organizations can act flexibly to comply with their external socio-cultural requirements (Uddin & Choudhury, 2008). Through the guide of institutional theory, the study contributes to addressing how MCS evolves in response to the institutional; external and internal, factors. To achieve how external and internal institutional factors affect MCS evolution, the study employed a hybrid of two institutional approaches; i.e. OIE and NIS, to understand and explain the organizational

activities. The use of the institutional approaches of OIE and NIS has contributed to put emphasis on their strengths, while combined so as to overcome the weaknesses of the two approaches (Hassan, 2005; Scapens, 2005; Siti-Nabiha & Scapens, 2005). However, the main external factors that are noted in this study are mostly socio-cultural in nature, under the absence of state institutions. In addition, the role of institutional theory to explain MCS of small business organizations that are operating in the traditional customary norms may be limited since most of the MCS practices are based on personal trust and less formality.

Thirdly, as a methodological support, the study provides a significant contribution to enrich the current trend of studying socially constructed MCS routines based on qualitative case-based strategies, which have been encouraged by the recent academic works (e.g., Eriksson & Kovalainen, 2008; Ryan *et al*., 2002; Scapens, 2005, 2006; Tsamenyi *et al*., 2008; Uddin & Choudhury, 2008; Uddin, 2009). Thus, case study strategies have been called for it provides an in-depth understanding of particular MCS phenomenon in its social context (Eriksson & Kovalainen, 2008; Llewellyn & Northcott, 2007; Ryan *et al*., 2002; Uddin, 2009). Furthermore, the study contributes to the MCS literature by attempting to incorporate the control elements of the current MCS frameworks that might be useful to guide field research in the traditional socio-cultural settings of the less developed countries. The findings indicate the influence of traditionalism on the MCS forms and provide important field explanation on the impact of the traditional norms on MCS forms development in the less developed countries with especial focus on Somalia's social settings.

Finally, another contribution to the MCS literature is that this study adopts exploratory-explanatory approach. Using exploratory-explanatory approach may provide us better understanding about MCS in the traditional clannish context (Ryan *et al*., 2002; Scapens, 2004). The very few studies that have been carried out in the context of traditional societies, mostly used an exploratory approach to identify the way things are being done, while this study adopts both exploratory and explanatory strategies to enable us to explain how MCS is designed and used as well as why such specific mechanisms are used by organizations working in the traditional clannish context. In addition, the study attempted to describe, to certain extent, the collected evidence. Thus, all these analytical techniques were considered useful for an interpretive research perspective (Scapens, 2004).

6.7.2 Practical Contribution of the Study

The findings that are extracted from the case study sought to explore and explain the forms of MCS in the traditional clannish society of Somalia in which the case organization operates. In the case findings, while there are some forms of formal MCS that is developed and used by the company; in practice the management control practices are dependent on the traditional clannish structure. Therefore, perhaps the formal control practices are merely ritualistic routines that were resulted from the competitive pressures (institutional isomorphism).

The main practical contribution that can be drawn from the findings is the apparent evidence of the role of the socio-cultural norms and values on the MCS design and use. The socio-cultural norms and values of the specific social settings shape the

forms of management accounting and control approaches that are developed according to the needs and circumstances of the respective socio-cultural settings. This is what has been debated before (Hofstede, 1984; Hopper *et al*., 2009). Hofstede (1984) believed that management systems that are developed in a certain social context may not be universally transferable to the other context which is different from that of the origin. Thus, for Somalia's clannish environment, "clan power sharing" is the heart of any other control mechanism as identified and discussed earlier in the case findings. Such traditional clannish context which might be inherent in other traditional social settings provides a sufficient support to enable individuals in the clannish environment to introduce their basic ritualistic routines that are compliant with the traditional norms on the one hand, helps achieving organizational goals on the other.

Through traditional clannish norms (under the high uncertainty of Somalia) the company has succeeded in the telecommunication industry since it is the leading and has the largest network coverage in the country. The company has developed certain mechanisms to attract more customers, including kinship ties, and expanded its business services amid the strong competition of other telecommunication companies. As believed by Operations Director, the success of the company, in Somalia's chaotic business market, is due to the ethical values of the individuals in the company, not much on their education or skills. This is an indication that the TSOM management may believe that the company is more value-oriented and that the value of the individuals in the company is more important than focusing on mere financial achievements. For support of this view, the researcher did not observe any concern or worry, from the participants, about the company's future or performance provided that the company has never had any long term

plans. Furthermore, the comment of the Operations Director is another proof that backs the importance of traditional and religious values in the company's success in Somalia: "*honesty and religious values are the key (factors) for customer satisfaction and the growth of the company's future value".*

Another noteworthy pointed is that business organizations in the traditional societies, is an artifact of its socio-cultural contexts (Jackson *et al*., 2008; Lewis, 2004). This is clear from the way TSOM employees practice customers' acquisition and retention. To create a larger telecom network, employees use their blood connections as well as their friendship channels. It has already been argued that business companies, in the traditional societies, are regarded as part or extension of the clan itself (Lewis, 2004; Makinda, 1991). This issue is an essential research subject that needs further inquiries to understand more about business events in the traditional society's contexts in the different countries particularly in the less developed countries, where traditionalism strongly exists. Overall, the practical contribution of the findings of the study could be summarized in the following areas:

Firstly, with the considerations of the previous findings of the studies conducted in the traditional societies (example: Efferin & Hopper, 2007; Tsamenyi *et al*., 2008; Uddin & Choudhury, 2008; Uddin, 2009; Wickramasinghe & Hopper, 2005), this study provides further understanding of the MCS knowledge in the traditional settings of the Sub-Sahara Africa which less is known. The study offers how traditionalism undermines the development of the formal systems; particularly MCS, and how such traditional norms overrule any other formal systems. Similarly, the findings of the study describe the role of *clanism* on the business success in many of the traditional societies of the Sub-

Sahara Africa (Jackson *et al*., 2008). This is reflected how the case organization; i.e. TSOM, employs traditional clannish norms such as blood ties, personal trust, personal friendship, verbal communication, flexible business transactions and the mutual respect of the individuals to realize its organizational goals. These traditional practices might reveal how small businesses in the socio-cultural context of the Sub-Sahara African tribal societies adapted its social circumstances and developed its management style that are in line with the local traditional norms of the respective environment. These findings call for more academic attentions to the different traditional societies particularly in the Sub-Sahara African tribal communities to further our understanding of the MCS as well as other business governance mechanism.

Secondly, the results of this study could be used as a guideline to the business owners who want to invest in a traditional society's context, particularly in the less developed countries like Somalia and the similar countries. In order to develop sustaining strategies for the high uncertainty environments; i.e. in the traditional societies, the business managers may take the advantage to develop MCS that conforms to the socio-cultural and economic situations of the traditional societies contexts. Similarly, in the current globalized business world, the findings may offer better conception to the foreign companies that desire to invest in the different social environment and particularly, that of traditional societies.

Thirdly, the findings of the study may assist the policy makers of the less developed countries, in which state institutions are either nonfunctioning or very weak; like Somalia, to think of the development of state regulatory systems, while still considering the traditional norms and values that contribute to the success of the private

sector in their respective traditional context. In a particular consideration of Somalia's case, the policymakers, at the national level, may use the findings of the study to rebuild the national regulatory institutions in the country but with the considerations that business sector has achieved better under the lack of the state control.

Finally, the findings of the study could be useful to the academicians to know more about business operations in the traditional communities that are mostly found in the less developed countries, where the social connections are primarily defined by the biological links of the individuals (Lewis, 2004).

6.8 Limitations of the Study

As with any case study, the findings of the study are constrained by several limitations that stems from the nature of the study. The major limitation is that case study results usually lack statistical generalizability. Firstly, the study is heavily relied on the semi-interviews of one case company. Here, since the research area is an emerging one, the researcher drafted the guide questions that will be addressed to the participants without adequate reference. Therefore, the self-developed guide questions may not capture the accurate information of the reality on ground. Similarly, the accuracy of the data gathered from the participant is limited to the utmost knowledge of the participant, and as mentioned in the methodology, some participants were very conservative to give information that is beyond their positions. As a result, those participants preferred to transfer such questions to the top management.

Thirdly, the timeframe devoted for data collection of the study might not be sufficient to provide the full picture of the social reality; i.e. MCS in its social settings.

Due to the limited time required for the achievement of the PhD study, the duration was very limited to grasp the socially constructed MCS.

Fourthly, the framework of the study might require empirical validations since it is a combination of different frameworks control elements.

Fifthly, as mentioned earlier, the purpose of the current study was to obtain a broader and comprehensive understanding about the general MCS in the case organization, without focusing on the details of MCS techniques in the company (Tsamenyi *et al*., 2008; Uddin & Choudhury, 2008; Uddin, 2009). Therefore, during the interview the study did not probe deeper details about the MCS routines (e.g. details of accounting systems, budgeting processes, performance measurement, employees' motivation, strategic plans, etc.).

Sixthly, to triangulate the data collected from the field, the researcher attempted to carry out observations during the stay in the case organization. However, a lot of the company's activities that were taking place in the different regions of Somalia could not be observed. So, these limitations could not be considered during the data collection.

As a result of the above limitations, the results, therefore, may not be generalizable, practically, to other institutions. However, based on Creswell's (2007) argument in advocacy of qualitative research strategies, the primary purpose of the study was to understand the MCS reality in its traditional clannish context of Somalia, and that generalizability of the results were not a goal of this study. Whatsoever, the above-mentioned limitations direct us to the future research areas in the MCS field.

6.9 Future Research Areas

From the limitations discussed above, future research areas can be extrapolated. The first potential research issue is to carry out an in-depth study that is focusing on specified issues of MCS in the traditional society's context. For instance, the major issues that may call for further researches include the role of accounting in general, and particularly the role of management accounting in the decision making. In addition, an important future research concern could be the perception of the top management, in the traditional clannish environment, towards the role of management accounting in decision making. Furthermore, since this study has adopted single case study, multiple case studies seems to be noteworthy for further enrichment of our understanding of the MCS phenomena in its social settings.

Secondly, as found in the results, one of the important issues is that there is a lack of financial transparency in the company. Thus, to study the reliability of financial information (i.e. financial reporting), in the context of a traditional society, and how stakeholders believe in the oral sharing of financial information, is an essential research issues that appeals for further study.

Thirdly, to fully comprehend the role of socio-cultural factors on the design and application of the MCS, particularly in the traditional societies of the less developed countries, needs sufficient time. Therefore, a longitudinal study may provide an in-depth enquiry about the social reality and would shed light on the deeper elements of the MCS phenomena.

Fourthly, the process of MCS might be interpreted from another theoretical perspective. Since this study has utilized institutional theory, other theories, such as

actor-network, structuration and other social theories may provide thoughtful conception of such societal setting.

Fifthly, a perspective research could be to study one MCS control area; i.e. cultural control, administrative control or control process. The focus on one control area, in the traditional societies, may enable the researchers to explore deeper in specific area of MCS control. Furthermore, a research about the MCS change, in Somalia's traditional clannish environment, could be an interesting area of research.

Lastly, given the preliminary nature of the MCS research in the traditional societies, future studies may employ other qualitative and quantitative research strategies to advance the MCS knowledge in the less developed countries.

6.10 Conclusion and Summary of the Chapter

Bringing this study to an end, the chapter highlighted the main findings of the study. In the first part of the chapter, it is discussed the classification of findings according to the framework components; cultural, administrative and control process. The main themes of MCS that have been identified in the case organization have been presented in Figure 6.3. In the second section of the chapter, the institutional factors of MCS themes were discussed. This was followed by the concluding points of the study findings. In the third section, the contribution of the study and limitations were emphasized followed by the future research perspectives. Finally, the chapter ends with the conclusion and summary.

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