Management controls in family-owned businesses (FOBs): A case study of an Indonesian family-owned University

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Abstract

This paper reports on the results of a case study of management controls in an Indonesian family-owned University. The paper attempts to understand the nature and dynamics of management controls in the operations of the University. Data for the analyses are gathered from multiple sources including document analysis, observations and semi-structured interviews. The findings of the case study showed that culture and social relations are very instrumental in the management of the University [Ansari, S. L., & Bell, J. (1991). Symbolism, collectivism and rationality in organizational control. Accounting, Auditing and Accountability Journal, 4(2), 4–27]. Decisions such as recruitment, rewards, performance evaluation, and resource allocations are often made in cognizance of social and cultural factors. The strong influence of culture and social relations in the organization thus made formal management controls less relevant. These findings have implications for understanding management controls in FOBs especially in the developing world.

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1. Introduction

The study stems from an interest in family-controlled business and the role of controls therein. The paper attempts to elucidate the nature and dynamics of management controls in family-owned businesses (FOBs) especially in the context of a less developed country (LDC). It reports on the results of a case study on management controls in an Indonesian private University owned by two Javanese families. The study is motivated by the lack of research on management control issues in FOBs, particularly in LDCs (Ansari and Bell, 1991; Chan, Lew, & Tong, 2001). The paper contributes to the emerging management accounting literature in LDCs (Uddin & Hopper, 2001, 2003).

The importance of FOBs in the economies of both the developed and the developing world has been extensively discussed in the literature (Astrachan & Shanker, 2003; Corbetta, 1995; Klein, 2000; Poza, 1995; Shanker & Astrachan, 1996). In this study, family-owned business is defined as a business owned and run by members of one or two families

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(Stern, 1986, p. xxi). According to Narva and Dreux (1996) family-owned businesses can be for-profit or not-for-profit, foundations or investment groups (hence family-run educational institutions fall under the ambit of FOBs).

The proportion of businesses broadly classified as FOBs varies from country to country. In Indonesia, it has been reported that FOBs contribute as much as 82% of the country’s GNP (Faustine, 2001). In a recent study, Carney and Gedajlovic (2002) also emphasized the increasing role of FOBs in Indonesia and other South East Asia economies. These FOBs are located across different industries such as manufacturing, retailing, banking, and education. Private family-owned Universities are central to the development of higher education in Indonesia and in other Asian economies. Altbach (2002) argued that while only 20% of U.S. enrolments are at private colleges and universities, in several Asian countries (including Indonesia) the figure is as high as 80%. The author noted that: “Many [Asian private universities] are owned by individuals or families, sometimes with a formal management that masks the controlling elements of the school’s governance structure. This pattern of family-run academic institutions has received little if any attention from analysts, although it is a phenomenon of growing importance worldwide even in countries that do not encourage the establishment of for-profit higher education institutions” (p. 10). The majority of the FOBs in Indonesia are owned by the Indonesian-Chinese minority. However, recent years have seen the emergence of indigenous Indonesian Javanese as FOB entrepreneurs. As argued by Rademakers (1998), the extant literature on FOBs in South East Asia (including Indonesia) is dominated by the ‘Chinese family business’ (CFB) management system which has been found to be distinct from other similar business systems such as the Korean chaebol and the Japanese keiretsu and sogo sosha (see also Whitley, 1992). Little empirical evidence is therefore available on managerial issues in indigenous Indonesian FOBs. Thus, the paper examines the following research issues:

1. Dynamics of management control processes in a family-owned business.
2. The influence of societal culture on management control processes.

Controls can be formal or informal. Formal controls consist of high levels of output and process controls such as budgeting, performance measurement, incentive systems and other administrative roles. Informal controls consist of high levels of professional and cultural controls such as laws, norms, ethics, etiquette, and customs, which define behavior. While both types of controls may be present in organizations (Jaworski, 1988) the use of informal controls have been found to be more prevalent in developing countries (see for instance, Ansari & Bell, 1991; Dean, 2001; Hoque & Hopper, 1994). Control processes in our paper refer to formal functional roles within the organization including budgeting, performance measurement, incentive systems and other administrative roles and also informal processes designed to achieve organizational objectives.

We are particularly interested in how these formal roles are achieved via informal processes and the way in which the larger cultural context mediates these roles (Ansari & Bell, 1991). Very few accounting studies, especially in the context of LDCs, have studied management controls in a family-owned business. In a recent study, Chan et al. (2001), examined how management controls operated in two eminent family Chinese households during the 18th century. The authors presented evidence to show that accounting was implicated in the decision-making of the families. One of the most detailed studies conducted on management controls in FOBs is that of Ansari and Bell (1991). Using a longitudinal case study, the authors investigated the influence of societal culture on the accounting and control practices of a Pakistani FOB. The findings of this study suggest that in addition to the rational economic view, the design of accounting and control systems in the organization could be explained from a cultural perspective.

This paper draws heavily on cultural perspectives of control, given the importance of various cultural and societal values on controls in LDCs’ enterprises (Brewer, 1998; Dean, 2001; Gray, 1988; Harrison, McKinnon, Panchapakesan, & Leung, 1994; Lau & Tan, 1998; Pourjalali & Meek, 1995; Wickramasinghe & Hopper, 2005). It was felt that management control processes were best studied by applying cultural perspectives (Pourjalali & Meek, 1995; Wickramasinghe

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3 Shanker and Astrachan (1996) provided three different categorizations of FOBs. First, the broad definition recognized an FOB as a business that the effective control of strategic direction remains in the family though there is little direct family involvement in the running of the business. The middle definition recognized an FOB as where the founder/descendants have legal control of voting stocks, run the business and there is some family involvement in the running of the business. The narrow definition construed an FOB as where the family is directly involved in running the business with more than one owning family member having a significant responsibility and also a lot of family involved.

4 It is interesting to note that 80% of the Indonesian Economy is controlled by the Indonesian-Chinese. They represent only 2% of the total population. Indonesian-Javanese represent 80% of the total population but only control fewer than 20% of the economy.
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