

Ethnomethodology Study:

Employee Loyalty as a Strategy for Building Internal Control in Retail Business

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Abstract—This study aims to explore the meaning of internal control practices applied by management in carrying out its business operations. The study was conducted at a supermarket engaged in retail and has a mission to run an Islamic business system. This study uses ethnomethodology to understand daily internal control practices in all parts of supermarket operations. Data collection is done through in-depth interviews, documentation and observation. The stages of research analysis are data reduction, data presentation, indexicality, reflexivity, and conclusion drawing. The results showed that the mission of supermarkets is to run an Islamic business as an umbrella strategy in existing internal control practices. Through this mission, one of the company's focuses is building and maintaining employee loyalty. The retail business relies heavily on the presence of employees, ranging from merchandise purchasing activities, receipt and storage of merchandise to service to consumers. Employee loyalty will encourage companies to always provide the best for consumers. This has become one of the keys to the company's success in maintaining business continuity).

Keywords: *Islamic concept, internal control, employee loyalty*

I. INTRODUCTION

Internal control is needed for the organization to ensure business continuity. This has been proven through the following studies. Shanmugam et al. concluded that the unconsciousness of business people, especially in small and medium businesses in Malaysia, about the importance of internal control, has an impact on poor business performance [1]. As a result, the growth of SME businesses in Malaysia is at risk of bankruptcy. The research objectives of Shanmugam et al. to build public awareness, especially business owners, about the role of internal control in the business life cycle [1]. Small businesses are expected to pay attention to the existence of internal controls to protect their assets and reduce the risk of fraud.

Jiang and Li [2] and Mardi [3] show that each organization faces a risk of threats from external and internal parties. Threats can be in the form of fraud or interference will have a negative effect on the survival of the organization. For this reason, it is absolutely essential for every organization to build internal controls that are appropriate for the organization and planned. The practice of internal control will be different in each organization. These conditions encourage investors and

companies to focus on internal control of the organization given the increasing risk of fraud.

Retail is a business entity that distributes goods / services to consumers, usually selling retail. The retail industry is an industry that sells products, including nine basic needs, to meet personal or family needs, as end users. Retail has an important role in distribution, because in addition to providing added value to the product, for example by using the product tutorial, it also has the role of promoting certain goods, namely by having various product advertisements displayed in the store area. At first glance retail is very simple in appearance, but in fact the role of retail is very dominant because it requires a detailed and careful process so that everything can go according to the system [4]. The guarantee that a detailed and accurate process can run according to the system is not dependent on the application of internal control in each retailer. The need for internal control varies according to the characteristics of the environment and the company [5].

The phenomenon of previous research shows that companies that are supported by proper internal control will help ensure the continuity of the company's business. The practice of internal control using the Islamic perspective approach is applied to Islamic banking [6]. The research of Octariana and Suryandari was conducted by looking at the synergy between religious teachings and internal control [7].

The previous research became an inspiration for researchers through initial observations. That a supermarket based in Rawamangun, East Jakarta has managed to maintain its existence for 39 years. TT supermarkets are supermarkets owned by local entrepreneurs and are able to survive until now from the onslaught of retail business competition. Currently, it has successfully expanded its network to 8 outlets spread across the Greater Jakarta area.

TT Supermarket's success in maintaining the existence of its business, competing with other retail businesses is an inspiration to uncover its internal control practices. What are the internal control practices at TT Supermarket?

This research is expected to contribute in the form of evidence of how the understanding of internal control is seen from the subjective meaning of the actors in their daily practice. Overall, a comprehensive understanding of internal control practices at TT Supermarket will be obtained. This

research is also expected to make a theoretical contribution by broadening studies in the field of accounting in general through a socio-cultural perspective in order to develop a conceptual framework of internal control.

II. LITERATURE REVIEW

Based on the history of the development of internal control from the 1930's until now, showing that the existence of internal control in an organization or company is important. This is indicated by the demand to develop an internal control framework in line with changes that occur in the company and its business. The research states that internal control must be part of every company's risk management [8]. An internal control applied must be in accordance with organizational culture and proportional to the size of the company. Therefore, when internal control does not meet the needs of the company, it will have a negative impact. For example, internal controls that are too strict in reporting requirements with long procedures will cause a lot of tiring and troublesome work for the company. Similarly, internal controls that are too hierarchical can often slow down the process, so that it will have an unfavourable impact on the company.

The research, Saarni stated that the existence of internal control had a role in ensuring that the company's goals would be achieved [8]. So having internal control is a natural part, and becomes a necessity, for the organization's operations. Likewise the head of a consultant believes that internal control must add value to the organization and improve its operations. The real form of the role of internal control for the organization is that control enables it to provide high-quality services globally, establish principles of operating standards and how to work efficiently in accordance with policies and guidelines, and keep employees abiding by applicable internal regulations. Finally, internal control enables accurate, relevant and timely reporting. So the important thing for companies is to find appropriate internal control practices in order to create added value and improve company performance.

In Indonesia the existence of the application of internal control, one of which refers to the Indonesian Institute of Certified Public Accountants (IAPI). IAPI defines internal control as a process carried out by the board of commissioners, management and other personnel of the entity - which is designed to provide adequate confidence regarding the achievement of the following three categories of objectives; reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations [9]. Based on this definition, it shows that Indonesia is more using the COSO version of the internal control approach.

Furthermore the Professional Standards for Public Accountants 31 March 2011 also explained that the internal control component consisted of five interrelated ones, namely; control environment which is the basis for all components of internal control, provides discipline and structure, risk assessment is the identification of entities and analysis of relevant risks to achieve its objectives. The forms a basis for determining how risks must be managed, control activities are policies and procedures that help ensure that management

directives are carried out, information and communication are the identification, capture, and exchange of information in a form and time that enables people to carry out their responsibilities. Finally, monitoring is the process of determining the quality of internal control performance over time. The synergy of each component above will form a comprehensive internal control in order to achieve the objectives of internal control [9].

III. METHODS

The application of internal control in the TT Supermarket is a unique practice imbued with cultural and religious values in everyday life, where the company operates. Ethnomethodology approach is considered appropriate, considering ethnomethodology is one approach from the branch of sociology and is a family of qualitative research.

Adams and Larrinaga explained that in the current era researchers must focus on entering and becoming involved in the organizations under study, in other words, they cannot just research and see from outside the organization [10]. In this study, researchers will be involved in the site in their efforts to explore the meaning of internal control practices. This is in accordance with qualitative research, namely research relating to human understanding of social reality. Understanding of social reality can be interpreted from various points of view; an understanding of the mindset and viewpoints of others, an understanding of what other people feel, including an understanding of a particular community in a natural setting.

Understanding as explained above is an attempt to reveal the *noumena* behind the phenomenon that human actions / behaviour can actually be seen in two realities, as stated by Immanuel Kant (1724 - 1804) in *The Critique of Practical Reason* [10]. The two realities in question are the reality of the world of phenomena and the reality of the world of *noumena*. The world of phenomena is what we can see and feel with the five senses so that it is easy to study because of its rational nature. Conversely the world of *noumena* cannot be approached empirically because it is not something that is physical or empirical, but must be revealed through understanding or interpretation.

This research is in line with this thinking that the practice of internal control at TT Supermarket is not limited to understanding what can be seen and felt or observed, such as the existence of an organizational structure, standard operational procedures or related documents. But more than that, this study seeks to uncover the behind the practice of internal control, understand the behaviour or actions taken on the site related to internal control built by the owner. Next, the researcher will re-explain the motives and actions of the actors to provide a systematic picture of reality [11]. This is what will become a prefix to produce a new concept of internal control system. It is an advantage in qualitative research that the study of similarity is needed but the study of differences (uniqueness) that exists is preferred.

A. Ethnomethodology Data Collection Procedure

Researchers in ethnomethodology research can use a research model approach with three stages and ten steps. The

first stage is the introduction phase of the field, the second stage is the stage of field research and the third stage is the stage of research reports.

1) *Field introduction stage*: There are three steps that researchers must take in this initial stage. The first step is general observation which aims to find out in general the reality that occurs in the field which is the location and subject of ethnomethodology research. The second step is to conduct public or open interviews with prospective research subjects with the aim of getting to know more deeply the daily lives of people who are groups of research subjects. The final step in this stage is to determine the research subjects / informants. This step determines the informant and subject of the study, after the researcher previously determines the focus of the study.

2) *Stage of data collection and analysis in the field*: The second stage which is the stage where researchers conduct real field data collection. At this stage consists of five main steps. The fourth step is the step where the researcher conducts participatory observation and focused interviews. Then followed by the steps to describe and check the validity of the data. In-depth interviews in the form of dialogue or Focus Group Discussion also need to be conducted on groups of research subjects.

The next step is to find themes based on ethnomethodology data findings through substantial, thematic or coding analysis. Based on the themes found, an understanding of the group of research subjects was obtained in order to develop a new theory / proposition.

3) *The stage of preparing the research report*: There are two steps in this stage namely, discussing new propositions with existing theories. Then the final step is followed by writing an ethnomethodology research report.

IV. RESULTS AND DISCUSSION

After the text edit has been completed, the paper is ready for the template. Duplicate the template file by using the Save As command, and use the naming convention prescribed by your conference for the name of your paper. In this newly created file, highlight all of the contents and import your prepared text file. You are now ready to style your paper; use the scroll down window on the left of the MS Word Formatting toolbar.

A. *Building Internal Control through Employee Satisfaction*

In the retail business, human resource management contributes greatly to improving company performance and creating competitive advantage. The customer's shopping experience at the store is largely determined by the quality of the employee in selecting merchandise, the skill of displaying the stock of merchandise on display shelves, and his ability to provide information and services. According to Utami, human resource management in retail business is very different from business and companies in general [12]. Matters that differentiate include:

- Employee working hours are different from the company in general.
- Focus on cost control because the contribution of employee costs is quite large on the total cost of the store as a whole.
- Different demographic factors for workers.

The career opportunities in the retail business are various, namely; retail manager, sales clerk, cashier, head of warehouse, purchasing, manager, customer service, security officer, room manager (indoor and outdoor), personnel manager, financial manager, shipping department, and so on. Basically every employee plays an important role in carrying out the job function properly.

According to Simons in this case internal control is needed as a boundary system, namely, internal control has a role to help employees act ethically by establishing boundaries in staffing behaviour [13]. As well as an interactive control system (interactive control system) that is, the existence of internal control helps managers to focus attention on subordinates related to major strategic issues and is always involved in subordinate decisions. The interactive control system is able to interpret and discuss data in meetings of superiors, subordinates and partners. Internal control is built so that it can act as a boundary system and interactive control system, so as to optimize the management of human resources in the retail business.

B. *Compensation Satisfaction*

The company has a mission to run an Islamic business, management prioritizes employee satisfaction for compensation issues. Regarding the compensation policy, Rasulullah taught that employees are part of the employer's family. The concept teaches how he cares deeply about the lives of employees both inside and outside the work environment. Employees must meet the needs of clothing, food and shelter. As well as in his saying, "Give the salary to the worker before his sweat dries and tell the salary requirements, to what is done".

This teaching became one of the philosophical views of the founder of TT Supermarket, late. H. Roesman has revealed in the interview with his son as the current Board of Directors. Mr. H. Roesman always stressed that everyone in the company is a family, so like a family, all the fun and difficulties must be felt together. Therefore he always tried to be close to every employee. He would go around to each section in turn to just talk about health, family conditions at home and work development every day.

The statement was justified by several informants who stated that generally employees at the TT Supermarket felt a family atmosphere within the company. Likewise with the level of compensation they receive, basically employees feel fulfilled. Even according to them, the level of compensation they receive is higher than workers in other similar retail businesses.

Satisfaction in compensation is what drives employees to pay special attention to their respective jobs. Employees will work earnestly using all their abilities and strengths. As a result, the company will develop in a favourable direction, both for employees and their leaders. Basically, this factor is one of the successful implementation of internal control in the company.

C. Spiritual Satisfaction

The leadership of the company also realizes that it is incumbent on Muslim entrepreneurs to create good communication with employees and to foster Islamic spirit regarding issues of *Tawheed*, Faith, worship and always learn to increase professionalism in *muamalah* (business). This awareness is demonstrated by building a comfortable environment for all employees to exercise freedom of worship both obligatory worship and *sunnah* worship.

Employees are given freedom in carrying out their five-time prayer obligations. Even employees are also allowed to do the Sunnah Duha prayer. Not only the obligation to pray. The company also holds a study of Tahsin every workday before the store opens. While Saturdays are usually filled with lectures from outside lecturers. The implementation of this study in addition to being a spiritual splash is also a place to build friendship and kinship among employees.

The results of interviews with informants stated that they were very grateful for the environment. Besides getting satisfaction in terms of compensation, they also get spiritual satisfaction. So that in addition to being met material needs, employees feel at ease in working. They say that when working honestly and sincerely, they get blessings, and the company will get blessed results.

Employee satisfaction that has been successfully built by the company encourages employee loyalty. Employees generally have a working life of more than 5 years, some even have more than 20 years. This shows the high loyalty of employees at the company. This loyalty is the basis of the strength of the implementation of internal control. The existing atmosphere encourages strong motivation, positive thinking and other traits that support business operations going forward.

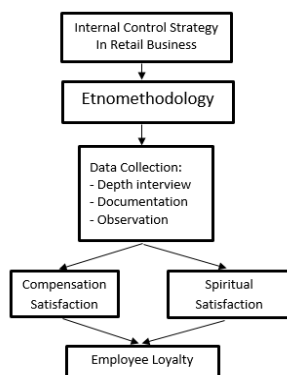


Fig. 1. Research model.

V. CONCLUSION

Internal control is important for retail companies in an effort to encourage the achievement of company goals. The existence of internal control is synonymous with costs and risks. The tighter internal controls, the more expensive the costs involved to implementation these controls, but the smaller the risk of control failure. Hence, strengthening employee loyalty is one of the effective strategies to build internal control without expensive costs.

Employee loyalty in retail business is the main thing that is important for the implementation of internal control. Employee loyalty at TT Supermarket is built through compensation satisfaction and spiritual satisfaction. Compensation satisfaction encourages employees to work seriously by mobilizing all their abilities and strengths. This is as a feed back to the company for the compensation they received.

Spiritual satisfaction is built through freedom and company support for employees in practicing worship. The company provides facilities to carry out religious activities. This encourages employee morale and ethics, which is the main thing for the realization of strong internal control.

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