

# Management Control System and Organizational Culture, Which One Has Stronger Influence on Employee Commitment?

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## ABSTRACT

This study aims at investigating which Management Control System and Organizational Culture that has stronger influence on Employee Commitment on manufacturing companies in Indonesia. Also, this study aims at finding out whether Organizational Culture is capable of mediating the Management Control System impact of Employee Commitment. Researchers use the primary data approach through a survey-based questionnaire to gain data from manufacturing companies operating in Indonesia. The study population is manufacturing companies both public and non-public companies operating in Indonesia with a total sample of 47 respondents. This study used Structural Equation Model (SEM) technique which would be analysed by WarpPLS software. The result of this study shows that the Management Control System is stronger in influencing the Employee Commitment than Organizational Culture on manufacturing companies in Indonesia. Furthermore, the Organizational Culture is capable of mediating the impact between Management Control System and Employee Commitment. The result of this study contributed to fill in the literature gap related to Management Control Systems and Employee Commitment. A positive Organizational Culture can also help to increase employee commitment by acting as a mediator. This is the first study to examine the strength of the connection between the management control system and the organizational culture of employee commitment in Indonesian manufacturing companies.

**Keywords:** Management Control System, Organizational Culture, Employee Commitment.

## 1. INTRODUCTION

Employees are the most important and valuable asset (human assets), which need to be organized and maintained [1]. Companies nowadays no longer consider their employees as production equipment but as social and psychological entities who role in elevating the employee's morale and motivation [2]. On the contrary, when the employees are not considered as an asset, various critical issues will arise, such as the problem of employee satisfaction levels, the high level of employee turnover, and the issue of employee commitment to the organization [3]. If a company wishes to relieve various negative issues related to employees, then the company must pay attention to its employees [4]. In this case, a

company must be able to understand individuals' behaviour in the organization so that employees are easily motivated and directed to their responsibilities [5].

In the organization itself, employees are considered agents and owners as principals. An agent is assumed to have more information than the principals, which certainly can cause a conflict of interest between the two, and this is what differentiates their behaviour from the organization [6]. The existence of this theory is able to assist organizations in implementing various control mechanisms that are useful for principles to control agent behaviour [7].

The previous study shows how employee commitment holds an important role in the company's

success [8], [9]. According to [10], [11], employee commitment is a psychological condition where employees feel bound to the company and capable of increasing the organization's effectiveness through great motivation and a will to reach the organization's goal. Meyer and Allen [11] divided employee commitment into three types: Affective commitment, Normative commitment, and Continuance commitment. A high Employee Commitment and low retention rate signify a company can control the employees precisely and suppress critical issues so that the company will be more stable and grow faster [12].

A company must have a precise control system to manage employees, especially to suppress various commitment issues at hand. In this case, a company needs a comprehensive Management Control System which is desired to guide and direct employees [13], particularly in increasing employee involvement and commitment [14]. Whitley defines a management control system as “[. . .] ensuring that work activities and sub-units fulfilled top managers’ objectives and provided the information and systems to enable the managerial hierarchy to correct any deviations from established plans” [15]. Whitley in his literature develops a management control system concept from the comparative sociological side and differentiates four types of a control system; bureaucratic, output, delegated, and patriarchal [15]. According to the literature in the field of management accounting and controls, a management control system is essential to justify employee commitment. [16]. The use of a management control system in the organization which is in line with the availability of communication channels and the effectiveness of information management will be able to influence individual behaviour and increase commitment within the organization [14]. Moreover, the use of the control element is directed to overcome problems such as lack of direction or motivation problems or that also have an impact on employee commitment issues [17].

On the other hand, organizational culture also naturally takes an important part in employee commitment [18]. Cameron & Quinn [19] defines organizational culture as a thing that represents how the condition is going on in an organization, describes the identity of employees, and as an unwritten guide on how to get along in an organization that can increase the stability of the social system. One of the measurement instruments of organizational culture is Organizational Culture Assessment Instrument with CVF Framework base on Cameron & Quinn [19]. That model is divided into two intersecting orthogonal axes and form four quadrants, which consist of culture clan, adhocracy, market, and hierarchy.

Organizational culture is capable of role as a reference value that can deal with human resource problems in carrying out obligations and behaviour in the

organization [20]. An organization which oriented to constructive culture will encourage more emotional bonding and high enthusiasm among employees so that employees perceive that there is a high risk of leaving the organization [21]. A company that wishes to increase the commitment must give extra effort in creating a strong organizational culture [18].

Implementation of a precise management control system in an organization strengthens the organizational culture [22]. Birnberg [23] also stated that control has a close relationship with the culture in the company. The relationship between management control systems and organizational culture is needed in increasing employee commitment. Management Control System is a bureaucratic control tool capable of providing formal procedural direction on how a job should be completed and a structured workflow [15], [24]. Also, in the organization naturally, there is a flow of information through communication. With a structured workflow resulting from the implementation of the Management Control System, the information flowing between employees is also clearer and more complete [25]. The existence of complete information helps employees know what to do, to trigger increased focus and employee commitment to the task [26]. A management control system which is applied in the organization can direct employees behaviour, where if employees are not able to fulfil the standard of the applied control system, as the result they will find difficulty in staying in the company or other words, they are filtered out of the organization [24].

*Organizational Culture* itself represents the situation pictured in the organization and the identity of employees which consists of a collection of behaviours from members of the organization [19], [27]. Therefore, when the management control system can control and filter out employee behaviour, it will create a strong culture in the organization, which is in line with the control system design implemented [22], [23]. Culture also impacts the level of commitment of employees [18]. A company with a strong culture will attract individuals who feel that the culture of the company is corresponding to their values and life views because every individual has high self-esteem for their membership status [28]. Employees who appreciate and are proud of the culture will be motivated to stay in the organization, they even feel aggrieved if they have to leave their job at the company [21].

## **2. METHODS OVERVIEW**

This study is a quantitative study using primary data based on questionnaires, which is arranged using a 5-point Likert scale approach. The study population is companies engaged in the manufacturing sector in Indonesia. Non-Probability Sampling is used in this study, by considering sample criteria as follows: (i) has registered website and e-mail, (ii) website and e-mail

must be valid, (iii) the company returned the questionnaire to the researcher. A total of 47 samples were obtained based on these criteria. The data obtained in this study were processed using the analysis of the structural equation model. *Structural Equation Modelling* (SEM) is a statistical model which explains the relationship among variables [29]. Researchers also applied validity tests, reliability tests, and multivariate analysis tests with the help of the WarpPLS software.

The convergent and discriminant validity was used to assess the validity test in this analysis. When the P values for loadings are equal to or less than 0.05, and the factor loading is equal to or greater than 0.5, convergent validity is sufficient. On the other hand, discriminant validity of a measurement model can be accepted when the loading value of each indicator is greater than the cross loadings [30], [31]. After completing the validity test, the measurement model must go through the reliability test stage. Reliability test would be accepted if the value of composite reliability and Cronbach's alpha is bigger than or equal to 0,70. If it does not reach this value, the indicator must be removed from the measurement [30], [31].

### 3. RESULT & DISCUSSION

A total of 49 questionnaires were successfully obtained, but only 47 respondents met the criteria for further investigation. Based on the data processing listed in **Table I**, it was found that all variables have alpha > 0.7, which means that the measurement model in this study has passed the reliability test. On the other hand, it was found that the VIF coefficient of all variables was below 3.3, which indicates that there is no multicollinearity problem in the model and there is no general method bias. [32]. Therefore, each item in this research questionnaire proved worthy of being used as a research measurement tool.

**Figure I** shows the SEM model used in the following study. The strengths between variables connected to each other by arrows are indicated by the beta coefficient ( $\beta$ ). All relationships between variables showed a positive and significant relationship, with p value <0.05.

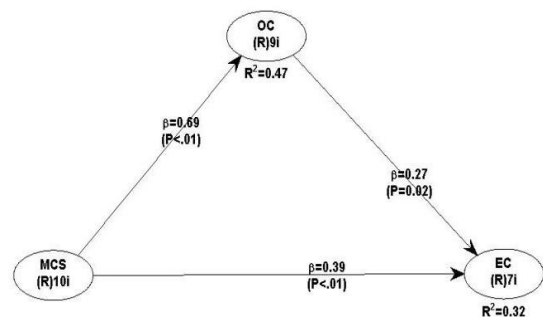
**Table I. Reliability and Collinearity Values**

	MCS	OC	EC
R-squared		0.474	0.321
Adj. R-squared		0.463	0.290
Composite reliability	0.908	0.890	0.930
Cronbach's alpha	0.887	0.860	0.910
Average variance extraction	0.499	0.476	0.656
Full collinearity VIFs	1.847	1.942	1.216

Source: Primary Data Process (2021)

The result of the study shows that Management Control System and Employee Commitment are related positively and significantly in the manufacturing company operating in Indonesia ( $p=0.01$ ), which means that it supports H1. This finding supports a study from Gómez-Ruiz et al. [14], which states that the right management control system design can increase commitment in the organization. The existence of regular communication from the use of an interactive management control system can affect social identity in commitment. H2 is also fulfilled, where the result shows positive and significant relationship ( $p<0.01$ ) between Management Control System and Organizational Culture. This finding is in line with the research done by Nurwati [22], which states that the Management Control System with adequate monitoring can strengthen Organizational Culture in cooperatives in Southeast Sulawesi. Control is also closely related to the culture and values and norms of the company [23]. Furthermore, H3 is fulfilled by the existence of a positive and significant relationship ( $p=0.02$ ) between *Organizational Culture* and *Employee Commitment*. This also supports the research results of Aranki et. al [18] and Okechukwu Agwu [33] where it is true that there is a positive relationship between *Organizational Culture* and *Employee Commitment*, where *employee commitment* will increase if the company has a strong culture, and employees tend to be more committed to organizations with positive cultural values. Also, through **Figure I**, it is found that Organizational Culture is proven to be able to mediate the relationship between Management Control systems and Employee Commitment. ( $p=0.027$ ), therefore it can be said that H4 is fulfilled.

**Figure 1. Inner Model Test Result**



Source: Primary Data Process (2021)

With **Table II** it can be seen that Management Control System has a more dominant impact on Employee Commitment compared to Organizational Culture. Also, the indirect relationship between the two variables is found to be significant and positive, which means that Organizational Culture can act as an intervening variable between the Management Control System and Employee Commitment.

Organizational culture capabilities in increasing employee commitment are highly dependent on the management control system implemented in the company. A constructive organizational culture impacts employee commitment positively when the organization can present a culture that is in line with the values and views of individuals in the organization. Culture itself is built on individual behaviour in the organization, which needs to be formed through a control system such as a management control system. The management control

system can give direction on how to act and behave in the organization for achieving the organization objective so that indirectly, these directions can shape individual behaviour and strengthen organizational culture. When a company fails to implement a proper management control system, a strong culture will also be difficult to form because the company runs with unclear directions, making it difficult to create a high level of employee commitment.

**Tabel II. Correlation Among Latent Variables**

	<b>Direct Effect</b>	<b>Indirect Effect</b>	<b>Total Effect</b>
MCS → OC	0.689 (p<0.001)	MCS → OC → EC 0.189 (p=0.027)	0.474 (p<0.001)
MCS → EC	0.388 (p=0.002)	-	0.388 (p=0.002)
OC → EC	0.274 (p=0.021)	-	0.274 (p=0.021)

Source: Primary Data Process (2021)

#### 4. CONCLUSION

The findings indicate that both the Management Control System and Organizational Culture have an important and positive impact on employee commitment. However, the Management Control System has a stronger influence on Employee Commitment compared to Organizational Culture. Also, it was found that Organizational Culture was able to mediate the relationship between Management Control systems and Employee Commitment.

The establishment of organizational culture itself cannot be separated from the existence of the country's culture. There is a country culture that is very dependent on the hierarchy, tends to be collective, competitive, avoiding uncertainty, and more tolerant to the future [34]. Different country cultures will certainly form a different organizational culture. For example in Indonesia, the country's culture tends to be hierarchical, collective, and averse to uncertainty [35]. Thus, companies operating in it tend to have the same cultural style, where most companies in Indonesia tend to uphold a family culture and are very structured. This situation can be a suggestion for further research, with testing the same model by multiplying and expanding the coverage of samples from other countries.

By simultaneously investigating the relationship among the variables above, this study will fill a void in the literature. Furthermore, the following research results

also have important implications for companies in the manufacturing industry in Indonesia, by providing additional insights for superiors in the organization to pay more attention to the implementation and application of the Management Control System within the company for increasing employee commitment levels. Furthermore, this research may serve as a catalyst for the potential growth of management control system literature.

This study has limitations on sample variation, where most of the data are only from the non-public manufacturing sector. Also, the number of samples obtained was limited, namely, from a total of 49 questionnaires, only 47 data met the criteria for further processing. The following research also only tested one analytical model without providing specific characteristics.

#### AUTHORS' CONTRIBUTION

Conceptualization Research Model & Theoretical Framework by D. Data collecting, processing & Analysis by MI. The full manuscript has been read and approved by the author.

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