



Levers of Control Management Control System and the Company Competitiveness

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Abstract. A management control system (MCS) is one crucial element that supports a company in undertaking its formulated strategy. This research aims to investigate the role of MCS in maintaining or improving the company's competitiveness through its strategy. This research design is a qualitative case study of a family-owned restaurant in Indonesia as the research object. This study carried out interviews with the key actors, observations of operational activities, and relevant document analysis as the data collection methods. The findings in this study depict the prominent role of all four elements of the levers of control in supporting the strategy implementation and facing the disrupted environment during the pandemic, especially in strengthening the employee's commitment and governing their behaviors. However, well-documented and written rules are necessary for better control and competitiveness. In qualitative research, the not-for-generalization findings become the study limitation on the one hand but open the opportunity for further study in other contexts.

Keywords: Levers of control · family-owned restaurants · management control system · company competitiveness

1 Introduction

The Covid-19 pandemic outbreak has disrupted the business process of many organizations, including family businesses in the culinary industry. In this sector, the daily revenue dropped by 37% during the pandemic, which forced many family-owned culinary companies to shift their strategy to survive [1, 2]. *Warta Ekonomi* revealed that the culinary business was the sector that suffered the highest impact from the Covid-19 pandemic. Tighter government regulations to address the pandemic have impacted these companies' operational costs [3]. The culinary business was a significant contributor to the creative economy sector in the Indonesian context. According to the Ministry of Tourism and Creative Economy Database, culinary business was the dominant business with a significant contribution to the national GDP in the creative economy sector in 2016. Moreover, the culinary sector has absorbed the highest number of labors since 2010 [4].

The disruption caused by the pandemic situation has brought about changes in the control problems faced by many companies, and many changes happened had altered the

business and working environment [3, 5–7]. The changes in the business environment have led to strategy changes. Theoretically, changes in the business environment and company's strategy mean that there will be changes in what is likely to happen and what is desired that might lead to the changes in the implemented MCS [8].

The family business survey report by PwC elaborated that amongst the Indonesian family businesses, 44% of them depended upon a single dominant leader, especially in the decision-making process. Tsang in Senftlechner and Hiebl [9] explained that centralized MCS positively supported the family business. However, the disruption during the pandemic might change the situation, making the centralized MCS no longer relevant. Hence, this study aims to deeply investigate how the MCS could support the company's competitiveness, especially during the pandemic situation in the culinary family business context. This article is organized into four sections. The following section elaborates on the review of relevant literature in MCS research. This section also explains the theoretical framework used to discuss the findings. The third section of this article contains the research design explanation. All findings and theoretical discussion of the findings are presented in the fourth section of this article. The conclusion section closes the article and presents the answer to the research question, the research limitations, and further study opportunities.

Merchant and Van Der Stede [8] viewed MCS as the control to ensure all members' decisions and behavior congruence with the organizational objective and strategy. Therefore, MCS should address three fundamental control problems: personal limitations, lack of directions, and motivations. In designing MCS, it is vital to continually evaluate the current situation, answering the question of what is happening and the organizational desired situation or objectives. Further evaluation of the existing MCS is required if any changes to one of these two aspects occur.

Simons [10] elaborated the MCS into four elements of levers of control. The first element is a belief system that will direct the organization and its members towards the destined objective through basic values, beliefs, and culture. The second element is the boundary system that sets limits on unwanted behavior. The third element is diagnostic control for monitoring and controlling performance and ensuring everything is on track. The fourth element is the interactive control system to stimulate organizational learning and the emergence of new ideas.

These days, many studies focus on the MCS design in correlation with the changing internal and external conditions. Some studies have revealed the internal organizational dynamics and the key actor's role as the significant contributors to factors shaping the MCS design [11–14]. The change of managerial regime with different experiential and educational backgrounds could become a prominent factor in the MCS changes [15] as well as the strategy change [16] or the system change (such as the implementation of Activity Based Cost Management or ABCM) [17]. Apart from the studies that focus on the internal aspects, some external aspects, such as the more powerful stakeholders and the industrial competition dynamics, affect the MCS design. O'Connor, Vera-Muñoz, and Chan [18] elaborated on the effect of industrial competition elements on the MCS design. The industrial competition situation is prominent in formulating the strategy by which the MCS design is formulated. However, there is limited knowledge about the MCS changes in a disaster, such as the pandemic situation that might lead to the changing in the working

environment and industrial situation. Some scholars have revealed that the changes in the working environment caused by the Covid-19 pandemic have led to the changes in MCS design [6, 7]. In disaster situations such as the Covid-19 pandemic, Passetti *et al.* [19] stated that necessary changes should be undertaken upon both mechanistic and organic controls.

Insofar, the studies still lack knowledge of developing countries' context during the Covid-19 pandemic time. The existing studies from Ezizwita and Sukma [3] and Septiningrum [5] were more focused on the strategy change during the pandemic but lack of evidence on the role of MCS. Although studies such as Hertati and Safkaur [20] and Safkaur [21] discussed the accounting system and cost management changes during the pandemic, the role of MCS in these investigations is still understudied. Moreover, studies on small family-owned companies during the pandemic were still understudied, although this sector contributes significantly to the economy, especially in the culinary business.

2 Research Methods

This research was designed as a qualitative case study to gain a deeper understanding of the investigated phenomenon. Moreover, Yin [22] stated richer theoretical understanding of the empirical findings could be reached through a case study. However, generalization becomes the weakness of this study since the findings and conclusion of this qualitative research cannot be merely used in the other context.

A family-owned restaurant in East Java province in Indonesia called ABC was selected as the case study object. The object fits with the research gap regarding a small family-owned company in the culinary business. As the case study object, ABC provides the empirical evidence necessary to answer the research question.

The data were collected through interviews, observations, and relevant document analysis. The collected data included the managerial function activities following Pelz's [23] framework: planning, organizing, controlling/evaluating, and decision-making activities. Ten people have been interviewed, ranging from the owner, operational manager, cashier, and other employees. Observations were conducted upon operational activities in several key areas. However, the observations' duration and frequency were limited due to the pandemic. Although there were no written standard operating procedures, the analysis of documents of transactions such as invoices, cash register, and inventory documents was conducted. Furthermore, the collected data from each data collection method were cross-checked as an important triangulation action to avoid data bias. All the data were collected from July up to August 2021.

3 Results and Discussion

ABC is a family-owned restaurant located in P town in Indonesia that was firstly established in 2003. During the Covid-19 pandemic time, ABC currently has 22 employees, while it used to have 91 employees. To date, the restaurant's capacity is 500 people. ABC restaurant is in a strategic location and has aimed the tourists as the main customers. It

serves a wide range of menus from Chinese and other traditional Indonesian foods and beverages.

ABC did not have a formal and well-documented organizational structure as a family-owned restaurant. The owner leads the company. Based on the interview with the owner, he is supported by an operational manager responsible for managing the whole operations divided into six divisions: waiter, cleaning service, security, warehouse, garden, and kitchen divisions, each division led by captains. The captain in each division is responsible for managing several members in their division. From the organizational perspective, no written organizational structure existed; nevertheless, ABC restaurant's chain of command was well maintained. The division manager is responsible for the performance of his or her subordinates. Moreover, there are no documented job descriptions that elaborate on the responsibilities of the managers and the operational employees. In addition, there were no documented standard operating procedures (SOP) that supported the standardized operational activities.

On the other hand, the key actors have consistently exerted managerial functions. The planning process was informally conducted by the owner, who also acts as the company's leader. The plan was more focused on strategic actions to increase the number of customers. The owner's family decided the following financial support for any program to increase customers. No financial plan was openly communicated to the operational staff but division managers for the confidentiality of financial information. For providing organizing and providing directions to the operational staff and discussing problems and solutions, a morning briefing is undertaken daily. In addition, the morning briefing acts as the media to strengthen the feeling of togetherness and solidity as a team. Besides the morning briefing, oral communication between the owner, managers, and operational staff became the media to deliver instructions instead of written SOP. Furthermore, during the pandemic, the togetherness feeling has encouraged all employees to help others in need, regardless of the job descriptions and specific responsibilities that might regulate how a particular work should be conducted. The owner and managers stated that a limited number of employees during the pandemic was the reason for having such a togetherness and helping one another without concerning the job descriptions. Consequently, this situation has led to unstandardized task execution at the operational level.

For controlling functions, the owner, divisional managers, and captains play a prominent role in supervising the operational staff's activities. An oral warning up to specific sanction would be given to any wrongdoing conducted by operational staff. The captain would give the punishment as the leader of the smallest working group. The focus of the controlling activities in operational areas was mainly on activities that support customer satisfaction. For the cashier area, the controlling and monitoring mechanisms were tighter, including the rule to cancel customer orders by the manager and a CCTV camera to monitor any suspicious activity. Every day, reconciliation is conducted to ensure the ending balance of the cash, based upon the sales and expenditures for the day. Any deficit regarding the cash should involve the managers and operational staff to be held responsible. Close monitoring is also undertaken in critical operational areas such as the kitchen and warehouse.

Insofar, ABC restaurant's competitiveness relies more on its strategic location and excellent service, although the restaurant does no significant innovation. Its location at the side of the main road that connects big cities in East Java also leads to ABC restaurant's competitiveness. Most of its customers are tourist groups from travel agencies. ABC restaurant also provides facilities as a rest area for customers, which makes ABC restaurant one of the not too many rest areas to stop by in regions around P town. The food and beverages quality and the service quality of the restaurant were good enough to support the company's competitiveness. The only challenge was the price, which always becomes the primary attention of the owner in defining the strategy for maintaining or increasing the number of customers. The owner claimed that constant comparison with competitors was always undertaken to maintain the competitiveness of ABC restaurant. Overall, the company's competitiveness was supported mainly by the quality of the services, facilities, and food and beverages. Price was not the main factor for the ABC restaurant's competitiveness.

From the levers of control framework, although togetherness and supporting each other (which refers to "gotong royong" value) provide the cultural foundation of ABC, however, its generic characteristic requires further elaboration. It is not sufficient to be the proper belief system that is supposed to support the company's competitiveness. This finding is strengthened by the interview with the owner, that there was no specific value that was supposed to support the corporate strategy. Hence, the company's vision and mission were also not well defined. A well-defined vision and mission that contains the proper corporate value is an essential foundation for the corporate culture that later should be manifested in the existing rules and standard operating procedures. It is also important to provide directions in planning the company strategy.

In ABC restaurant, the boundary system is also not well defined as indicated from the owner statement: "...semua kita pertimbangkan...kita tidak mau membuat rules yang semena-mena dan akhirnya memberatkan mereka. Ibaratnya, symbiosis mutualisme, kita saling membutuhkan...kamu udah digaji, ...jadi kamu harus taat...". This condition led to a high dependency on owner and manager directions in undertaking operational tasks and activities and deciding the dos and the don'ts. The absence of written rules as the boundary system exposed the company to higher operational and fraud risks. The only written rules that existed were the generic rules for all employees that administer rules for maintaining orders and generally accepted norms. The rule's primary purpose was to maintain the harmony of operational activities and executions. However, there were no rules or SOP whatsoever that regulated how to carry out a specific operational job, such as managing the inventories, food and beverages presentation standards, and the like.

The absence of written rules and SOP also became a significant obstacle to proper diagnostic control. The standards for servicing the customers, cooking, and preparing the food and beverages were delivered to the operational staff informally through oral instructions. The absent predefined budget, rules, and SOP also made the raw material and other operational expenses efficiency monitoring very difficult to be carried out. Moreover, the existing unstandardized mechanism to measure performance did not motivate employees to improve their daily operational activities and tasks continuously. This situation became a significant obstacle in maintaining the competitive advantage of ABC restaurant.

The interactive control system is supposed to provide a proper communication channel between the employees and the managers, as Simons [10] elaborated. The morning briefing carried out regularly was suitable for discussing problems and solutions; however, the employees did not get enough opportunity to convey their ideas to help implement and evaluate the strategy. Although strategy formulation is one of the managerial tasks, it would be beneficial for the management team to have input from the operational staff, who know better about the actual condition in the field. As strategy formulation was the prerogative right of the owner, ABC restaurant has missed the opportunity to have essential inputs regarding the operational activities.

Based upon the discussion based upon the levers of control framework, several recommendations are formulated and elaborated to correct and improve the existing MCS. The recommendations cover all four elements of levers of control of ABC existing MCS.

For the belief system, it is highly recommended that the owner internalizes the value and principles that the owner believes into a set of written company vision and mission statements. This set of written vision and mission statements becomes the vital foundation for building the corporate culture, which manifests in the written rules and standard operating procedures covering all operational activities.

For the boundary system, the recommendation is about preparing the written plan, rules, and SOPs as the foundation for strengthening the employees' discipline and more objective performance measurements. Written rules and SOP also must cover the standard quality of the service and the food and beverages as the essential element of company's competitiveness. This recommendation is also essential for improving the internal control quality of the company.

For the diagnostic control system, the recommendation is closely related to the boundary system, which is about the written plan, rules, and SOP. It is also important that the company have specific written and agreed performance measurements to monitor the employee's quality of work. This measurement is prominent to evaluate the corporate strategy implementation periodically.

For the interactive control system, it is recommended to improve the involvement of the employees to provide inputs regarding the actual condition in the field that would be beneficial in formulating strategy and yearly plan.

All the recommendations above suggest that the company shift from using more informal toward more formal control mechanisms. It is an essential step in supporting the effort to maintain corporate competitiveness, especially in maintaining the excellent quality of service and food and beverages.

4 Conclusion

As a family-owned company in the culinary sector, ABC insofar relied more upon the informal control and the owner's role as the leader. High dependencies upon the informal control and the owner's role as the chief executive officer have exposed the company to the risk of losing competitiveness due to unstandardized quality of service, foods, and beverages. It may also demotivate employees due to the subjective performance

measurement system. Based upon the levers of control framework, ABC's MCS weakness covers almost all elements. The most material weaknesses are the absence of belief systems and written rules, and procedures.

The recommendations to improve the existing MCS for ABC require the restaurant to shift towards more formal controls, especially in strengthening the corporate culture and providing more precise and objective guidance for all operational activities and performance measurements. This is an essential contribution in the management accounting research context to provide knowledge of the importance of shifting the MCS from informal to more formal control mechanisms to ensure the quality of the service and products and maintain the competitiveness of the family-owned company. However, as a qualitative study, this study's main limitation is the findings' generalizability. Although this study provides deep knowledge of shifting MCS phenomena, different contexts might lead to different findings. At the same time, new opportunities for further study emerge since this study was conducted in a family-owned restaurant. Further studies in the different industrial sectors will benefit the development of management accounting knowledge in family-owned companies, especially regarding its MCS.

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