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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 and Bell, 1991). 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.

Keywords: Management Controls; Family-owned businesses; Culture; Indonesia; Less Developed Countries

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, et al., 2001). The paper contributes to the emerging management accounting literature in LDCs (Uddin and 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 and Shanker, 2003; Shanker, and Astrachan, 1996; Klein, 2000; Poza, 1995; Corbetta, 1995). In this study, family owned business is defined as a business owned and run by members of one or two families (Stern, 1986, p.xxi)[1]. 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 percent of U.S. enrolments are at private colleges and universities, in several Asian countries (including Indonesia) the figure is as high as 80 percent. 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[2]. 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 and Bell, 1991; Hoque and Hopper, 1994; and Dean, 2001). 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 and 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 (Gray, 1988; Rademakers, 1998; Dean, 2001; Wickramasinghe and Hopper, 2004; Pourjalali and Meek, 1995; Lau and Tan, 1998; Brewer, 1998; Harrison et al., 1994). It was felt that management control processes were best studied by applying cultural perspectives (Wickramasinghe and Hopper, 2004; Pourjalali and Meek, 1995) as controls in LDCs, which operate in a complex cultural environment where owner-officials realise their ends using a series of informal processes on the shop floor and elsewhere (Uddin and Hopper, 2001). The study seeks to understand the events in the case study by using the cultural perspective adopted by Ansari and Bell, (1991). Our approach to the application of cultural values in explaining control practices is not static. It is a study of symbolic processes through which people produce and reproduce social order. Ansari and Bell (1991) commented that "a critical feature of the approach is the emphasis on the native's viewpoint as it unfolds in the linguistic categories that are used to organise experience and give meaning to it". They added that "culture is neither a monolith, as sometimes portrayed in studies that are cross-cultural, nor is it invariant over time. It is the dynamic processes of social change that are at the heart of cultural studies" (p.8).

Ansari and Bell's work (1991), based on interpretive anthropology (Geertz, 1978, 1983), used in this study, has two key features. First, it relies on linguistic categories and idiom. In this paper, a number of key idioms or phrases are used which drive our explanations. Second, it uses kinship and clan structures to explain events. For example we provide evidence to illustrate how family members are looked after through employment in own business. Geertz (1978) recommended the application of the anthropological tradition in data collection to understand the influence of linguistic and idioms, and kinship and clan structure on organisational and social practices [see Ansari and Bell's paper]. One of the authors worked for the business that is the subject of the present case study for several years. Our data not only consist of interviews and conversations but also personal observations (see research method section for details).

The application of an anthropological understanding of culture is not a new concept in management accounting literature, but the contribution of this paper is to apply it in the context of a less developed family owned business. This paper aims to contribute to the emerging literature on management control and family ownership, especially for LDCs. Theoretically, the paper demonstrates the usefulness of culture in explaining management control processes in LDCs.

The remainder of the paper is organized as follows. The next section describes the research methods. This is followed by sections on political and socio-cultural contexts of Indonesia; and brief overview of Higher Education in Indonesia and the background of the University. The next section then presents the empirical findings. The last section provides discussions and conclusions.

2. METHODS

There is an increasing emphasis by management accounting researchers on the adoption of an organizational perspective and interaction with a variety of organizational participants in order to illuminate the dynamics of management accounting practices (Burchell *et al.*, 1980; Hopper and Powell, 1985; Hopwood 1978). The approach adopted here follows this perspective. Although we did not start with an *a priori* model to guide data collection, the cultural perspective adopted here seemed more appropriate to understand the control practices at this university.

The study is based on a field study to explore management controls in their organizational context (Flamholtz 1983). The study uses a qualitative methodology where data are gathered from personal observations, interviews and document analysis. One of the authors worked at this University for three consecutive years (1999-2002) during the summer term (June – August). However, formal interviews and documentation started in June 2003 and lasted for three months. In addition to personal observations, the research involved interviews with the University officials/managers. At the initial stage, interviews were conducted with the finance manager and three other staff of the Finance Department. In addition, documents such as budget reports, financial statements, minute of meetings and stock control reports were reviewed. The next stage of the study involved semi-structured interviews with 15 people. These include 5 administrative heads, 3 faculty members, and 7 lower level employees. The interviewees were thus selected from various departments including finance, human resource, purchasing, academic and general affairs. Interviews with each participant lasted an average of two hours. Interviews and discussions with interviewees focused on issues such as finance and control practices and other organisational practices, the influence of the owners in control system design and use, and the participation of subordinates in control system design. Notes were taken during the interviews as tape recording was not permitted. The final stage of the research involved a review of relevant internal and external documents such as university manuals, minutes of executive meetings, organizational structure and the Indonesian higher education act.

3. THE POLITICAL AND SOCIO-CULTURAL CONTEXTS OF INDONESIA

The name Indonesia was derived from Greek name "*indos nesos*", meaning islands near India. Five main islands and 30 smaller island clusters are the homelands for most Indonesians. These main islands include Borneo, Sumatra, Kalimantan, Sulawesi and Java. Java is about the size of New York State and is the home of over 70% of Indonesia's total population (CIA, 2003). Thus, over 70% of the population – or over 120 million people – live on the island of Java, which accounts for only 6.9% of the landmass of Indonesia. United Nations Development Program (UNDP) statistics ranked Indonesia in terms of the Human Development Index (HDI) in 2002 as 110th out of 120 countries indicating that the country has low income levels, low levels of education, and poor health.

Indonesia is the fourth most populous country in the world with more than 230 million people (July 2002)[3]. It is populated by more than 300 ethnic groups speaking literally thousands of dialects, with one mother tongue called *'Bahasa'* (a modified form of Malay)[4]. The country contains different ethnic groups such as Javanese (45%), Sundanese (14%), Madurese (7.5%), coastal Malays (7.5%) and other ethnic groups (26%). The different social and cultural groups are naturally isolated from each other due to the geography of the region.

Indonesian culture is an intermixture of influences from many diverse civilizations, which include: Hinduism and Buddhism, which arrived from India during the early first century AD; the Arabic influence during the 13th century, mainly through the teachings of Islam; and also the South-East Asian and Polynesian cultures, as well as influences from the influx of Chinese and Dutch people.

Religion and religious freedom of speech is guaranteed by the Constitution. Indonesia has been influenced by most of the world's major religions, which were first introduced to the coastal areas and subsequently spread inland. Islam, in various forms, is the faith of about 88 per cent of the population, and Indonesia is the world's most populous Muslim nation. Christianity is the largest of the minority religions with almost 9 per cent of the population; about two-thirds are Protestants. Buddhism is practiced by about 2 per cent of the population, most of who are of Chinese background. Hinduism, once the predominant religion, is now practiced by only about 2 per cent of the population, principally in Bali; however, Hindu influences remain strong within the wider Indonesian culture and society. A variety of indigenous religions are still practiced in more remote areas. The influence of Buddhism in Indonesia started from the 7^{th} to 14^{th} centuries on the Island of Sumatra. Hinduism prevailed in the 14^{th} century in eastern Java, while the Hindu Empire conquered most of what is now known as Indonesia. During the 12^{th} century, Islam arrived in Indonesia and dominated in Java and Sumatra by the end of the 16^{th} century. Although, by the 20^{th} Century, Indonesia became the largest Muslim country in the World, Indonesia contains the mixture of multicultural background in customs, traditions, institutions and businesses (Geertz, 1972). Basic Indonesian principles in businesses and institutions have been inspired by the various cultural values such as the concepts of mutual assistance (gotong royong) and communal meetings and gatherings (musyawarah) to arrive at a consensus (mufakat). This system derives from the traditions of agriculturally-based rural life, and is still very much in use in community life throughout the country (Geertz, 1972).

The Indonesian society is ethnically divided with Javanese as the largest and most influential ethnic group. Java is therefore central in the development of modern Indonesia. For centuries Java Island has been the cultural, political, and economic center of Indonesia. For examples, most of Indonesia's leading higher education institutions are located on Java Island and the island also has more development than any other island in Indonesia. Although Java constitutes only one seventh of the country's total area or the fifth largest island of Indonesia, it contains two thirds of the country's population that make it as the most densely populated island in Indonesia.

Javanese influence is also linked with the political power in Indonesia. Under President Soeharto's[5] regime which ruled Indonesia between 1965-1997, Indonesians experienced what was commonly known as 'Javanization'. This refers to how Javanese beliefs and practices permeated Indonesian political and daily lives. The power of Soeharto’s presidency grew stronger over the years to the point where it became absolute, and the government and President became more autocratic. During this time, Soeharto, his children and other close allies were accused of engaging in several corrupt financial dealings. Javanization may well be their tool to satisfy the influential section of the society as people from the

Javanese ethnic origin were employed in the most important roles in government and military. Even after the Soeharto's regime, the Javanese continue to enjoy preferential treatments from the government for setting up new businesses, employment and education. This may have led Javanese families to form new family owned businesses such as our case study.

4. INDONESIAN HIGHER EDUCATION AND THE UNIVERSITY

This section provides a brief overview of the Indonesian higher Education Sector and then presents some background information about the University in our case study.

4.1 Overview of the Indonesian Higher Education Sector

The earliest forms of Indonesian higher learning were mainly Islamic but had international links with universities in Egypt. The state's support in higher education during this period was minimal. The earliest private higher Islamic institutions founded in as far back as the 1910s and 1920s (Thomas, 1973; Welch 2006). The first post-independence higher education institution (HEI) in Indonesia was Gadjah Madah University, a state university founded in Jogjakarta in 1949 through the conversion of an earlier private HEI (Welch, 2006). Two other private universities, namely the Indonesian Islamic University and the National University were established in the immediate post war years (Welch, 2006; Buchori & Malik, 2004). There was a huge growth in private HEI in the 1960s as a result of the lack of state resources to establish and support state run HEI to match the continued demand of higher education in the country (Pardoen, 1998). The majority of these private HEIs were however unofficial and unaccredited (Thomas, 1973; Welch, 2006). There was weak regulatory regime to control these institutions. Between 1975 and 1995 Private HEIs grew from less than 400 to around 1,200. Similarly, student enrolments grew from around 100,000 to over 1.4 million during the same period (Hadijardaja, 1996). By 1998/1999 private HEIs accounted for nearly 95% of the total HEIs in the country, with the current ratio of private to public HEIs being about 1,800 to 100 (Welch, 2006).

The lax regulatory regime during 1950 and 1960s was replaced by law No. 30 of 1990 which, to some extent, provided some guidelines to the private owners of universities. A number of institutions were established over the years to control private and public HEIs in Indonesia. For example, a Directorate of Private Higher Education was established in 1990 to coordinate private HEIs, Offices called Kopertis (referring to the Coordination of Private HEIs), act as regulators, and to ensure that they conform to relevant acts and regulations (Welch, 2006). As argued by Welch (2006), the responsibility of quality control in the private sector also rests on the Directorate of Private Higher Education or Koperties, who make a formal recommendation to the Minister. There are several Ministries that are responsible for higher education in some form: the Ministry of National Education (MNE), Ministry of Religious Affairs (MORA), and various other Ministries that have specialist HEIs. There are also some HEIs not under Ministerial control. In addition, there is Indonesia's National Accreditation Committee (Badan Akreditasi Nasional, or BAN) which was established in 1998.

In practice, every HEI is meant to be reviewed by BAN each 3–5 years, depending on their status. In brief, private and public institutions are subject to several regulatory frameworks and institutions. They also have to submit annual reports to various authorities including private higher education authority (Koperties) and BAN. Due to lack of resources the institutions such as BAN and Koperties failed to establish effective monitoring[6] for quality of private education and even accommodate all HEIs in the country (Thomas, 1973). There are a significant number of private HEIs are not accredited. And geographic dispersal is adding to these difficulties—although in the early 1990s, some 25% of all private HEIs were still located either in Jakarta (16.4%) or East Java (9.6%), (Pardoen, 1998, p. 28). The proliferation in recent years of private HEIs, which now exist well outside the major cities in which higher education was traditionally concentrated, itself presents certain dilemmas. Generally, the problems of monitoring private HEIs lead to several particulars concerning government policies, quality control and financial matters.'' (Hadijardaja, 1996, p. 42). Nevertheless, our case university is accredited by BAN.

Private HEIs do not receive public monies from government but may be eligible for certain forms of subsidy, or incentives, according to pertinent regulations. The incentives usually in the form of buildings, but can also be in the form of staff seconded from public sector HEIs. All in all, some 10% of private HEI academics are paid by government (Buchori & Malik, 2004, p. 251). Student fees are the major (often only) incomes, and donations are also sought. Our case study shows similar evidence. The main revenue is mainly student fees.

Brief Background of the Studied Institution

Our case study is located in the Indonesian capital, Jakarta. It was established in the late 1960s by two close friends, who are both responsible for its operations and management. The University consists of two institutions - a foundation, and the University itself. According to Indonesian government regulations, an educational institution has to be organized by a foundation since educational institutions are non profit-oriented institutions. One of the two friends has the responsibility as the Head of the Foundation and the other as the CEO of the University. The CEO is the highest decision-maker in the University and is responsible for establishing the University’s policies and regulations. The Head of the Foundation, on the other hand, is responsible for establishing the University's vision, mission, goals, strategy, and planning for the University's financing, facilities and infrastructure. The Foundation also has a function of monitoring and evaluating the University's programs and activities in addition to the right to authorize, control and supervise the annual costs and revenues of the University. Formally, the foundation acts as a supervisory board for the university. The CEO and the Head consist of the top management of the University.

With an active student body of around 6,000, the University is one of the largest private institutions in Indonesia. The University currently employs about 187 administrative staff and about 132 teaching or academic staff. The workforce is divided into: teaching staff (lecturers), research staff, administration staff (supporting the teaching and learning process and administrative duties), and cleaning and security services. The organizational structure of the university is provided in figure one below.

[Insert Figure One Here]

In the next section we examine the nature of management controls in the university.

5. MANAGEMENT CONTROLS IN THE UNIVERSITY

The Head of the foundation is the formal chief officer of both the foundation and the University as a whole but the CEO acts as the top executive manager of the University, looking after day-to-day activities. The University has a number of functional areas including, finance, academic affairs, internal audit and control, purchasing and human resources. All functional departmental officials/managers report directly to the CEO, except the Academic affairs manager and treasury. Treasury reports to the Head of the foundation. Academic affairs reports to the deputy CEO. The following subsections briefly explain some of the important functional controls of the university.

5.1 Financial Controls

There are two sets of financial control department – Treasury and Finance. The treasury comes under the control of the Head of foundation while finance department is under the control of the CEO. The treasury department is responsible for the collection of incomes from various sources including student tuition fees and consultancy fees. All funds collected are recorded in a book by the treasurer and paid into the institution’s bank account to be used for the financing of University activities. The treasury department also issues the payment orders for the finance department to pay suppliers, employees etc. In a way, the treasury department, controlled by the foundation, is an overseeing department for the finance department. This is due to the Indonesian Higher Education Act which requires the foundation to become the supervisory board for the university.

The university heavily relies on monthly expenses or requirement budgets. The various departments are required to classify their budgets (requests) into two sets of budgets - financial (cash) and non-financial (non-cash). Financial budget requests are in the form of money allocated for lecturers, staff and/or students’ activities such as conferences, training events, scholarships and sport. All financial budgets must first be reviewed and agreed by the CEO. Once approved, the cash request is sent to the foundation treasurer. Upon the approval of the head of the foundation, the treasury department authorizes the finance department to make the payments. Regular monitoring of budget allocated for staff development is conducted to ensure that the University benefits from such funds. One manager noted that: *As the University accountability report outlines, people attending courses or conferences are obliged to produce an article or report presenting the outcome of the training or discourse to other employees, including lecturers and students. The recipients of special sponsorships are obliged to make reports concerning the progress of their studies three times a year.*

Non-financial budgets are mainly requests for goods such as computers, printers, stationery, and other items. Non-financial budgets can involve routine or non-routine item requests. Routine expenditure refers to those items which are requested on a regular basis, such as stationery, while non routine items include computers, printers and printing cartridges. The process of developing the monthly budget begins around the 25th of every month. It starts with the Finance Manager requesting each unit head to determine items needed for the following month. The approach for budget approval, however, differs between routine and non-routine expenditures. For routine expenditure the Finance Department compiles the budgeted requests, which are subsequently sent to the General Affairs Department. This department is responsible for evaluating the University's inventories of goods. If the requested goods are currently available in the store, they are issued directly to the requesting department without being included in the budget. However, if the goods are not in stock, the General Affairs Department instructs the purchasing team to search for appropriate suppliers in terms of prices and quality. The purchasing team reports back to the Finance Department with a purchasing plan, which is subsequently submitted to the foundation for authorization once an appropriate supplier is found.

Routine payments do not require the approval from the CEO. However, the purchasing team is obliged to report non-routine requests to the CEO for review. A request can be rejected by the CEO if he disagrees with it. After a purchasing request has been approved by the CEO, it is brought to the institution's treasury for evaluation, and a cost estimate is sent to the Head of the Foundation for approval. After being agreed by the Head, the cost estimate is sent to the treasury, which provides the required funds to the finance department. The finance department then pays the supplier directly. If an item is requested after the monthly budget has already been agreed, permission has to be sought from both the Head of the Foundation and the CEO. Once such authorization has been received, the foundation cashier pays the supplier directly on the advice of the purchasing team. The expenditure is then accounted for in the following month's budget. The interviewees described the current monthly budgeting system as a 'pay as you go' system.

The University does not make any long-term financial planning. Strategic planning, annual budgeting and long term planning, in accounting terms, are therefore non-existent. Attempts were however made at the beginning of the 2002/2003 financial year to introduce annual budgeting into the University. The CEO appointed a committee to review the budgeting process and to make recommendations to management as to whether any change is necessary. After much consultation, the committee recommended the use of annual budgets instead of the current practice of reliance only on the monthly budgets. The recommendations also included the need to involve all departments in the budgeting process. In September of the same year, under the guidance of the Finance manager, all departmental heads produced budgets for their activity units for a one-year period. The heads of departments and the finance team then had a meeting where the departmental budgets were consolidated into a master budget. The CEO however abandoned the annual budgeting system after one year of operation. Some of the university officials interviewed commented that the CEO was not very enthusiastic about the annual budget. Thus, the institution reverted to the monthly budgeting system.

5.2 Other Functional Controls

Internal audit and control seem to be one of the important functional areas which the top management of the university focuses their attentions. This is not only because it is linked with the budgeting but also because of government regulations which oblige the foundation, as organizer of the University, to meet its financial requirements. To meet the requirements, the University has initially set up one department namely *internal control department* to monitor some important activities such as purchasing, stock controls and other finance related areas.

Under this department, only one person was responsible for the purchasing function, which involves searching for suppliers, making purchases and paying the suppliers. However, after complain by some employees about the need for more transparency in purchasing, the CEO created a new department called internal audit and control which led to the separation of the purchasing function. A four-member purchasing team was subsequently appointed by the CEO to be responsible for the activities in the newly created department. One manager noted during the interview that: *The team members are considered reliable by the CEO, so that he is confident that suppliers chosen by the team are appropriate.* In addition, it has now become a policy that all goods deliveries by the general affairs department must be supported by evidence of delivery. The finance department compiles reports on budget implementation in departments/activity units, which are sent directly to the CEO with copies to the Head of the Foundation, and to the internal audit and control. The internal audit and control is also responsible for monitoring all activities relating to human resources, goods and money. A senior university official interviewed summarized the rationale for creating the internal audit and control department as: *The University has been forced to establish the internal audit and control department to detect and combat corruptions in all major routine and non-routine functions*.

5.3 Performance Measurement

Formally, the head of the human resource department reports to the CEO on appointment, promotion, etc. Interviews with the employees seem to be indicating that a punitive incentive system existed in the University, for example, salary cut for non attendance, etc. One respondent commented that: *Such punishment is efficient, and was needed by the institution because employees lacked awareness of their obligation to work. Before this policy was introduced, many employees, especially lecturers, often did not come into the office and some even worked in other institutions. But since this new system has been introduced, the majority of employees now attend work regularly to avoid the salary reduction.*

The university has a committee of 3 members that advises the CEO on salary levels. In making its recommendations, the committee pays attention to several factors, including the decree of the Education and Culture minister, level of the minimum regional wage, the institution's financial condition, and general economic conditions such as the level of inflation. The CEO also seeks the opinions of the Head of the Foundation in salary decisions. However, the final decision about salaries is the prerogative of the CEO.

The interviews however suggest that there is lack of transparency in the ways in which salary levels and promotions are determined. One head of department noted during the interview that: *The employees have little knowledge on how allowances and salaries are determined. Some are dissatisfied for not knowing how promotion and increments are determined.*

For some, the CEO’s centralized management approach has been very successful, as he has managed to adopt the same approach from the early years of the institution as a small university to its present form as one of the largest private Universities in the country. This success has increased the CEO’s confidence in the use of centralized controls. This paper seeks to question why centralized controls appeared to work the way they do. The following subsections shed light on the informal controls which the top management appeared to exercise in all aspects of the institution.

5.4 Social and Informal Controls – The Role of CEO

Officially, the university in many ways resembles institutions in the West in terms of rules and routines including the budgeting and control processes. In reality, the university combines a low level of formalization (less reliance on written rules) with a very high level of informal procedures in its daily activities. Officially, the CEO is accountable to the treasury and the foundation. In reality, the CEO dominates the whole affairs of the university as will be shown later. Generally, management is based on the concept of the family, where employees are more reliant on constructive verbal feedback in performing their everyday duties. Informal and personal controls affected all aspects of the institution as will be detailed below.

Officially, the university is supervised by the foundation. In reality, the foundation and its Head rarely questions the CEO's decisions. This has been summed up by a manager as: *"it is usually happens whatever the CEO seeks to achieve. All decision making, supervision, and implementation of everyday business is under the direct influence of the CEO except the daily academic affairs"*[7]. One senior administrator commented: *The CEO needs approval and support from the foundation and its Treasury, it seems to be not an issue to the CEO*. Formal meetings are usually arranged according to office routines to make important decisions but these meetings are dominated by the CEO as many managers opined. Commenting on the participation of subordinates in the implementation of control systems, one manager noted that: *"in everyday activities, officials and employees are only given positions and duties that must be performed, without the authority to decide on the solutions to problems. Officials and employees conduct duties that must be performed, and all problems have to be reported to the CEO, who later decides how to deal with them"*.

The CEO's direct control affected almost all functions including the internal audit and control. Interviews revealed that the CEO often uses informal channel of information for monitoring purposes. One manager notes that: *If the CEO discovers an irregularity in an activity report, the Internal Audit and Control Department is ordered to make an audit/evaluation of the report. Irregularities can also be discovered by the CEO through the informal information that reaches the CEO's ear.* Interviewees noted that the department carries out an audit only if instructed by the CEO to do so. One individual manager commented that: *The Internal Audit and Control Department exists as a formality to comply with government regulations* *obliging all higher educational institutions to have a department monitoring their budgets.* At the foundation level, the Head of the Foundation may request the foundation treasurer to carry out an audit if he suspects any irregularities in the activity report submitted by the University. However, it has been observed during the interviews that because the University activity reports are normally reviewed by the CEO, the Head of the Foundation generally accepts these reports.

Informal procedures are highly visible when it comes to evaluating the performance of subordinates. For example, university administrators interviewed revealed that they adopt an approach termed ‘supervising from the outside’ which involves collecting information about complaints from the community, students and lecturers or other employees concerning the staff member or lecturer. Subordinates often complain that there are no strict rules laid out for so called ‘supervising from the outside’. This opens up the scopes of excessive discretions by the top officials. Assessment of employees’ performance therefore tends to be subjective in nature; relying on the existence of complaints about them, conflicts with other officials, and more importantly, their loyalty to the CEO[8]. It is alleged that the position of each official is guaranteed if they can meet especially the last criterion. An interviewee described loyalty to the CEO as follows: *always support each idea, run all policies taken by the CEO without any opposition, and always take counsel with the CEO on any activity you intend to conduct.*

The current form of formal performance appraisals for the university management is also facilitated by the apparent lack of a work design for reference/guidance. Some managers often claim they don’t have any tangible targets to follow so that performance can be assessed against those targets or goals. The "supervising from outside" approach seems to be questioned by some managers. One senior manager, however, recognized the need for more formal performance evaluation of officials: *We have reached a stage where documented evaluation is greatly needed in order to be able to conduct corrections, so that mistakes and weaknesses which have occurred in the past will not recur in future.* This view was however not shared by other interviewees as another manager interviewed commented that: "*informal controls are also necessary in the institution because many employees have familial relations with one another*". Nevertheless, this seems to be working smoothly given the CEO's centralized management style.

The CEO plays a considerable role in appointing university managers/heads of departments. One manager commented during the interview that "*the CEO himself assesses candidates' ability to hold the particular position*". When it is necessary to recruit new employees, families of existing employees are always given priority. The Head of Foundation and the CEO also provide many opportunities for their families or friends to work in the institution. The reason behind this has been traced to the Indonesian culture, which is based on the principle that it is the obligation of people in positions of advantage to help their family members. Because of this, priority is always given to family members in any situation of employee recruitment. This approach, however, seem to have some difficulties in resolving problems arising between employees using any formal means. The family has to take precedence in any conflict resolution. Some interviewees noted that questioning the familial and centralized controls will not be in their best interests. For example, a manager argued that: "*The CEO is one of the founders and owners of this University. Hence, he has* *every right to influence the University's daily activities. We have to obey and follow him because we will be in a difficult situation if we question his decisions or beliefs"*.

Interviewees identified that formal channel of information is overwhelmed by informal channel of information within the university. What is commonly referred to in the organization as 'oral culture' seems to be a very powerful source of vertical information. Because of the strength of familial relationships within the institution, university employees, from the lowest to the highest level, have direct access to the CEO and the Head of the Foundation. One interviewee noted that: *The CEO gets direct input from employees concerning the activities in this institution. Giving input informally direct to the top leaders has often happened in the University, so that the CEO does not need to rely on formal controls.* Another interviewee added: *"In most cases, therefore, the CEO knows about all occurrences, however minor they might be, even before responsible officials have attempted to resolve them. Often, the CEO intervenes in such problems"*.

The field-work revealed that the informal controls are also necessitated by the apparent lack of clear job descriptions/working plans for departments. In the few instances where managers have job descriptions, these are not detailed and have usually resulted in individual interpretations of roles. Sometimes however, managers consult with the CEO when interpreting their roles. One manager commented that: *All managers are always expected to take counsel with the CEO if they are not clear about their job descriptions*. A second manager noted the advantage of this lack of job description: *The lack of a job description creates flexibility. Managers interpret their roles on a day-to-day basis. Because of this, duties given to employees can be said to* *be flexible, in that they can be assigned to help in other parts of the University which are particularly busy.* Some interviewees argued that informal controls are more effective and quicker to implement. One manager commented that: *The use of formal control is less preferred by individuals working in this institution because culturally, Indonesian people prefer deliberation or face to face encounters in settling a problem, and to resolve problems using the family principle.* Thus, the nature of actual control at the university and the role of the CEO have never been questioned as they reflect the social context in which the institution is operating.

6. DISCUSSIONS AND CONCLUSIONS

In the case results we presented above, we argued that while some form of formal management controls exists in the organization, in practice they are subservient to social and cultural controls. Thus while some form of technical-rational explanations could be offered for the control practices, the majority of the controls in the organization could be explained based on culture and social relations. Formal accounting appears to exist for ritualistic purposes, as most decisions are made with little regard for formal accounting data. For example, formal budgeting systems were rarely followed in practice. Also, the creation of the internal audit control department was mainly to satisfy the Education Ministry's requirements.

A summary of the influence of the Javanese culture on management controls discussed above is provided in table one below.

[Insert Table One Here]

One of the key issues we identified was that there is a high level of centralization of power, with authority being traced to a single individual – the CEO. This is not surprising as prior studies (Rademakers, 1998; Geertz, 1972) have identified the centralization of authority as a key characteristic of the Javanese society. This paternalism or *'bapakism'* of the Javanese society has therefore shaped management controls in the organization. The CEO, who is perceived by most employees as a father figure, makes all important decisions and all employees have to obey such decisions: the *bapak* (Mulder 1989). Thus Rademakers (1998: 6) observes: *"This deeply rooted paternalism involves a high degree of centralization of power and authority in families, but also in firms and even on the state level"*. Even though theoretically, the foundation has control over the activities of the University, in practice the CEO, who is the head of the University, has influence over the Head of the Foundation. The reason for this is age is seen as a basis of power in the Javanese society (Rademakers, 1998) and the CEO is older than the Head of the Foundation. One manager comments that: *The Head of Foundation always follows the guidance given by Islamic teaching (followed by the Javanese people) to always respect older people and therefore respects the CEO.*

[Insert Figure Two Here]

The social relationship shown in figure two above explains the actual power structure within the organization. This is different from the formal structure presented in figure one. Thus, we argue that culture as an explanatory variable in this study is very powerful and able to explain many control practices at the University that are the results of cultural values of individual and community. The management control practices in the University are significantly shaped by the Javanese culture.

Though controls were very centralized and all decisions revolve around the CEO, employees, however, respect and accept his position in the organization. Dean (2001) argued that in the Javanese society subordinates are expected to respect those in authority and are not allowed to question such an authority. Status is strictly defined by obligations and responsibilities, which tend to limit movement within the network. As Dean (2001: 4) points out: "*It will be very uncommon indeed for a person lower in the network to overtake their patron in terms of rank or income*". Whitfield (2003) found similar results in Indonesia. In a situation where there is a clear superior, that person decides. Higher posts have a very high status in Indonesian organizations. This will influence the way that Indonesian employees treat him and he must understand and respect the obligations that his status places upon him (Whitfield, 2003).

The importance of family ties and hierarchy within the Indonesian context especially Javanese has also been identified by other studies (Rademakers, 1998; Dean, 2001). As the case illustrated, staff recruitment was based substantially on social relations. Preference is given to family members of the CEO and the Head of Foundation, to prospective employees who have relations in the organization, or to those who have graduated from the University. This is very similar to Ansari and Bell's (1991) findings in a Pakistani firm. The main characteristics of such a collective society are collective decision-making processes (*musyawarah*), unanimous decisions (*mufakat*), co-operativeness (*gotong royong*), and loyalty.

From the interview results it was also found that while some form of conflict exists among certain officials, this is not shown on the surface due to the need to maintain apparent peace with each other especially with senior members of institution/society. Thus, employees try to conceal any conflicts and negative feelings and therefore dysfunctional behavior is hardly demonstrated. This is similar to Whitfield's (2003) findings. He found employees in Indonesian organizations are reluctant to talk to a clear superior concerning problems or concerns in the performance of their own duties. In the organizations, any problem should be solved by the subordinate without informing the superior, which, as a result, spares him the unpleasant experience of receiving bad news.

In day-to-day activities, employees have been influenced by the word *Rukun*. *Rukun* is an important Javanese word describing "a state in which all parties are at least overtly at social peace with one another." Reliance on informal procedures has resulted in the development of more and more personal relationships between subordinate and superior members of staff, causing the emergence of "*ewuh pakewuh*" culture. "*Ewuh pakewuh*" is a Javanese phrase, which means reluctance and failure among superiors to punish subordinates because of the development of familial relationships in the workplace. We explained in the case how superiors sometimes find it difficult to discipline subordinates because of the family relationship.Also, Javanese culture provides that conflicts are resolved through deliberation and negotiation, referred to as *musyawarah*. This concept, which is the indigenous way of decision-making, thus renders the roles of formal management controls less relevant.

Ansari and Bell's (1991) work, based on Geertz (1983), argued that a formal control system was only necessary to legitimize the organization with external parties. The formal rules and regulations only play the ceremonial role which is also reflected in trade union activities in our case study. The Indonesian labor laws fail to protect employees; hence the need to rely on social relations. In our case organization, a more powerful national labor union association was replaced by a less powerful internal labor union. The role of the labor union therefore changed from negotiating for the rights of employees to that of savings and loans, and coordinating lecturers' activities such as seminars. Dean (2001: 9) writes: *"The Indonesian legal system by itself cannot be relied upon to secure contractual commitments or to secure property rights. The law is but one instrument to secure rights, and in the Indonesian context, it should be considered secondary to other more important instruments"*. For example, Indonesian labor law provides that technically, an employee can only be dismissed for misconduct, and the employee must first be given three separate warnings before any decision to dismiss him/her can be taken. However, management can avoid this process by handling the process through acceptable cultural principles such as negotiation, face-saving exit, or even money.

Our arguments certainly rely on one case study and we do not wish to generalize these views to all settings. However, this case has highlighted some of the crucial culture issues that may well explain some managerial practices in Indonesian organizations especially and less developed countries in general. Thus, we add to the small but growing body of empirical field research in this area.

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Tables

Table One: Relationship between Javanese cultural values and management controls

Culture	Definition	Relevance to Management Controls
Bapakism	Javanese word which means paternalism and patronage. The father / elder demands respect, obedience and loyalty from subordinates	The CEO makes all important decision in the organization such as recruitment, budgeting and cost decisions, employee relations and salary. Employees rarely question the CEO's decisions.
Rukun	Javanese word which describes a state in which all parties at least overtly at social peace with one another. This is manifest through collective decision-making processes (*musyawarah*), unanimous decision (*mufakat*), co-operation (*gotong-royong*)	Centralized controls created some tensions among employees. However, the culture of *rukun* teaches them to maintain apparent peace with each other and try to conceal any conflicts and negative feelings.
Ewuh Pakewuh	Javanese Phrase, which means reluctance and failure among superiors to punish subordinates because of the development of familial relationships in the work place	- Superiors failed to discipline their subordinates and let the CEO to solve all problems. - The use of informal channel or "oral culture" is a powerful source of vertical information in the organisation.

Figures

Figure One: Formal Organizational Structure

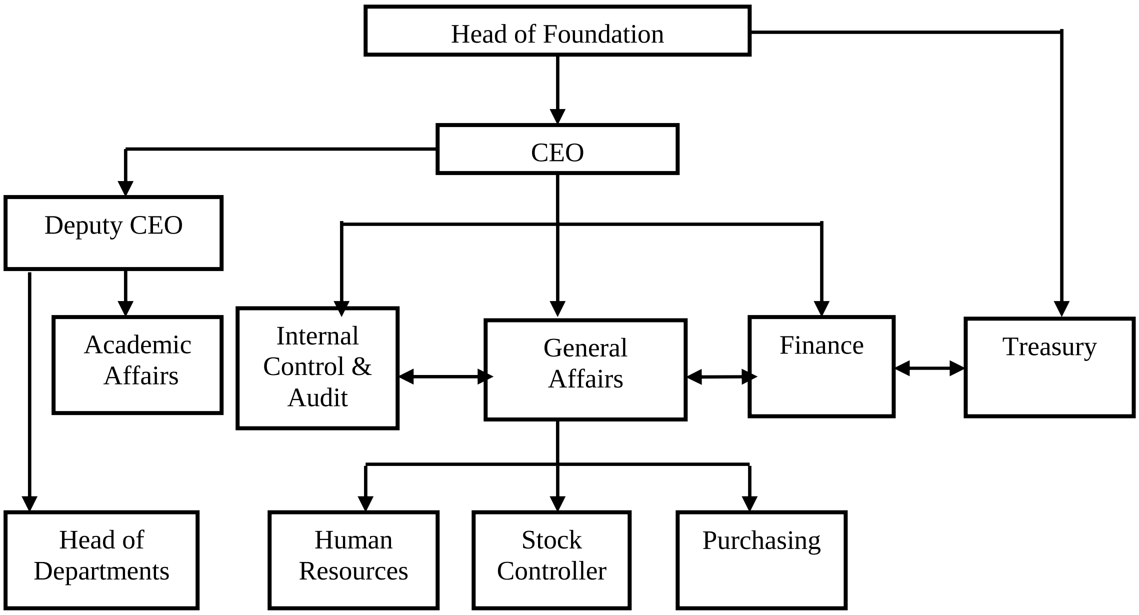

Figure Two: The Control Structure

(a) Formal Control Structure

The Head of Foundation

$\downarrow$

The CEO

(b) Actual Control Structure

The CEO

$\downarrow$

The Head

[1] 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.

[2] 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.

[3] http://www.cia.gov/cia/publications/factbook/geos/id.html#People

[4] There are 583 languages and thousands of dialects

[5] Former President Soeharto is Javanese and the culture has a strong influence on him, for example: the use of Javanese words in day to day activities.

[6] Such difficulties are exacerbated by the tendency of some private HEIs to omit to submit their mandated University Statute, and Basic Plan for Development, to authorities for approval. Other non-registered or new private HEIs, for example, 'offer … study programs to the community, perform student admission and conduct teaching and learning process without making application for clearance or reports to the government.' (Bray & Thomas, 1998, p. 43) Hence students may spend time studying subjects that have not been accredited by the authorities for that institution. Certainly, some applications for registration by private providers fail, as the recent decision (in April 2002) by the Directorate of Higher Education to refuse accreditation to Edtracon, a member of the World Association of Universities and Colleges, attests.

[7] All academic activities are under the control of the first Deputy CEO, who makes decisions concerning subjects to be taught. As a result, all the Heads of academic departments report to him

[8] The University officials are the senior officials such as Heads of Departments and officials in charge of services. These officials report directly to the CEO.