

# **A STRUCTURATION PERSPECTIVE OF MANAGEMENT CONTROL SYSTEM: AN INDONESIAN CASE STUDY**

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## **Abstract**

This case study is aimed at providing description about social construction of management control system employed within an organisation. In so doing, this study adopts a sociological approach, that is structuration theory proposed by Anthony Giddens. Using ethnography method, it explicitly examines how and why the system is created from the perspective of an organisation particularly in Indonesian context. The result of this study reveals that far from consisting of merely technical, mechanical aspects, the system in practice is intertwined with the culture of its broader community in constructing the system. This study also reveals that the adoption of such a theory may enable a researcher to understand the link between society, organisational members and the design of management control system.

## **Introduction**

Management accounting is traditionally seen as a technical activity with merely mechanical aspects. Most of the management accounting literatures are dominated by assumptions and perspectives borrowed from neo-classical economics (Neimark and Tinker 1986). Consequently, many of traditional studies in management accounting are often either of little relevance to the understanding of the real practices or, at best, provide an incomplete picture.

However, there has recently been an awareness of the need to direct research activities to examine the social aspects of accounting, that is to regard accounting as a social practice (Burchell et al. 1980, 1985; Hopwood 1985; Miller 1994). Accounting systems in organisational contexts are becoming to be seen as more than technical phenomena and that to understand them, the social roots must also be understood (Laughlin 1987). It means that an understanding of the specific context in which an organisation exists may provide a richer picture to understand the system as better.

Many accounting researchers start adopting various theoretical frameworks from another disciplines (e.g. sociology, politics, and philosophy) in order to extend the domain of accounting knowledge and to gain a richer understanding about accounting in practice. This involves the abandonment of the solely use of the so-called *scientific/positivistic* methodological frameworks which put emphasis mainly on discovering objective, universal generalisations, and the development a more subjective understanding about truth and knowledge.

One of the sociological theories newly adopted in accounting research is *structuration theory* proposed by Anthony Giddens. It is at this concern that this study is conducted. The application of the structuration theory has been regarded as useful in sensitising research and theory building to the role of management accounting in organisations (Macintosh and Scapens 1991). In this respect, the understanding of the social aspects of the discipline may extend one's understanding of management control system day-to-day practices which is far beyond its technical/mechanical aspects. Next sections will briefly review some of traditional theories in management control system and how structuration theory may facilitate further development of the theoretical domain of the system.

### **Traditional Perspective Of Management Control System**

Management control system is regarded as a means of gathering information to aid the processes of planning and controlling, coordinating activities, communicating and evaluating information, deciding what action should be taken, and influencing people to change their behavior throughout the organisation (Horngren et al. 1997; Anthony and Govindarajan 1995). Its effectiveness depends upon how well it supports the achievement of a high level of motivation and promotes the goal congruence between different parts of a company.

Anthony and Govindarajan (1995) tend to differentiate between management control system and strategy formulation and task control. The system is seen as having the domain in the level of middle management with its main purpose to ensure the achievement of the strategies and objectives of the company. On the contrary, strategy formulation is a function performed by top-level management in relation to strategic management through the setting of long term goals, strategies and policies, whereas task control are performed by the lowest level of management with its main purpose to ensure the achievement of efficient and effective performance of individual tasks.

This view is somewhat questionable as it is almost impossible to clearly separate the performance of those *different* functions in practice. The view is also challenged by Simons (1990) arguing that the system must be seen as broadly including formalised procedures for such things as planning, budgeting, environmental scanning, competitor analyses, performance reporting and evaluation, resource

allocation, and employee rewards. In other words, the system can not be separated from the activities performed in the top-level management like strategy formulation and in the middle and lowest levels of management like strategy implementation. Such a separation, although conceptually, has contributed to a lack of understanding of the nature of management control which results in an artificial dichotomy equating strategic planning with formulation and management control with implementation (Simons 1990). Therefore, it has been recognised that management control system is better to be studied as a unity of the whole planning and control system in the company which is both conceptually and practically inseparable.

In defining the area of management control system, traditional literatures recognise the importance of taking into account the culture of the company, human resource aspect, formal and informal systems and behavioral consideration (Horngren et al. 1994; Anthony and Govindarajan 1995). However, they tend to see those factors as independent from the system, and they interact with each other. The task of the system, in this respect, is to accommodate those factors and therefore, top management must design the system in such a way that they will not contradict with it.

This traditional belief has, at best, provide an incomplete, too simplified picture about how the management control system works in practice. The system is regarded as a neutral, objective and value-free means to assist management to achieve its objectives. In this respect, such a belief put little emphasis on the recognition of human/social context in shaping and being shaped by the system. This view also implicitly and uncritically assumes that there exists an ideal system which should be adopted in any circumstances which need only some adjustments in making it works in a specific setting. Hence, it is unable to provide an adequate explanation the reasons why a management control system is designed in a particular way in a specific context.

In practice, the system can not be separated from the social aspects which make it works. It is applied in the area in which people interact with each other and therefore, the system must also be seen as the product of social interaction. Human being is more than merely technical mechanism which works based on a set of deterministic, static rules. Hence, any system in which human being lives must be seen as having social aspects. In other words, the real system in practice is *socially constructed* which is subject to a continuing process of transformation and inseparable from the wider society in which it is embedded and rooted. Neimark and Tinker (1986) propose that the system needs to be seen as changing over time and linked to, and interacting with the broader systems of social relations.

An understanding of both how the system is socially constructed and how the social controls work side by side with the other types of control may significantly contribute to the development of management control system theories. Management control system, in this respect, must be seen as one of the products of social interaction

which is inseparable from the political processes performed in order to secure the interests of various parties having interests on it, and from the culture and norms established in the society. Company can be regarded as a small society which basically is a reflection of the wider social environment surrounding it. What is regarded as acceptable in the wider society is also acceptable in one part of it (the company). The relationship between control and its wider environment, therefore, are mutually produced and determined one by the other (Neimark and Tinker 1986). An inclusion of sociological perspectives in studying management control system is a useful way in enriching our understanding about the system.

### **Structuration Theory And Management Control System**

Giddens' structuration theory has opened a possibility to explicitly reveal how accounting systems are embedded in its social environment (Chew 1992) and to understand the social context of management accounting in organisations (Boland 1985, Roberts and Scapens 1985, Capps et al. 1987). Structuration is defined as the "conditions governing the continuity of transformation of structures, and therefore the reproduction of systems" (Giddens 1979, 66). Giddens (1979) argues that social systems vary widely between different types of society due to different conditions of social reproduction. There is little point in looking for an overall theory of stability and change in such systems. Any attempt to study social systems and structures, therefore, must be seen as a means to present a sensitisation device instead of a corpus of propositions.

Giddens' theory is concerned with understanding the relationship between the activities of human agents and the structure of social system (Macintosh and Scapens 1990). In analysing social system, Giddens distinguishes between system and structure. Social system is seen as comprising social practices which are reproduced across time and space through the actions of human agents, while structure refers to the structuring properties which provide for the *binding* of those social practices into social systems. In other words, system is not structure, but system has structure which are drawn upon in social interaction. However, it is only through action and interaction that structure is itself reproduced. Hence, structure is both the medium and the outcome of interaction.

Giddens also attempts to provide a conceptual framework that enable the incorporation of the concepts of *agency* and structure described above (Macintosh and Scapens 1991). Agency refers to the existence of agents which actively constitute social life and the elements of social structure in which they live. It recognises the ability of individuals to know their needs and to monitor their actions as well as the others' actions. Hence, this ability cause them to be purposive and actively constitute their social settings as previously mentioned. In this respect, the social structures are both constituted by human agency while at the same time they are the medium of

further constitution. Social relations, then are produced and reproduced across time and space (Giddens 1976).

The central point in order to fully understand such social structures, relations and changes is that one need to consider both the stationary, cross sectional and the dynamic standpoints of the society (Weaver and Goia 1994). The stationary, cross-sectional standpoint refers to the rules, resources, and practices constituting the arena and tools of social action. The dynamic, longitudinal standpoint refers to the way in which the individual's actions intentionally and unintentionally change and recreate existing structures (i.e. rules, practices and resources) of the society. This does not mean that structures are reducible to merely actions for one cannot act without preexisting structures which provide a media for changes.

Therefore, structuration theory deals with production and reproduction of social structure in interaction, creation, maintenance and change in society. To examine such transformations effectively Giddens proposes a conceptual framework for it. Giddens (1984) suggests there are three dimensions of social structure; signification (meaning), legitimation (morality), and domination (power). The three dimensions can be described in the Figure 1 below:

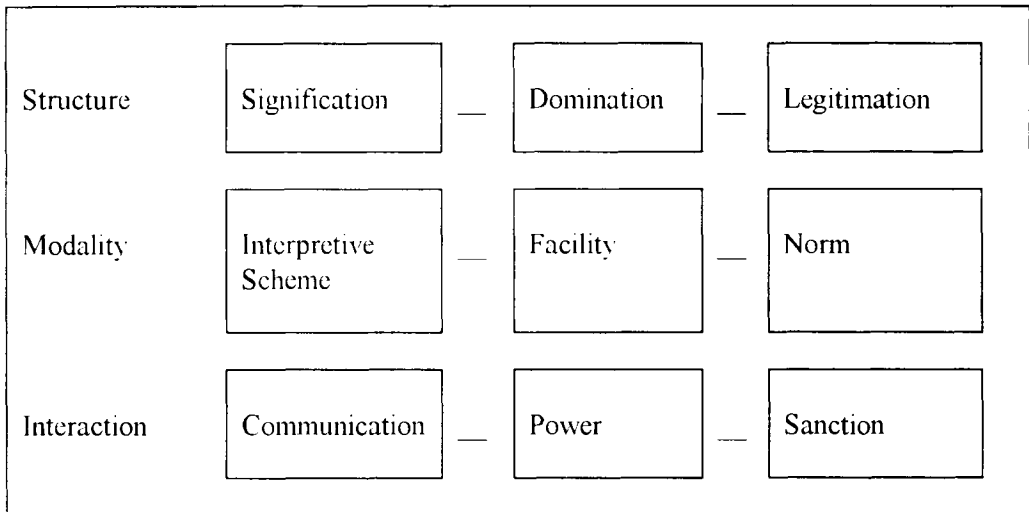


Figure 1. Structuration Framework (Giddens 1984, 29)

*Signification*

Signification structure refers to a medium for exchanging meanings and idea in order to make people to be able to communicate with each other. Interpretative schemes are the cognitive means by which each agent makes sense of what others say and do. The schemes enable him/her to make sense of what is happening and to decide

on how he/she should act in different circumstances. The use of the cognitive schemes depends upon and draws from the signification structure, while it also reproduces that structure simultaneously (Macintosh and Scapens 1991). This scheme may consists of discursive practices, such as speech, writing and so on

Management accounting systems can be thought of as such a modality, for instance the systems provide managers with a means of understanding the activities of their organisation and allows them to communicate meaningfully about those activities and to make sense organisational activities (Macintosh and Scapens 1990). Management accounting and, more generally, management control system, in this respect, is the interpretive scheme which mediates between the signification structure and social interaction in the form of communication between managers. Moreover, management control system is the means by which managers use to interpret past results, take actions, and make plans.

Signification structure in an organisation culturally can not be separated from the existence of the organisation's information system. The organisation's internal design elements, i.e. its structure and culture, influence the design of the information system and, in turn, the system may contribute to changes in its structure and culture (Silver et al. 1995). In this sense, the system may affect the means of communication between the organisational members. Such a system can be seen as culturally constructed embedded in the organisation's shared values and beliefs. It is expressed as the formal and unwritten rules shaping the take-up of design of the information system (Hackney and McBride 1995). Therefore, understanding signification structure requires understanding the organisation's culture and information system as well. In this respect, the information system involves not only formal system, but also informal and unwritten procedures.

### *Legitimation*

Legitimation involves the moral constitution of interaction which takes form as norms and moral codes giving sanction to particular behaviors (Macintosh and Scapens 1991). It consists of legitimacy codes, normative rules, and moral obligations. The morality in a society is produced and reproduced through the exercise of sanctions used to reward or penalise the agents in accordance with their compliance or non compliance with the codes of conduct. The result, then, is morally meaningful action.

Using structuration perspective to analyse the social construction of management control system inevitably also requires an understanding of a company's culture. The shared values and beliefs form an unwritten rules and norms of behaviour in the company. The culture is established over a long time, and therefore, the acceptance of the control system is influenced by the extent to which it reflects the culture of the company.

Furthermore, the system embody norms of organisational activity and provide the moral underpinnings for the signification structure and the financial discourse through legitimating the rights of some participants to hold others accountable in financial and technical terms for their actions (Macintosh and Scapens 1990). Management control system, in this respect, communicates a set of values and ideals about what is approved and what is disapproved, and justifies the use of certain rewards and penalties.

### *Domination*

Domination structure involves the codes for regulating the relations, and dependence and autonomy within a social institution. They are facilitated through resources through which agents draw upon the domination structure in the exercise of power. In this sense, power exercise within a society/organisation cannot be performed without the domination structure. Giddens distinguishes two types of resources: allocative resources which arise from command over objects, goods, and other material phenomena, and authoritative resources which arise from capabilities to organise and coordinate the activities of social agents. Both types of resources facilitate the transformative capacity of human action (power in the broad sense), while at the same time providing the medium for domination (power in the narrow sense).

Power in its broad sense is the ability to get things done and to make a difference; in a narrower sense, power is simply domination. All social relations involve power in both the broad and narrow sense. The management control system is a key element in the process of accountability in organisations and consequently a major facility for the mediation of the domination structure in relations of power (Macintosh and Scapens 1990). It is a facility that each level of management can use to coordinate and to control other participants. According to Giddens (1979), power relations are always two-way: there is no party having either total power completely in a power relation or, no power at all which makes him totally dominated. Even those at a very subordinate level always have certain resources that enable them to produce a certain amount of the social system. It is through the exercise of their power that the social system is constituted.

Those three dimensions of social structure are inextricably linked and only separable analytically. For instance, the domination structure which comprises the rules and resources drawn upon in relations of power are closely linked to the signification and legitimation structure. Command over the management accounting process, for example, is a resource which can be used in the exercise of power in organisations (Macintosh and Scapens 1990). Thus, it could be argued that management accounting, through the design of the management control system, is implicated in the signification, legitimation and domination structures within organisation.

The adoption of structuration theory may facilitate an understanding about what, why, and how a particular design of management control system is used in a specific context. The above propositions also reveal that management control system has not only stationary nature but also dynamic nature. The system facilitate a means for the organisation's members to act in accordance with the norms and rules of the organisation. On the other hand, the system also socially develops and changes over time due to the actions of the members. Those two natures are worth studying in order to extend the theoretical domain of management control system to include both technical and social aspects of the system.

## Research Method

This study is conducted from May to August 1997. The method used is *ethnography*. According to Neuman (1994), ethnography comes from cultural anthropology which means "... describing a culture and understanding another way of life from the native point of view" (p. 333). In this method, the researcher immerses himself to the daily life of the object. In this sense, people display their meaning (what they think, believe, ponder) through behavior (e.g. speech, actions) in their specific social context. The crucial point is the interpretation of the meaning of the behavior being observed. Therefore, the research effort is devoted to explore the object under study in its specific context (how its specific context gives meaning to the actions of the individuals), and does not attempt to identify and to seek a simple, universal causal relationship between variables involved.

This study is descriptive in nature. Its purpose of is to examine how culture of a wider society shapes the design of management control system of an organisation through interaction between the organisation's members. In so doing, a tailor company has been chosen, namely "TT Tailor." There are several reasons for choosing this company. Firstly, tailor companies normally are labor-intensive. They do not have huge value of assets like the other industries since the cost of the machines used is relatively low. Their investment is mainly on their employees. A relatively big tailor company is usually has many skillful employees. Hence, their operation depend upon the performance of their individual employees. The vital role played by people instead of machines, therefore, opens a possibility to explore in-depth how an effective control system is socially constructed between employers and employees.

Secondly, it is believed that most of the Indonesian companies, especially those under the category of Medium, Small and Home Industry are managed by traditional family system and do not have a formal control system described in traditional textbooks. Based upon the industrial classification from the Indonesian's Biro Pusat Statistik (BPS), the company is classified into Small Manufacturing Industry as the number of its employees is between 5-19 persons (BPS 1994). There were 362,976



companies under the category of Small and Household companies in Clothing, Textiles and Leather Industry in 1993 (BPS 1994). This represents 98.8% of the total number of companies in such an industry in that year (the total number was 367,222 companies). The small clothing, textiles and leather industry also experiences a substantial growth in terms of the number of companies. Between 1991 and 1993, the number of the companies grew 38.75% (19,788 to 27,455) which was much above those of large and medium industries, 15.71% (3,935 to 4,246), and household industry, 12.3% (298,761 to 335,521). Therefore, the small and household companies is seen as having significant influence in the development and representing the majority of this kind of industry.

To understand their system, one can not simply evaluate their effectiveness and efficiency based upon the criteria used in the traditional literatures. Their system must be understood by using their own perspectives. In this respect, the effective way to do so is by examining and identifying the social construction of their management control systems. Therefore, this study is seen as a step which may provide an initial useful insight into such practices and has implications to the majority of the Indonesian business enterprises.

The identification of such a construction enable us to understand what, why and how such a particular design of management control system exists in a specific context. Obviously, the expected results of this study is far beyond the technical aspects as those described in traditional literatures.

## Company Analysis

### *Background of the Company*

For the sake of confidentiality, the real names of the company and its key persons will not be revealed. TT is the name of the owner the company. TT Tailor has a relatively long history as it has been established since 20 years ago. However, it was not until the last three years that it experienced a steadily substantial growth. Having only 6 employees in the first half of 1994, the company is currently employing about 15 workers; a 150% increase. Ten of the fifteen are highly skillful, experienced workers. Based upon the number of machines employed, TT Tailor also experiences a substantial increase, more than 100% increase: 5 units in 1994 compared to 12 units in 1997.

Generally, tailor industry in Indonesia can be classified into two categories, men's tailor and women's tailor. This classification reflects the market in which a tailor company wants to compete. As indicated by its name, men's tailor only serves male customer, and so does women's tailor.

Cultural and technical reasons are the main causes for this classification. Cultural reason means that getting the specification of an order (e.g. size) requires measurement of the customer's body. Female customer usually is much more convenient to be served by female tailor. Technical reason refers to different characteristics between male and female clothes. Consequently, such different characteristics cause different capabilities needed to tailor the clothes. Certainly, there are few tailor companies which serve both male and female customers: However, most of famous tailor companies are specialised companies focusing on one market only.

TT Tailor does not have a technically formal control system like those described in various traditional management accounting literatures. However, it does not mean that the company does not have one. Although, the design of the company's management control system is different from those traditionally *required* and *specified* in those literatures, it has its own procedures, techniques and activities which can only be understood in its specific context and meaning.

#### *General Manufacturing Processes in the Company*

The general manufacturing processes are described in figure 2 below.



Figure 2. General Manufacturing Processes in TT Tailor.

Normally, a customer comes to the company to make an order. After discussing with and knowing the need of the customer (including obtaining the size of the sewing to be done), TT will determine the price of the order and time to collect. Technical matters (e.g. difficulty level and special needs) are the main consideration for determining the price and predicting how long it takes for finishing the order. The cloth and the accessories needed may be provided by either the customer or the tailor company. If, the materials are provided by the company, TT will determine additional cost and add it to the price.

A major feature of TT Tailor management is the domination of tailors in all functions and processes. The designing stage consists of making *the blue print* (the pattern) of the sewing and drawing the pattern in a special paper. This is a crucial stage whose output will determine the quality of the final product of the whole processes. This stage is also one of the most important factors which determine the positioning of this kind of company in the market. TT, as the designer and manager of the company is the only person who does such a process. The pattern drawn in the paper, then, will be distributed to be further processed in the next stage.

The next stage is preparation consisting of laddering and cutting the cloth. In the laddering process, the pattern drawn in the paper is copied manually in the cloth. TI is the person who does this stage. After laddering the pattern, TI will cut the cloth based upon the pattern drawn. The cloth, then, is distributed by TI to the employees in charge in the next process. The work distribution is based upon the workload of the employees. The distribution may also be based upon the technical consideration, e.g. the difficulty-level, time needed to finish the work and special characteristics of the work. If such technical matters become the main consideration, TT will personally appoint the individual worker who has adequate personal skill to do the job.

In the tailoring stage, the cut of cloth is sewn by the employees working on it. In this stage, the cloth is converted into dress, blouse, or the others as ordered by the customer. Finally, in the finishing stage buttons, zipper, and other accessories are attached to the sewn item.

#### *Overview of the Company's Control System*

The control system of TT Tailor must be seen from the company's own perspective. Using traditional control system like those described in traditional textbooks will result in misleading conclusion. The system has been constructed from the culture of the company which is almost totally based upon personal, individual relationship. Personal respect and friendly relationship are the keys to make the employees obedient and to ensure that the objectives of the company are achieved. This situation can not be separated from the personal characteristics of TT who emphasises informal interaction rather than formalised relationship between different level of management, such as between employer (manager) and employees in managing the company.

TT does not use any formal documents and reports to understand and to control the performance of the employees. There are two reasons for doing so. Firstly, TT can still monitor the performance of the employees without such formal process. Tailor manufacturing process is quite simple and easy to monitor. Technically, it does not employ any highly advanced technology that need special skill to control. Secondly, the present informal control system has made the employees feel that they are trusted by TT. As a result, they themselves so far actively try to make their works fairly good enough to avoid any dispute with their employer.

The establishment of the company's culture cannot be separated from the recruitment process. The process in tailoring industry is quite unique. There is a kind of informal network between those who work in tailoring company. The workers in this kind of industry share information about which companies need new workers, how is the work condition in the companies (for example the salary, working hours, working rules and so on). On the other hand, many of the employers in this industry choose to

ask their employees to find new employees for them instead of using mass media to seek employees. In this respect, the network mentioned above is proved to be an effective means of communication and exchange of information. The main reason for this is because personal characteristics, for example honesty, diligence and obedience are the most important criteria besides their skills. The employers usually believe that personal recommendation is much more effective to achieve that rather than through announcement in mass media.

TT is among those who prefer to use such an informal network to recruit new employees. All of the company's current employees are accepted through this way of recruitment. Before accepting an applicant recommended by the workers, TT will test the quality of the applicant's work by giving him/her a task/order to be done. The test usually takes one day. The applicant will be accepted if his/her work is regarded satisfactory by TT.

There are at least two major consequences of this recruitment process for the company. Firstly, the new employees are more likely to follow the example of those who recommend him. The old employees who give the recommendation usually will select carefully those to be recommended. This is because morally they feel that they also have the responsibility about the new employees. The old employees usually will recommend only those they know well. As a result, how the old employees behave gives a guideline for them to adapt themselves to the culture of the company.

Secondly, this policy also makes the old employees have a sense of belonging of the company. They feel that they are trusted by TT to choose who they work with. This can create a friendly atmosphere in the workplace between the workers since most of them know each other beforehand. As a result, TT personally does not involve too much in explaining the rules, customs, policies and other daily matters about the company to the new employees since the old employees who recommend them will do that. It is interesting to note, that some employees are recommended by former employees who have worked in another companies. Thus, the informal network mentioned above is really important in the process of recruitment in such an industry.

This process has become an iterative process in which the new workers, in turn, will also recommend somebody else to work in the company. The control system is socially constructed through the relationship between the members of the company over time whose elements are rooted in its broader society. Certainly, this has also a risk. If the recommending employees do not have good intention, they will recommend those with whom they can cooperate to achieve their goals. To prevent this from being happened, TT will also use her personal observation before and after the recruitment. How effective this policy compared with the other way of recruiting people to promote the effectiveness and efficiency in the company may be questionable. However, this has

contributed to the establishment of the culture of the company which, in turn, shapes the control system of it.

### *Types of Control*

It is important to observe the mechanisms of the company's control system. The control system can be classified into three categories, i.e. financial, quality and social controls. The financial and quality controls of the company are technically very simple. Financial control is mainly used to determine the price of the order, quality control is used to control the quality of the order, and social control is mainly directed to make the workers obedient and to prevent conflict of interest between the employer and the workers.

### *Financial Control*

It is interesting to note that TT has no financial record to ensure the efficiency of the company. The financial control mainly takes place before an order is processed. As mentioned above, when a customer comes to the company to discuss her order, TT will estimate the total costs of it including the materials needed and fair salary to be paid to worker for the order. Then, the estimated costs will be added by profit margin desired.

If the customer does not provide the materials needed, for example the cloth and the accessories, TT herself or the employees will go to buy the materials. If the materials to be bought are relatively expensive, TT herself will buy them. Because every order usually has its own specification, in most cases the materials bought are enough only for the order. The use of the materials is very efficient since there is no allowance for default in tailoring process or other forms of inefficiency.

In this process, there are two crucial points when the financial control takes place. The first is when negotiating with the customer to determine the price, and second, when buying the materials needed. Thus, it can be said that the financial control is used only in initial process. The lack of use of financial control in other manufacturing processes tends to reinforce the primacy of the other controls in the next processes. In this sense, financial control seems not relevant anymore.

The other area which needs financial control is when paying the workers' salary. The workers are paid weekly. There is no fixed salary; the amount of the payment depends solely upon the number of the orders worked. The reason for choosing this order-based salary instead of time-based salary (e.g. daily wage) is to avoid inefficiency in finishing an order. Using this system, the workers strives to finish the order as soon as possible to increase their salary. Otherwise, the workers may attempt to extend the time needed to finish the order to increase their salary. TT has

several unwritten standards for determining the salary of an order. Thus, the salary per order received by a worker may be different from the other depending upon the characteristics of their job.

This system of payment has brought about another impact. TT does not need to make a firm policy regarding how many working hours per day for them. The formal policy of the working hours is from 8 a.m. to 5 p.m. However, this policy is very flexible. The workers are allowed to come to work and to go home at any time they want. The important thing regarding this matter is that they are asked to tell TT beforehand if they will be absent in the next day(s). Most companies in this industry have the same system of payment. Consequently, although the working hours in this company is flexible, many of the workers prefer to continue working two or three hours after 5 p.m. Some of them often voluntarily come to work in Sunday although TT does not ask them to do so.

### *Quality Control*

In the quality control, the emphasise is upon the conformity of the result to the design of the order. Although the quality control can be done in every stage of the manufacturing processes, it takes place mainly after all the processes have been completed. This is because the sewn item must be tried on the customer in order to know whether it fits her or not. The better the work of the worker, the less likely reworking process is needed.

The responsibility of a worker is to finish an order until the customer is satisfied. If the reworking process is needed, the worker in charge of the order will rework it without additional payment. Thus, the message is very clear, do it right in the first time and no question means no problem. The possibility of the reworking process makes the workers attempt to do their work very carefully. Although the order-based salary may direct them to finish their works as soon as possible, the risk of reworking process forces them to pay attention to the quality of their works.

Usually, if the workers have questions regarding the work being done, they will ask TT to find the answers before their works are completed. The decisions are based primarily not only upon the application of well known methods and techniques but also upon attempts to find an innovative way to find a solution of the problem. The quality control reflects the principle of tailoring work, find the error as early as possible to eliminate reworking process.

### *Social Control*

Social control is apparently the most crucial thing in this company. The culture of the company is based upon minimum regulation and intervention of TT in

managing the workers. This has been indicated in the above control processes which are very informal in nature and tend to rely upon the workers' willingness to work well rather than strict, top-down control procedures. Therefore, in order to ensure that the objectives of the company are achieved, TT relies heavily upon a control system different from the control system mentioned in traditional management control system textbooks. For the purpose of this study, the control system is called *social control*.

It has been mentioned previously that, personal, informal interaction has formed the company's culture and management. This study has identified at least four major elements of the social control stemming from the company's culture, i.e. seniority, personal respect, mutual trust and togetherness. Those elements are rooted in social norms and beliefs prevalent in the broader society in which the company exists. The social norms and beliefs may come from traditional-cultural values of communities in which all the company's members belong to, level of education, economic status, daily interaction and so on. In this respect, this company can not be seen as distinct entity separated from its social environment. All the social elements of the control system are embedded in and reflect the value system of it.

Seniority means that newer employees respect and follow the behavior, guidances and customs of older employees. Because of the flat organisational structure as mentioned previously, there is no hierarchy based upon the personal skills of the employees. Regardless whether a worker is more skillful or not, he/she becomes an example for the others to follow. Seniority has been one of the most important things in the social interaction between all members of the company.

Personal respect refers to the creation of a culture which emphasise upon individual experience and unwritten arrangements rather than official position. It seems that the company's workers tend to regard each other and TT as friends rather than colleagues. The workers are much more willing to obey TT if they personally respect her. It seems that job description or any other written procedures without supported by personal respect may be ineffective to make them obedient.

Mutual trust, in this company, refers to the culture which emphasise upon the goodwill of both the employer and employees that they will do their responsibility to fulfill their obligation to each other. TT almost does not use any formal control procedures, e.g. firm policy about working hours, periodical target and other written rules. Such formal procedures are not used since TT believes that informal and unwritten rules will make them feel trusted and, hence, will do their best. On the other hand, the workers believe that TT will judge their works fairly. It is interesting to note that TT has never negotiated the salary to be paid of a specific order with the worker assigned. The worker has also never asked about the salary to be received given the level of difficulty of a job. There is a mutual understanding between them, and the

worker believes that TT will determine the salary fairly. This culture has been emphasised by TT since the very first time of the company's operation.

Togetherness is important to foster solidarity between all members of the company. This has been a strategic means to avoid or to minimise conflict of interests between them and, hence, to ensure the achievement of the company's objectives. Togetherness refers to the elimination of social differences which may become barriers for effective communication in the company. Social differences which come from the differences of social background as previously mentioned may result in different interpretation of what behaviour is considered socially right and wrong (e.g. acceptable and not acceptable, polite and impolite, offending and not offending).

Togetherness, in this company, enable the communication among the members runs smoothly. The workers feel that their employer understand and respect them as an individual, and not as subordinates. This also applies to the communication among the workers. They tend to regard each other as individually respectable and feel free to express their feelings. This can be achieved because all members feel closed to each other. An understanding of personal problems and background is an effective way to achieve togetherness.

It is common in this company that the workers and TT talk to each other about anything from the work being done to personal matters while still working. Every discussion occurring can be followed by TT and all workers. As a result, the social barriers among them are gradually eliminated. This enable TT to understand their problems and give some help if needed (e.g. employee loans and absent permission).

The friendly atmosphere can not also be separated from the recruitment policy of the company that relies upon personal recommendation. It is more easily achieved through individual relationship between the workers outside the company. Some of the most skillful workers in the company are even willing to teach or discuss with TT some better ways of solving a problem based upon their personal experiences.

Those three control methods (financial, quality and social) are complementary with each other. In practice, it is impossible to apply them separately. For example, the use of such a simple financial control is only effective to ensure the financial success of the company if it is accompanied by the other control methods. If such a financial control is applied in another companies with different culture and control procedures, the company may suffer a huge financial loss resulting from inefficiency or fraud. On the other hand, if the quality and social controls were applied accompanied by formal report-based financial control, the financial control might damage the culture of the company and, in turn, the effectiveness of the other control methods. How the combination of the three methods results in the social construction of its management control system will be described in the next sections.



*The Social Construction of the Company's Management Control System*

The relationship between the company's management control system, the culture of the broader society and the culture of the company is modeled in the figure 3. The company's management control system is seen as a reflection of the culture of the broader society surrounding it. Such a culture contains of value and norms accepted by the society. The culture, then, permeates through human agents, i.e. all the company's members, into the company and forms the company's culture. Because it is impossible to find two or more people with exactly the same social background and experiences, the company's culture which is established through interaction between them can be seen as socially constructed over time. The company's management control system, therefore, is derived from such a culture and can be seen as having the three social structure, i.e. signification, legitimation and domination.

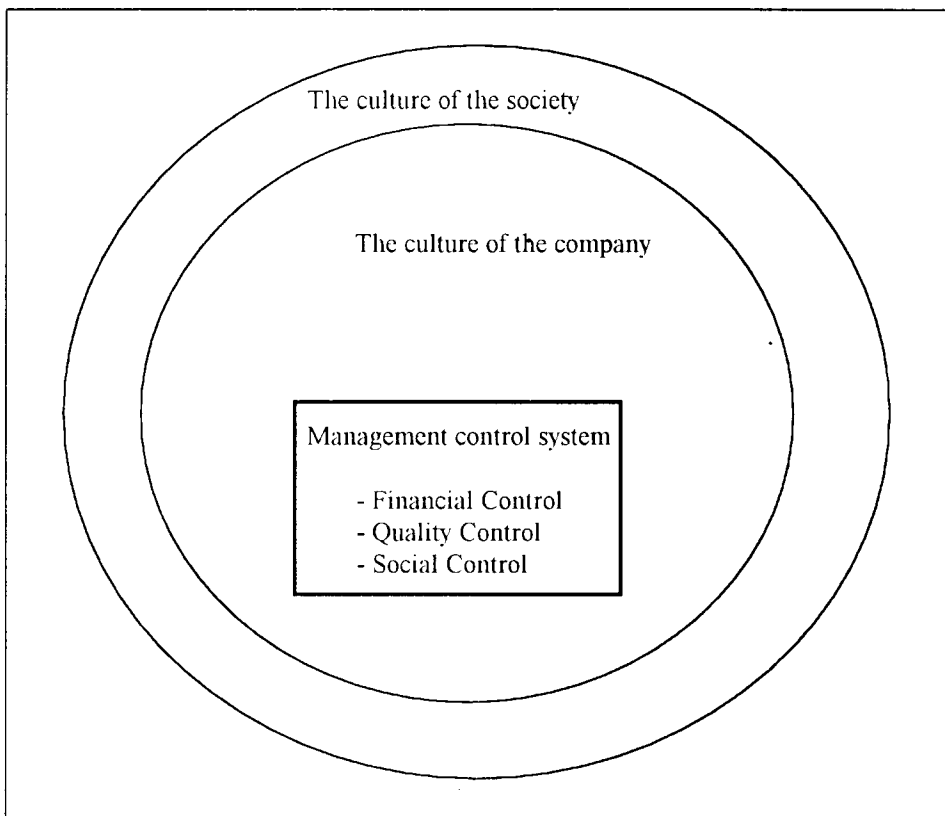


Figure 3. The Social Construction of TT Tailor's Management Control System

### *Signification*

The company's management control system can be seen as a symbolism of its culture. The daily interactions of the members of this company are mediated through an interpretative scheme in order to communicate meaning and understanding. The meaning and understanding give them a construction of the organisational reality that enables them to know and to decide on how they should act given that reality. The interpretive scheme in this company is characterised by specific concepts and vocabulary from tailor industry.

For example to control the quality of a job effectively, some of the main parts to be monitored are buttonhole, pocket shape, collar shape, trim and so on. Quality is an abstract concept; one need to decide what and where to measure from a given reality and to decide whether its level is acceptable or not. The use of such specific tailor industry-based concepts has transformed the reality into a meaning which is understandable and can be used to assess whether it can be accepted and satisfy customer or not. The concern of TT as the manager of this company is to construct a *picture* of what is happening in the work floor. By observing the output of the company's manufacturing processes, TT attempts to produce and reproduce this picture which can be used as a means of communication between her and the workers. Certainly, the construction needs multiple sources of information. Therefore, the above specific concepts are the sources of information that enable TT to obtain the picture.

The interpretive scheme is not only dominated by such technical, quality control-related concepts. Financial and, more importantly, social controls also have such a scheme. In the financial control the lack of formal documents to financially control the company cause the design of the company's policy to be a crucial thing to make sure that it will operate profitably. In so doing, the company's policy is designed to achieve that since the initial stage of all processes (the determination of the price of an order).

However, careful price determination solely is not enough. The company needs another way to make all the employees to work efficiently. The system must be designed to give TT an understanding that what is actually happening in the manufacturing process will bring about financial success for the company. Because labour cost comprises the largest proportion of the company's total costs, an efficient operation of them will bring about a significant increase in the company's financial performance. The order-based salary policy can be seen as the scheme which enable TT to translate the performance (i.e. productivity and customer satisfaction) of the workers into something financially meaningful for her. Such an understanding enables TT to make sense what is actually happening in the work floor and, consequently, how much money should be spent on them.

Social control is the centre of the whole control system of the company. It has an interpretive scheme which is capable of transforming social interaction in the company into an effective way for controlling the behaviour of all the workers. How the members of the company interact with each other shapes the form of the scheme. The interpretive scheme mediating the social control can be seen as consisting of three major elements, i.e. means of communication, type of information and language used.

Means of communications used in this company for controlling the workers is mainly through informal discussion taken place as mentioned above. Regardless whether the topic being discussed is about the work or anything else, the discussion itself may be seen as providing a medium which enable TT to know the problems of the workers which can be barriers for them to work effectively.

In this respect, it is believed that the performance of the company is inseparable from its members. The problems faced by them (both personal and work) may affect their performance. The medium has created the culture of the company that provide an opportunity for them to take care with each other. The understanding of the problems is also an effective way for TT to transform what is seemingly irrelevant to the workers' performance into useful information for effective social control. In other words, this media enables TT to informally control the behaviour of the workers and, therefore, the achievement of the company's objectives is ensured.

It is interesting to note that the form of crucial information in this control process is mainly that which is not about the work being done. From an outside perspective, information about personal problems such as marriage plan, financial difficulties, hobbies, and so on seems of little relevance for controlling the workers performance. However, such information is crucial in this company. For example, when TT arrives from a trip, she brings something as little gifts for them. The informal discussion serves as a means for TT to know and act according to what is morally encouraging for them to work better.

It is also important to note, that the key to make the interpretive scheme works properly is the language used. The use of a particular language determines how closed the interaction between all members will be. In this sense, the closer the interaction, the more effective the social control is. Two main characteristics are noted in the language used. The first is the so-called *common vocabulary* in this industry, i.e. the words and concepts which have particular meaning in this specific context, including trim, laddering, fitting, and so on. Such words may have slightly different meaning if used in another context. For example, the word fitting means to fit a clothing to know whether... However, in the context of this company/industry fitting may also be interpreted as whether a job needs to be reworked or not.

The second is the use of a particular language which is the combination between Java and Indonesian languages with local dialect. The use of such language enable all members of this company to help eliminate the social barriers between them. Regardless the duties and the position of each company's members (e.g. the employer, tailoring workers and finishing workers), by using the same language all the members will feel that they belong to the same community. This has helped create the culture's elements of the company ultimately togetherness. Moreover, if the social barriers can be removed, the social control process will be much more effective.

### *Legitimation*

It has been mentioned that legitimation involves the moral constitution of interaction which takes form as norms, moral codes and moral obligations to transform a particular conduct into a morally meaningful action. In this respect, the structure of signification described above must be legitimated through the creation of such social norms prevalent in this company. The social norms, then, determine what behaviour is considered acceptable. The legitimation structure will be analysed according to the financial, quality and social controls used in this company.

The company's financial and quality controls have determined that what is approved financially is an output which is efficient and satisfactory to customers. This can be seen from the order-based payment policy emphasising that a worker will be paid if his/her job is finished satisfactorily. Reworking process means unacceptable work quality and it must be done without additional payment. The implication of this policy is that the more productive and the better the work quality of the worker, the more salary will be received by him/her. In this sense, the salary paid can be seen as a form of reward whereas the reworking process can be seen as a form of penalty.

TT has also made a policy that if the performance of a worker based upon the above factors is considered unacceptable after a period of time, the company will not employ him/her any longer. However, this case is very rarely since the recruitment process depends upon personal recommendation from an older worker. The company's financial and quality controls, in this respect, communicates a set of values and ideals emphasising upon productivity and quality. The two factors which have been the norms are used to legitimate what is approved and what is disapproved, and justifies the use of the salary payment and sanction system.

The social control also contributes to the creation of the legitimation structure for the company. The four major elements of the social control (i.e. seniority, personal respect, mutual trust and togetherness) have been used to effectively persuade all the company's members to behave in accordance with the company's objectives. It can be seen that both financial and quality controls in this company tend to be result-oriented than process-oriented. The implication of this orientation is little intervention from a

superior to subordinates. Therefore, the two control systems need another form of control which morally discourages workers to do something inconsistent with the objectives of the company and to prevent conflict of interests between TT and the workers.

Given the characteristics of the culture of the broader society in which the workers belong to, the social control used is based upon the assumption that they will be less likely to manipulate their works if the culture and the system of the company is built consistent with the those in the broader society. The element of seniority points out that TT does not need to formally demonstrate that she is the leader whose commands must be followed. The newer workers will follow how their seniors behave because they feel that they are supposed to do so. The personal respect emphasises that the workers need to do their job right because their superior has treated them well, and therefore, she deserves to obtain that. Mutual trust has been successfully built by TT through, for example, demonstrating that without being asked, she will fairly judged the salary of a specific order for the worker in charge of it. Consequently, it is seldom that a worker complain about the work condition. Lastly, togetherness has created solidarity among all the members of the company. It also compels the members individually to act consistently with the group as whole. If positive behaviour is dominant in such a group, then it morally encourages all members to do their responsibilities and duties well for the best of all.

Those elements of social control has constituted sound norms and moral obligation in this company which, in turn, has been used by TT to make sure that the workers' behaviour will fall into line with her interest. However, the signification and legitimation structures only are not enough to ensure the achievement of such an objective. Controlling behaviour needs effective exercise of power. This can be achieved if the resources for doing so is available. The following sections will discuss this matter in more detail.

### *Domination*

Referring to the two meanings of power described in the early sections of this paper, power exercised to enable the control processes in this company is best to be understood in broader sense, i.e. the ability to get things done both directly and indirectly. Power in narrow sense which simply means domination needs much more resources for exercising the power. The resources through which the power in broader sense is exercised comprise of allocative resources which are used mainly to support the financial and quality controls, and authoritative resource which is used mainly to support the social control.

The main allocative resources identified in this company are the recruitment policy, order-based salary system and the determination of the amount of salary based

upon the difficulty of the order. Such policies enable TT to use the financial resources allocation as a means to encourage the workers to do their jobs well. By relating the salary payment system to the performance of the workers, TT has been able to exercise her power to get her will done without having to know and to control all aspects of the tailoring process (power in narrow sense).

The authoritative resource in this company is quite unique since there is no formal written rules used to control. There is no clear job description and specification describing what are the authority, functions, right and obligation of the employer and all the workers. Conversely, TT tends to refrain as much as possible from explicitly showing her power to organise and coordinate the activities of the workers. Social control mentioned above relies upon personal approach to understand the workers' perspective. Understanding what is regarded as important and acceptable for them is a crucial way to build her capability as a manager and to enable the social control works effectively. It can be said that the authoritative resource in this company is the social interaction among all the members itself. Such interaction enables TT to obtain necessary information to continually exercise her power and to hold them controllable.

Both types of resources have established a system of accountability that facilitates the transformative capacity of human action (power in the broad sense) into something which is favourable for the company. The description of the domination structure strengthens Giddens' thesis that power relations are always two-way: there is no party having either total power completely in a power relation or, no power at all which makes him totally dominated. The domination structure is seen as the result of the accommodation of the will of the workers and the objectives of the employer.

As discussed in early sections, those three dimensions of social structure are inextricably linked and only separable analytically. For example, the informal discussion taking place as previously mentioned simultaneously serves as the company's interpretive scheme and power exercise facility, and strengthens its social control. Thus, the design of the management control system is implicated in the signification, legitimation and domination structures within the company.

However, it must be noted that the social structure of the system is not static in nature. It has been revealed that the system is socially constructed through a historical process. It also facilitates a means for the organisation's members to act in compliance with the norms and rules of the organisation. Because human behaviour is dynamic and develops over time, the system also develops and changes continually due to the actions of the members. What is regarded as acceptable for this very present may be regarded as unacceptable tomorrow or any other time. The system, then need some adjustment in order to ensure its effectiveness.

To sum up, this study has identified that there are three major control methods used in TT Tailor's management control system, i.e. financial, quality and social controls. The heart of the whole company's control system is the social control since the financial and quality controls are quite simple and tend to be result-oriented. Four major elements of the social control are seniority, mutual trust, personal respect and togetherness. The dominant role of the social control has caused the system to be largely constructed through social interaction between all members of the company (both employer and workers). Consequently, the system is inevitably rooted in value system and norms which have been regarded as acceptable in the broader community.

The effectiveness of the company's management control system is heavily dependent upon how well each of the control methods complements with each other. The use of such financial and quality controls without being accompanied by social control, and vice-versa, will damage the effectiveness of the whole system. In this sense, the control techniques and procedures must conform to the culture of the company. The system will develop as the culture of the broader community changes. Social transformation in the broader community will affect the behaviour of the company's members and, in turn, will change the company's culture and the control system. Therefore, what has been found in this study must be seen as a picture of a specific period of time in a specific context.

The three control methods have provided the structures of signification, legitimation and domination in this company. The interpretive scheme resulted from the signification structure mainly consists of informal discussion as a means of communication, an understanding about daily life of the workers instead of detail information about work being done as crucial information for controlling their behaviour and the use of a specific local language as a means of eliminating social barriers between all the company's members.

The legitimation structure stems from the company's culture which is established through unwritten rules and policies, value system, norms and moral obligation derived from financial, quality and social controls. Such a structure serves as a guidance in directing the behaviour of both the members and justifies the use of certain rewards and penalties in this company. This structure restrain not only the workers but also the employer from not conforming to what has been agreed on.

The domination structure in this company depends upon the exercise of power in broad sense, i.e. to get things done. While financial and quality control procedures can be seen as facilitating resources allocation, the process of social control reveals that personal approach instead of formal written rules is the major resource for coordinating and organising the workers (authoritative resource). This is consistent with the nature of the whole control system which emphasise upon result than process.

Those three structures are intertwined in forming a means for ensuring that the behaviour of the workers will fall into line with the interests of TT. It must be noted that the three are only separable for analytical purposes. The control system in practice needs all of them simultaneously in order to make the system works effectively.

## **Conclusion**

The application of the structuration theory in management accounting research is based upon the assumption that an organisation can be regarded as a social system. This assumption implies that in order to understand how management control system operates in the organisation, one need to study and identify the social construction of the system as well as the culture of its wider society. Obviously, this thought broadens the way management control system is seen beyond its traditional technical/mechanical aspects.

The advantage of this broad view is that it enables researchers to explore and to identify the construction of the management control system within any organisation regardless whether the system conforms to those specified in the traditional management accounting literatures or not. Furthermore, the adoption of such a sociology theory also indicates the need to diminish interdisciplinary boundary which often obstructs the development of our understanding about the world in which we live. Obviously, management control system need further developments in its theoretical domain to explore its social aspects.

Certainly, the purpose of the study is far from all inclusive. A study of management control system in practice is a never-ending process since the system is continually evolving over time. The more time devoted, the more comprehensive our understanding will be. However, an initial picture resulted from this study is expected to be useful in broadening our understanding about the socio-cultural aspect of the system especially in Indonesian context. It is also expected that the results of this study may provide a useful pathway for further studies in this area in order to enrich the domain of the management accounting theory.



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