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Management control practices in Somalia's traditional clannish society

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Abstract

The aim of the study is to report the management control practices (MCP) of a Telecommunication firm operating in Somalia's traditional clannish environment. Through qualitative case strategy, semi-structured interviews, observation and documents analysis were used to gather data. The executive directors of the firm were interviewed. The findings of the study show that MCP of the firm is highly affected by the traditional cultural norms of the Somali clannish society. The prevalent MCP includes "clan business-power sharing", clan-based ownership, paternal governance, friendship and horizontal relationships, verbal communication and clannish selection of employees. Such MCP has promoted centralized decision making processes in all aspects of the firm's operations. These findings call for further researches.

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Keywords: Management control practices; business governance, traditional societies

1. Introduction

Over the past three decades, there was a growing research interest that draws attention towards management control practices (MCP) across different nations (see e.g. Bhimani, 1996; Chapman, Hopwood & Shield, 2007; Chenhall, 2003; Joshi, 2001; Sulaiman, Ahmed & Alwi, 2004), and more specifically the forms of MCP in the less developed countries (LDC) (see e.g. Hopper, Tsamenyi, Uddin & Wickramasinghe, 2009; Uddin & Choudhury, 2008; Uddin, 2009). However, these studies have either focused on developed countries or focused on small

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settings that might not be generalizable to the different social contexts, and particularly to the traditional societies of Sab-Sahara Africa (SSA). A traditional society is a community that its social connections are primarily defined by its biological/ancestral links or ethnic networks that also shapes all other social affairs of such society including economic and business relations. Although traditional norms are common in many SSA, however, Somalia's traditional norms are considered very unique, where traditional clannish norms are recognised by the constitutions and represent the parameter of all socio-political and economic aspects of the Somali people (Hesse, 2010a; Lewis, 2004). Thus, the main purpose of this study is to explore, interpret and report the MCP in the context of Somalia's traditional clannish society.

2. The conceptual framework of the study

After a thorough survey of management control literature, the study employs a conceptual framework that was intended to guide the study. The control elements of the framework are a combination of the most contemporary frameworks (Malmi & Brown, 2008; Ferreira & Otley, 2009; Simons, 1995). Under this framework, control components are categorised into: cultural control, administrative control and control process. This conceptual framework is considered a suitable guide to understand MCP in the traditional clannish environment of Somalia.

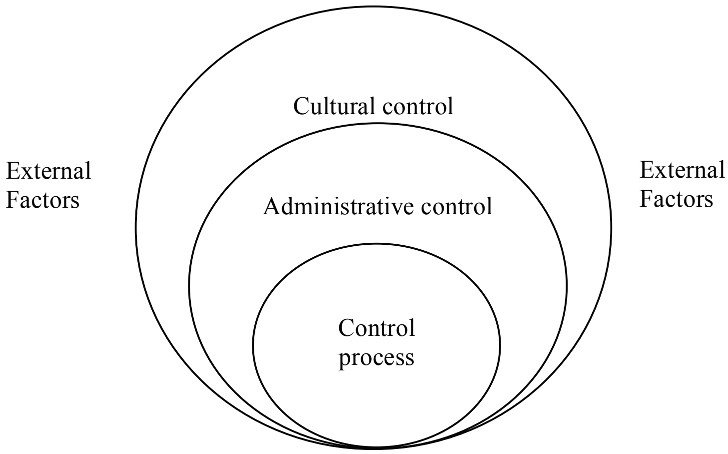

Fig. 1. A conceptual framework of MCP in the traditional societies

As illustrated in Figure 1, "cultural control" represents the largest circle in the framework. It shows that cultural traditions are the most important factor that structures all organisational activities (Hofstede, 1984). This means that MCP within a society is constrained by its cultural constructs, since it might not be practical to manage people's behavior without understanding their social constructs (Hofstede, 1980). Moreover, MCP is a social issue that cannot be understood in isolation from its social settings (Uddin, 2009). In the cultural control, there are three types that have been recognised in MCP literature; i.e. clan control (Ouchi, 1979), beliefs and value controls (Simons, 1995; Herath, 2007) and symbol-based controls (Tsamenyi, Noormansha & Uddin, 2008).

In the second row of the framework; administrative controls represent the second largest circle, that demonstrates the control of organisational functions such as governance structure and levels of authorities. The organisation's vision/mission (Malmi & Brown, 2008), governance structure and governing boards determine the entire administrative activities of an organisation (Overall, Tabsell & Woods, 2010). Lastly, the smallest circle; control process, shows the tasks control of an organisation such as; planning and budgeting (Atkinson, Banker, Kaplan & Young, 1997), performance evaluation (Anthony & Govindarajan, 2007), information flow and incentives systems (Ferreira & Otley, 2009). The control process depends on the administrative control, which was also constructed by the cultural control of the society. Finally, in that sequence, the three MCP control approaches intertwine and strive for the achievement of an organisation's ultimate goals.

3. Research methods

The study employs a qualitative case study for the data collection. SOTEL (pseudonym) was selected from the telecommunication business industry, which is the leading industry for the last 15 years (International Alert, 2006; Leeson, 2007). In the year 2010, one of the researchers participated in a workshop discussion with the middle level managers who raised the issue of "traditional clans" and its influence on the company's management and control. They argued that, since the collapse of the Somali state in 1991, traditional clannish norms become the alternative system that is used for the control of the socio-economic aspects of the Somali society (Lewis, 2004).

In this regard, the previous experience with the company's management and employees enabled the researcher to gain access to the case company, which has motivated the researcher to carry out a field research about MCP forms in Somalia's traditional clannish context. SOTEL has two unique characteristics that motivated the researchers to select it. First, the company's personnel and owners are mix of the different regions (clans), where all major clans/sub-clans are represented in the company. Second, the company is the largest provider of telecommunication services in the country. As of 2013, SOTEL employs around 2,500 employees as in its payroll, with around 3,000 shareholders. Similarly, the total assets (book value) of SOTEL are 75 million USD, while the gross sales of the last two years (2011 and 2012) average to 2.5 million USD per annum. The net profit of the year 2012 was 1.2 million USD. SOTEL also has around 2000 sites with transmission towers throughout the country. In addition, SOTEL is a member of the international terrestrial link to connect the foreign communication networks.

The field data was gathered in the period between March and June 2013. Semi-structured interviews were used to collect data. As shown in Figure 2, the participants of the interview were: the CEO, seven executive directors, three divisional heads, the internal auditor and two branch managers. Each interview lasted between 30 and 85 minute's times. Similarly, except for one director, the interviews were all tape-recorded alongside with the note taking of the researchers. In addition to the interviews, observations and document analysis have also been used as a technique of data triangulation (Merriam, 2012). After transcriptions of the interviews, a confirmation of the participants was sought for the purpose of results reliability (Mason, 1996).

An exploratory-explanatory approach was used to identify the control themes practiced by the company and to analyze the meanings attached to such practices.

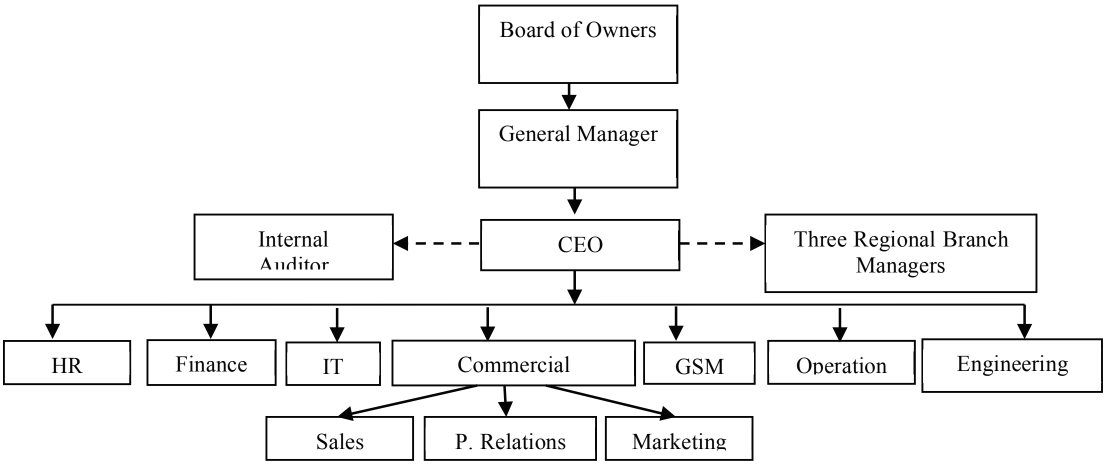

Fig. 2. The current organisational chart of SOTEL

4. Discussion and conclusion of the case findings

In the case findings, it is evident that “traditional clannish norms” play the key role in structuring the entire organisational MCP. SOTEL was established on the basis of “clan power-sharing” concept which is common in Somalia’s socio-political construction. To form SOTEL, in 2000, the founding members hailed from the same clan and because of their kinship ties, they were able to trust each other and establish the company. Through clan channels they also invited other shareholders to join the company, but with predetermined “clan ownership” ratio of each clan/sub-clan in that region. Moreover, to expand the company’s operations into the other clan’s regions, new shareholders have to be selected from the clan/sub-clan of the respective regions. Similarly, the political influence of the clan provides higher chances to the selection of the new shareholders. In this regard, the most influential business people, in the respective clan/sub-clan, are invited to join the company. Furthermore, the role of every founder is determined by the size and the influence of his/her clan/sub-clan in the country. For instance, the General Manager, who is from the largest sub-clan, is the chairperson of the company, while the owner who is from the second largest sub-clan, is the CEO (Chief Executive Officer).

Through “clan-power-sharing” the company tries to ensure that all concerning clans are represented in the company and that one clan/sub-clan should not dominate the company. This concept of “clan power sharing” in the business resembles the “political power sharing” method that is adopted by the Somali clans to share political positions since the collapse of the central state in 1991. Similarly, to fill the job vacancies in SOTEL, clan origin is the main determinant factor. The key positions of the company are filled up through the owners of the company who have to guarantee the potential employees. This is done because owners place their trust on their relative employees rather than employing unknown persons. Due to the security reasons in the country and the absence of regulatory institutions, personal trust is an important issue in Somalia’s clannish environment. Furthermore, to appear that the company does not belong to specific clan/sub-clan, employees are recruited from different clans. This is a “business power sharing” that is based on traditionalism, which is reflected in the company’s ownership, employment and control practices. Similarly, traditional clannish system is the easiest way to manage the major business operations in the different clan’s areas. Through the strategy of “clan affiliation” within the business owners, SOTEL built its largest telephone network in Somalia and branches in all clan areas.

For company’s governance, SOTEL employs both formal and informal control approaches; however, informal control practices seem to supersede the formal controls. As the CEO explains, the informal control is reflected by the role of traditional and religious considerations of the owners. For instance, individuals’ honesty, frankness, trustworthy and integrity are considered as critical requirements for recruitment of the new candidates in SOTEL. Moreover, adhering to the religious obligations is essential for the success of one’s application. Nevertheless, these requirements are not formal in SOTEL’s policies; but they are practiced during recruitment. Such process of Investors’ selection, selective employees’ recruitment, familial relationships and friends may explain the role of the CEO, as the father figure of the entire company, who takes all decisions by his discretions.

The operations director views that verbal communication approach costs the company, but it is accepted as a “formal control” approach to manage the most important activities such as sales and customer care activities. Similarly, the Head of Sales Division view that verbal communication suits the oral society of Somalia to simplify business transactions. Such informality of control practices has affected the performance evaluation, and incentives management. To evaluate the performance, sales volume is the basis. All employees are mobilized over sales and customers’ recruitment. Since sales activities are the core functions of SOTEL; whereby all other offices provide support to the sales operations, commissions and incentives are based on the financial achievement of the company. The financial results of the respective period form the basis of the commissions and incentives. However, as financial results are not disclosed, employees feel that commissions’ calculations may not be fair.

In this regard, employees perceive that the CEO and his close circle; i.e. General Manager and the Director of Commercial Department, play an important role in deciding the amount of commissions and the incentives given to the employees. The CEO is the “paternal figure” in SOTEL since the start of the company in 2000, and he enjoys the highest authority, particularly regarding operational decisions. Similarly, the CEO takes the major decisions regarding the investment, recruitment of the executive personnel and the amount of the profit that will be distributed to the shareholders as well as the commissions and incentives’ ratios. Furthermore, other informal control practices that are observable include the verbal communication among all individuals, information sharing among related employees, serving first those customers who have blood ties with the employee and providing financial information to the investors and shareholders as well as reporting the ratios of commissions and incentive packages to the employees.

On the other hand, SOTEL uses formal control approaches for its operational routines. For instance, the company developed its Key Performance Indicators (KPIs) for measuring both financial and nonfinancial activities. These KPIs are used for the assessment of the company's profitability. Similarly, employees are rewarded by their team-based achievement as well as their individual achievement. In SOTEL, every employee is encouraged to recruit customers through his/her personal channels; usually from the clan. Such employee receives commission from the sales of the customers that he/she recruited and is registered under his/her name. Similarly, quarterly incentives are paid to each employee, which is calculated based on the total sales of that quarter. However, even though the KPIs mention that nonfinancial indicators should be evaluated, but practically, the nonfinancial aspects of the company is not evaluated formally.

The other noteworthy formal control practices of SOTEL include accounting procedures. Accounting division falls under the Finance Department and is responsible for recording all business transactions and budget preparation (in coordinating with the other departments) and budgetary control. However, there is no other significant influence of accounting division in the company's decision making process. Although formal control techniques are relatively used by SOTEL, however, informal practices have made the formal control techniques irrelevant. Figure 2, summarizes the control themes that depicts the form of MCP employed by SOTEL.

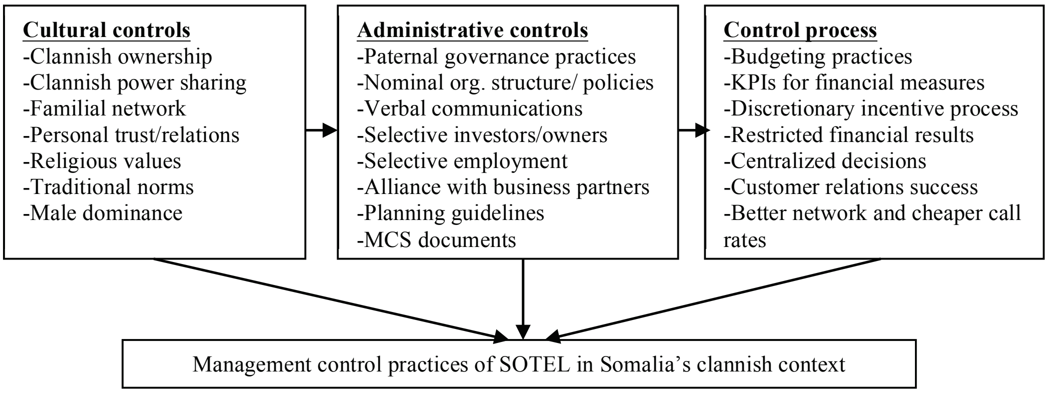

Fig. 3. The control themes identified in the case findings

As demonstrated in Figure 3, it is apparent that due to the traditional clannish norms of the Somalia, MCP of the case organisation is strongly affected by the cultural controls, which in turn, structures the administrative controls of SOTEL governance. Hence, depending on the administrative control, control process focuses on the operational aspects of the organisation. In that sequence, the three control elements intertwine and form the MCP of the company in its social context.

Although the results of this case study might not be generalized to all settings, however, it provides an insight about the patterns of MCP in Somalia's business organisations, which explains how management control systems may evolve in the traditional societies especially and generally in the SSA traditional environments.

Lastly, as with any case study, the findings of the study should be used with some considerations. Firstly, the key limitation of the study is that the data greatly relies on the interviews of one firm. Secondly, the interview was conducted in Somali language and translated into English for analysis. This may affect the accuracy of the meanings as meant by the interviewees who were mostly not familiar with the English language. However, these limitations may encourage us to further our researches to understand the control systems of the LDC, specifically that of the traditional social settings. It is hoped that this study adds to the small but emerging body of the empirical field studies in the management control patterns of traditional societies in the LDC. Furthermore, the findings of this study calls for further researches to discover more about the control systems in the LDC nations with particular considerations to the traditional social settings of SSA countries.

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