

## Management Control Patterns in the Traditional Societies: A Case Study in Somalia

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### ABSTRACT

*This study presents the management control patterns within the business governance of the traditional clannish society in Somalia. The study attempts to understand and report the nature and dynamics of control approaches that are used for business governance in Somalia. A qualitative case study was used to gather the data. Semi-structured interviews with the top executive directors, observation and document analyses were employed to triangulate the data sources. The findings of the study show the role of traditional cultural settings on the control systems in Somalia's traditional context. The prevalent control patterns include clannish ownership, paternal leadership, friendship and horizontal relationships, verbal communication and selective employment of owners and staff. These control patterns have promoted centralization of decisions including; performance measurement, incentives management and restricted financial information. The outcome of the study calls for further researches to better understand management controls, particularly that of the developing nations.*

**Keywords:** *management control patterns, business governance, traditional societies*

### 1. INTRODUCTION

A traditional society is a type of community that is mostly found in the developing countries, where the social connections are primarily defined by biological/ancestral associations or ethnic networks that also shape the other social affairs of the society such as political and economic relations (Lewis, 2004). Traditional cultures, norms and values are terms used interchangeably to demonstrate the thinking models and the collective programming that specific society shares and transfers through generations (Hofstede, 1980). These traditional values and norms, which mostly are unwritten, supersede any other regulatory system or body (World Bank Report, 1999/2000). Similarly, these norms and values structure the socio-political and economic activities of that society (Ansari & Bell, 1991; Uddin, 2009).

The role of traditional cultural norms on management systems and particularly control approaches has been debated since the emergence of Hofstede's theory in 1980s (e.g. Ansari & Bell, 1991; Chenhall, 2003; Hauriasi & Davey, 2009; Hofstede, 1980; Gray, 1988; Jackson, 2002). These studies underlined that cultural settings of a society play the most important role in shaping control systems design and use of business organizations.

The early studies of Hofstede (1979, 1980, & 1984) acknowledged that the functions of control systems, within specific social context, are strongly shaped by the cultural settings of that society. Moreover, Hofstede (1980, 1984) asserts that management systems, within the traditional cultural context, are considered a symbolic action that affects decision making process of organizations. Hence, comprehending the control systems that are designed and used by an organization requires understanding the societal constructs in which the control system takes place (Minkov & Hofstede, 2011).

In this regard, the empirical studies support the argument that control systems cannot be understood in isolation of its societal environment (e.g. Ansari & Bell, 1991; Gray, 1988; Hofstede, 1980; 1984; Perera, 1989; Tsamenyi, Noormansyah & uddin, 2008; Uddin & Choudhury, 2008; Uddin, 2009). For instance, the study by Hopper, Tsamenyi, Uddin & Wickramasinghe (2009), which focused on control systems in the developing countries, underlined that informal and subjective decision making and control approaches were prevalent in the empirical results of the developing nations. The study has attributed such informality and subjectivity to the traditional context of the respective societies.

Traditional culture of the specific society affects the organizational structures, employment, performance management; including control systems and financial control systems. Uddin and Choudhury (2008) explored the business governance in the traditional societies to compare it with the governance styles in the western capitalism. Using interview of directors and managers of one firm, the authors analyzed the familial and political connections to understand the role of such connections in shaping rational business governance measures. Uddin and Choudhury (2008) concluded that board of directors in the firm noticeably served the specific interests of the family rather than the shareholders. This is also supported by Efferin and Hopper (2007), who revealed that business organizations operating in the traditional societies construct their forms of control based on informal, kinship ties, nepotism, personal trust and familial governance styles that are developed by the members who descend from the same ethnic or clan.

The importance of traditional familial connections in management controls is also reported by Wickramasinghe and Hopper (2005). In their findings, they concluded that conventional western management accounting failed due to the traditional cultural norms that are based on personal trust and familial network. Similarly, other research evidences and observations, in the traditional context, also confirmed the prevalent practices of selective staff recruitment, subjective employee appraisal and reward, symbolism and judgmental performance management (Efferin & Hopper, 2007; Mellahi & Wood, 2003; Tsamenyi et al., 2008), informal and kinship-based decision making practices (Tsamenyi et al., 2008) and financial information that is restricted and obviously served the interest of certain groups in the company (Uddin & Choudhury, 2008). Therefore, the role of traditional norms and values, in many of the developing countries, renders formal control systems to become irrelevant (Tsamenyi et al. 2008).

Financial control system is also affected by the traditional cultures. In the traditional context, Efferin and Hopper (2007) reports the low participative budgets, subjective measurement and that few rewards are tied to the financial results. Previously, it was mentioned how financial information are affected by the familial networks (Uddin & Choudhury, 2008). The study of Hopper et al. (2009) also found the same argument of Uddin and Choudhury (2008). Furthermore, Uddin (2009) asserts that financial reports, budgets and the other financial information were used only for personal interests. This is supported by an earlier study by Uddin and Choudhury (2008). This study found that the board of directors, in the case organizations, noticeably served their family interest rather than the shareholders. This happened even though the family members owned only minority shares in the organization.

Describing the situation of financial controls in the organizations operating in the traditional context, Efferin and Hopper (2007) also confirms that owners tried to introduce conventional western controls including budgets and other financial controls such as formal wages and rewards for performance, however, the conventional western control failed because of the informal procedures that dominates in a traditional society's context. However, the results of these studies do not provide definitive conclusion about the control systems and routines in the traditional society's environment, which offers the academic gap for further understanding in this emerging issue in the academia. Therefore, this paper attempts to understand, interpret and inform the control patterns that are practiced by one case company in the context of the traditional societies. Specifically, the study aims to report the ways of doing things by an organization operating in the Somali traditional clannish settings. Finally, it is hoped that the paper will contribute to the emerging control systems literature, particularly in the context of the traditional societies in the developing nations.

## **2. THE THEORETICAL FRAMEWORK OF THE STUDY**

As previously mentioned, the purpose of the study is to understand the nature and dynamics of management control patterns in the traditional societies. After a thorough review of the management control literature, the key components of management control systems (MCS) in its social contexts are identified and classified as: cultural, administrative and process controls. These three main categories of MCS are employed as the theoretical framework to offer a bigger picture about MCS patterns and themes, particularly in the context of traditional societies. This theoretical framework was developed for guiding the field study in the traditional clannish society of Somalia.

In the first row of the framework; cultural control, represents the largest circle. In any society, cultural traditions and values play the most important role to structure all other social activities that takes place in that society (Hofstede, 1984). According to Hofstede (1980) management systems within a society is constrained by its cultural context, since it may not be practical to manage people's actions without understanding their social settings. In similar way, MCS cannot be understood in isolation of its social settings in which MCS takes place (Uddin, 2008). Even though, "culture" is a social phenomenon which is very complex to understand (Hofstede, 1984), however, there are three types of cultural controls that have been recognized in MCS literature; i.e. *clan*

*control* (Ouchi, 1979), *beliefs and value controls* (Simons, 1995; Herath, 2007) and *symbol-based controls* (Tsamenyi *et al.*, 2008).

Anthropologically, clan control may be defined as a network based on homogeneous ideology or ancestry that binds the society members together (Ouchi, 1979). Likewise, the informal relationship between managers and their employees is considered a form of clan control because such connections may produce a kind of solidarity and mutual trust among members, which in turn, may create a commitment to the work (Berry, Coad, Harris, Otley, & Stringer, 2009). Beliefs and value controls are considered a useful approach to easily communicate organizational information such as values, vision/mission, policies and other strategies. Malmi and Brown (2008) view that belief and value controls operate in three levels; employees' selection and recruitment, socialization process and the alignment of employees' behavior to the organization's objectives. Similarly, symbol-based control refers to the physical expressions of the organizational environment such as dress codes of the staff as well as promoting particular actions of employees (Malmi & Brown, 2008).

In the second row of the framework; administrative controls, represent the second largest circle. Administrative controls are the control tasks that demonstrate the organizational matters such as governance structure and levels of responsibilities. Organization's vision and mission, structure, information flow and governing boards are the main factors that direct the entire administrative controls of an organization. For instance, the vision/mission of an organization directs individuals' actions towards organization's ultimate goals (Malmi & Brown, 2008).

Although having vision/mission does not guarantee the success of control systems, however, it provides better guiding to the management as well as the employees. In other words, organization's structure and governance is a way to harmonize the different interests of the stakeholders and to depict the different management authorities and decision-making units.

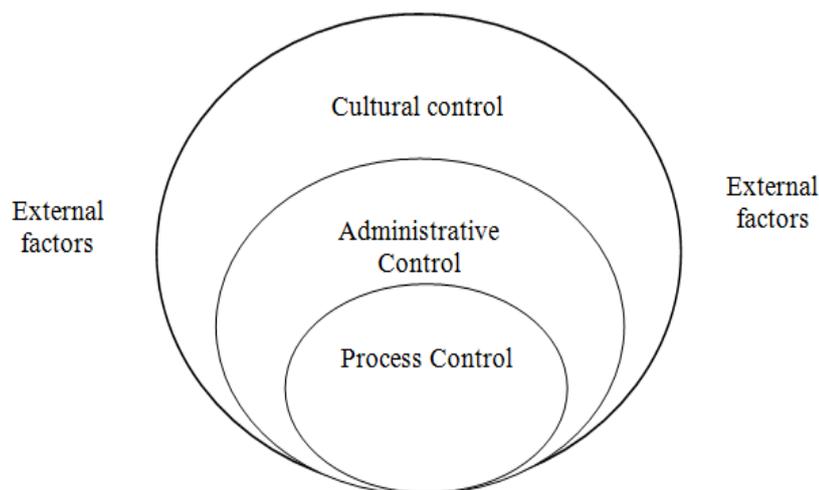


Figure 1: A theoretical framework of management control patterns

However, according to Overall, Tapsell and Woods (2010), traditional governance theories may not adequately explain governance systems in the various socio-cultural contexts. The governance system of an organization depends on the social settings of that organization. As a result, different forms of organization's structures and governance may evolve in the different societies (Overall *et al.*, 2010).

The smallest row of the framework represents the process control circle. Process control is an integrated group of activities that is aimed to achieve specific organizational goals, such as physical, people and information elements (Anthony & Govindarajan, 2007). The MCS mechanisms of process control includes; planning (Atkinson *et al.*, 1997), budgeting (Anthony & Govindarajan, 2007), and performance measurement and compensation plans (Ferreira & Otley, 2009). It is the operational tasks that are repeatedly used by an organization for control over daily activities. Therefore, the forms of process control depend on the structure of administrative control.

Finally, the components of the theoretical framework demonstrate how control areas are interacting. According to Figure 1, cultural control circle represents the main factor that directs the entire organizational system and operation. This means that cultural issues (including norms, values and religious practices) are the primary factors that structure the development of structures and sub-systems in an organization. Hence, organizational

structure, the structure of governing boards and policies are shaped by the cultural views of the owners and managers of an organization in the context of the respective traditional society (Hofstede, 1984). That is the way an administrative control system is expected to evolve. Lastly, the control process, which mainly focuses on operational issues, is the product of the administrative structure. As a result, process control is the regular routines that are designed to serve the administrative control systems. In that sequence, the three control areas intertwine and strive for the achievement of an organization's ultimate objectives.

### 3. RESEARCH METHODS

A field data was gathered in the periods between March and June 2013. The study employs a case study method with qualitative data collection strategies. The case company is selected from the telecommunication business which is reported to be the leading industry for the last ten years (International Alert, 2006; Leeson, 2007). The selection of the case company (STEL) is based on a previous experience of one of the researchers with the company. In the year 2010, one of the researchers attended a training program offered to the company's employees. As a trainer, the researcher participated in the discussions of the management about the biggest challenges of STEL. *Clanism* (or clannish culture) and its challenges in the different clans of Somalia were the pivotal issue for the discussion. Since the collapse of the central state in Somalia in 1991, *clanism* became an alternative agent for social controls (Lewis, 2004). Describing how Somalis believe and are loyal to their traditional *clanism*, Lewis (2004) quoted an expression of a Somali interviewee who stated that: "there is only one loyalty all Somalis share. It is not Islam. It is not nationhood. It is not love of the country, it is *clanism*; a phenomenon I like to call the Hidden Religion" (p. 511).

During the discussion with the STEL employees, the main aspects the trainee discussants emphasized was that *clanism* is the parameter of all company's operation; i.e. employment, employee assessment, promotion, rewarding, relationship, information sharing and communication. Having this preliminary information, the research was motivated to carry out a field study about the business governance in Somalia's traditional society. Similarly, the experience with the case company, and having known its management, enabled the researcher to gain access to the case company. In this regard, the case company has two unique criteria that also support the selection of STEL as the case study. First, employees and owners of STEL are from different regions/clans. Second, the company is the largest telecommunication provider in Somalia that operates in the different regions of the major clans in Somalia.

The other reason that contributed to carry out the case study is that recently there are growing concerns about the significance of qualitative case researches in management accounting and control which has sprang from the inefficiencies of the broad-based survey researches that prevail in the traditional control research (Alhtaybat & Al-htaybat, 2010; Lillis, 2008; Parker, 2011; Vaivio, 2008). Therefore, case study method is one of the most promising approaches of enquiry to understand the socially constructed control phenomena as well as obtaining richer information from the field.

The data was collected through semi-structured interviews that were conducted with executive personnel of the case company. In addition to the CEO, the other participants are the directors of: sales/marketing, human resource, engineering, IT (information technology), GSM (Global System for Mobile Communications), finance and operations. Lasting within a period of 30 to 85 minutes time, the interviews were tape-recorded alongside with the note taking of the researchers. Moreover, after transcriptions of each interview, confirmations from the interviewees were sought for the purpose of results reliability (Mason, 1996). Interviews focused on the issues of control patterns that are practiced by the company. In addition to the interviews, observations and document analysis have also been used as a technique of data triangulation (Merriam, 2012).

A qualitative case strategy is deemed to be an essential approach that not only penetrate into the organization's social aspects, but also genuinely explore the subjective meanings that are attached to the specific forms of social life (Parker, 2011; Silverman, 2001). It enables the undertaking of an in-depth study and analysis of the daily habits, routines and transactions that take place within the organizational activities in its social settings. This is the research strategies that have been advocated by the contemporary scholars of management accounting and controls (Chenhall, 2003; Parker, 2011; Scapens, 2004; Vaivio, 2008). According to this contemporary view, control functions are embedded with the values and meanings that are inducible from the field (Ahrens & Chapman, 2006).

To analyze the field data, a partial analysis of the findings is carried out. The interview of eight officers is transcribed and analyzed to find out the initial themes and control patterns of the case organization. General themes and patterns of control techniques are extracted from these eight participants' interviews as well as the analyzing observations and document. The reason for carrying out this partial analysis is to identify the main

control themes of the company in its traditional social setting. In addition, the partial analysis of the data aims to identify the meanings that are attached to such control themes. Finally, the researchers carried out interpretations of the meaning of control themes and patterns to reveal the reflections and research implications for future studies (Merriam, 2012).

#### **4. THE BUSINESS SITUATION IN SOMALIA: AN OVERVIEW**

Somalia is located in the Horn of Africa, with an estimated population of around 10 million<sup>1</sup>. In 1991 the country went into a civil clannish war that caused the total collapse of the central state. After the collapse of the state, all public institutions disappeared and Somalia was classified as a “failed state”. From the year 2000, the efforts to restore stability and statehood were ongoing with the involvement of the international community, particularly, African Union, Arab League and the United Nations. However, due to the long history of clan conflict, the efforts to establish a functioning state did not succeed, and until now the Somali state that has been formed by the traditional clan leaders does not control except several villages of the capital city, Mogadishu. As a result, the current state of Somalia is known as the “stateless period” of Somalia (International Alert, 2006; Lewis, 2004; Little, 2005; Mubarak, 1997). This means that all state-run institutions and public services are absent and accordingly, socio-political and economic life of the society is controlled by traditional norms.

Even though the traditional clannish norms existed and were in practice in the long history, however, after the collapse of central state, traditional norms become the major customary laws to control the sociopolitical and economic aspects of Somalis (Lewis, 2004). In this regard, under the absence of regulatory system and with the clannish traditional norms, the business sector has flourished and achieved better performance (Little, 2005; Nenova, 2004). Therefore, such phenomenon becomes a motivating factor that calls for further researches and particularly to explore the forms of control systems of business organizations in the traditional society of Somalia.

##### *4.1. Brief background of the case company*

Under the stateless Somalia, the founders of STEL (anonymous name for the case) met in 1997 to take the advantage of the business opportunities that was created by the civil war. The current chairman of the founders and the CEO of the company were the two persons who developed the idea of establishing a telecommunication company on the ruins of the civil war in the capital city of Somalia, Mogadishu. In the year 2000, the company started its actual operations providing telecommunication services in the capital city of Somalia, Mogadishu. As one of the leading telecom companies, STEL is headquartering in the capital city and has the largest network coverage in all regions of the country. With a 75 million USD of total assets, STEL currently employs 2,500 personnel of all levels.

In the organizational structure of STEL (as portrayed in Figure 2), there is a board of owners at the top most, followed by the general manager of the company and the CEO. Then, there are seven operational departments for the company’s business operations. These departments are: human resource, finance, IT, sales/marketing, GSM, operations and engineering. Each of the departments is headed by a “director”. The CEO and the seven directors form the “steering committee” of STEL. Geographically, the company’s administration is organized into three main regional administrations; South-central, Eastern and Northern regions of Somalia. These three regions are based on the clan divisional boundaries that have been created after the collapse of the central state in 1991. Apart from the CEO who is in charge of the entire operation as well as the manager of headquarters, the other two regions have their regional branch manager. The regional branch manager reports to the CEO.

#### **5. FINDINGS OF THE CASE STUDY**

This part of the paper presents the major findings of the case study. It also provides the discussion and conclusion of the findings.

##### **5.1. Management control patterns of STEL**

###### *5.1.1. The role of clan in the company’s formation*

As mentioned previously, the idea of STEL foundation come from the chairman and the chief executive officer (CEO). These two men are from the same clan. They hail from the largest two sub-clans of the clan that dominates the south-central regions of Somalia. The two men decided to share the idea with their other friends who also originate from different sub-clans of the same big clan. To offer ownership for different investors from the different clans/sub-clans was the only way to extend company’s business operations in the different clan areas.

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<sup>1</sup> Source: Central Intelligence Agency (CIA) World Fact-book, 2011.

Months after the central state collapse, the two sub-clans of the CEO and the GM fought deadly over the control of the capital city (Mogadishu) in the period between January and April of 1992, which caused the military intervention of the United Nations and the partition of the capital city into two major parts that established the green line between the two sub-clans.

The two men started the plan that every one of them to find out one trustable business person who can share the formation of the new company, but these new invitees were selected from the different sub-clans of the big clan. Three other co-founders were also found; one female and two male investors. These five founders of STEL play different roles in the company. For instance, the founder who is from the largest sub-clan is appointed as the chairman of the founders as well as the general manager. The CEO is from the second largest sub-clan and he plays the role of the second most powerful person in the company. The lady is from the third largest sub-clan. Therefore, she is the third powerful person in the company. The authorities of the lady are not explicitly stated but informally accepted by the founders and the other shareholders. The manager of the sales/marketing department explained that:

*“She is not formally appointed but when the CEO is outside the country she is the highest executive person because she is considered the third person in the company in terms of power”.*

To extend company’s activities into the different regions, the top management (CEO & GM) invited new owners from the northern and eastern regions of the country. In the year 2009, the company extended its activities into the northern region of Somalia (currently known as Somaliland). To extend the company’s business activities into the northern region, the general manager contacted his previous business friends and negotiated with them to join the company. The process of offering an ownership is not a simple issue. The general manager had to convince his business friends from northern region that they would enjoy the same benefits of the founding members.

*“It was not easy to convince them because if we did not offer such privileges they may establish their own company in their region and compete us. So, we decided to cooperate instead of competing” (CEO).*

This strategy of offering founding ownership is a strategy used by the STEL to avoid the challenges that are faced by the other competing companies in Somalia. Usually, all other telecommunication companies are established in the “clan’s area” and then created a “partnership” agreement with a similar company in the neighboring “clan’s area”. Even though partnership between small telecommunication companies is common, however, frequent disagreements arise between partnership companies that are originated from the different clan regions.

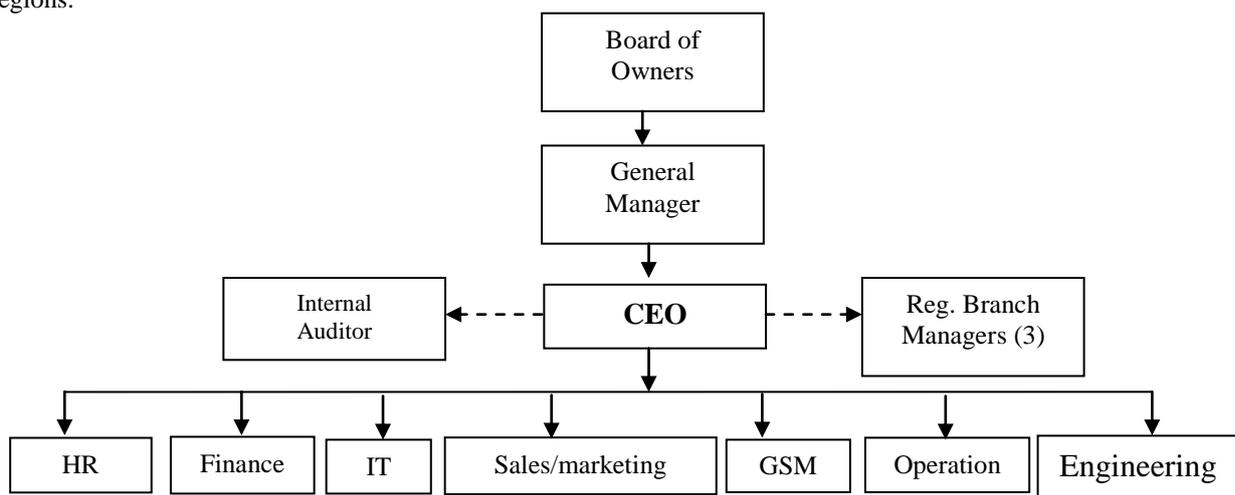


Figure 2: The current organizational chart of STEL

To avoid such disagreements, and to unify the pricing policy, the case company used the policy of offering founding ownership to the business friends in any clan region that is necessary for the company’s future expansion. This policy enabled STEL to offer the cheapest rate in the country while for the competing companies; the inter-connection cost, between the partnerships, is usually higher. To extend the company’s network coverage in the eastern region (Puntland state), the company employed the same strategy of Somaliland region.

The size of the clan is very important for the company's business operation. After the formation of STEL, founders had to promote the company's business to their respective clansmen in order to recruit customers (subscribers) as well as shareholders to invest in the company. Therefore, the larger the clan size, the more customers are expected from the clan. In similar way, employees are recruited on clan basis. At the beginning of the company's operation, the founders agreed that employees are selected from close circle of the founders; either by blood relationships or friendship. This policy is called the "selective recruitment" of the employees, where every employee is selected and guaranteed by a founder.

Under the absence of rules and regulation in the country, hiring an unknown employee is not an easy matter, because for security reasons, the owners look for the people they know and trust. Therefore, in the context of traditional societies, personal relationships and trust of the employee to the employer is an essential way to protect the company's interests (Lewis, 2004; Makinda, 1991).

However, when the company has grown, the process of recruitment has changed. Currently, the company categorizes its employees into three types. First group is the executive managers. This group is selected on the basis of their clans/sub-clans in the different regions. The company uses what is called "clan balance in the company" which means that all clans and sub-clans should be reasonably represented in the company. Similarly, the lower level employees (i.e. the drivers, the security guards, the cleaners, etc.) are also employed based on their location but there is no much consideration about their respective sub-clans/clans.

On the other hand, to select the middle level or operational employees, the qualification of the candidate is the first criterion with the condition that this group of employees should come from different clans and sub-clans. The reason for diversifying their clan/sub-clan origin is to maintain the reasonable representation of the different clans/sub-clans in the company.

*"To recruit an employee for a task that requires specialized profession, we have to look for the people who have that profession. But at the same time, we do not accept that one clan dominates us or dominates in a specific department because that will damage the reputation of the company's neutrality"* (operation director).

According to the traditional culture of Somali society, male is appointed in the major administrative positions of any organization. Principally, since female sisters can join any other clan by marriage and that they are not restricted by ancestral boundaries of different clans, they cannot represent their clans in the main positions of the companies. Therefore, to preserve clan balances in the company, only male employees can represent their respective clans.

#### 5.1.2. The role of traditional cultural norms and values

Traditional cultural norms and religious values are highly adhered to STEL's operations. Before any individual is employed, the candidate should go through a screening program that is intended to find out how such person adheres to the cultural norms such as ethics of honesty, truthfulness and commitment to the religious obligations. To check all these personal qualities, the company needs a recommendation from a trusted prominent person such as an Islamic scholar or a respected business person.

Other practices of the religious obligations such as prayers, fasting the holy month and dressing religious attire are necessary matters for the image of the company in the society. According to the HR director, personal commitment to the religious obligations is a prerequisite of trustworthy, truthfulness and reliability. The importance of the religious appearance in the attire is to preserve the image of the company in the society.

Similarly, in the daily practices of the company, it was observed that all activities are put to halt at the times of the prayers, and were continued immediately after the prayer.

*"Although we are not very strict about the practices of all religious obligations, however, (in employment), it is the first thing we have to test before everything else"* (HR director).

On the other hand, the company should test the candidate's ethical behavior and that he/she does not involve in any unethical activities like smoking cigarettes, chewing *qat*<sup>2</sup> or using any other stimulant.

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<sup>2</sup> *Qat* or *Khat* is a tropical evergreen plant whose leaves are used as a stimulant by many people in Africa and Middle East.

*“Usually we try to know whether the candidate uses any stimulant such as smoking, qat, tobacco or any similar elements. If we realize (that) the candidate uses such unethical substances we do not hesitate to reject him/her”*(HR director).

However, the HR director noted that if it is reported that an employee uses stimulants secretly, they do not investigate or spy on that employee as far as the usage is not publicly practiced. Oral rumors are the main source to identify the unethical behavior of the employees. In addition, the HR director, emphasized that anyone who is reported to have practiced the mentioned unethical stimulant will be subjected to close supervision by his/her director boss. Culturally, Somalis associate bad behaviors; i.e. dishonest, fraud, corruption, theft, etc, with those stimulants and that is why these stimulants are considered unethical behavior which may at least damage the reputation of the company.

### 5.1.3. Friendship and employees relationships

Good relations among employees are essential in STEL. For example, before start of their daily tasks, employees will exchange news about the latest issues about the country and the company. Everyone makes round to the neighboring officers to say ‘salam’ and ask about the security of the areas they lived as well as their personal conditions. Knowing the security situation of each other is common practices that existed in the long history of Somalis (Lewis, 2004).

The working hours of the company are from 8 am to 5pm for six days, starting from Saturday. There is a one hour break for lunch and prayer; i.e. 12pm to 1pm. But, through observation, it was obvious that employees in the different departments such as frontline employees have their short breaks that are not allowed formally in STEL, but are tolerated by their supervisors. For instance, in the morning shift that starts from 8am to 12 pm, there are two short breaks; 15 minutes each. Similarly, in the afternoon shift there is an unofficial break of 30 minutes that is tolerated for the Assar (afternoon) prayer with a tea break. In these short breaks, employees come down on the ground floor where the cafeteria is and they openly tease each other over tea. This culture of taking tea together and conversing enables individuals to know each other deeply. Therefore, everyone knows the details of colleague in the company. The HR director commented that:

*“We do not restrict the relationship among employees and friendship ties. We try to focus on the tasks to minimize personal conversations, but still we have to be flexible with them because they are cooperative and they consider us as friends. We do not want to change their cultural practices; instead we focus on their loyalty and commitment to the company”.*

Directors also give flexibility to their subordinates. The relationship between employees and the subordinates looks like horizontal relationship and not vertical. During the informal conversation with the sales/marketing director, it was observed that employees were coming and joking with him as friends who are in equal administrative positions, but the director informed the researcher that he does not treat his subordinates as employees. Rather he considers them as colleagues. This is common culture of the traditional clannish societies where friendship, personal trust and emotional ties are customary rather than bureaucratic procedures (Tsamenti et al., 2008). During the stay of one of the researchers in the company’s premises, it was observable that personal relationships were normal and that subordinates might come in and sit with their boss without asking permission to do that. Explaining how such openness and flexibility is common in the company’s offices, the GSM director view that he does not like to be looked as a boss; instead he likes to be treated as a friend by his subordinates.

*“My office is open to anyone. I cannot make restrictions or tight schedules because all offices are open and every officer can come to my office or even to the highest person in the company and ask whatever he/she wants. I agree that such behavior disturbs the smoothness of my daily schedules, but no choice”.*

Similar to sales/marketing director, the GSM director views the same idea of boss-subordinates friendship. He explained that he does not like to use the word “subordinates” for his colleagues, rather he like to use the word “co-workers. In the same way, the personal relations and friendship are used for dealing with customers. In the frontline counters, it was observed that when a customer arrives at the counter, the customer will look for an employee he/she knows in the counters. If the employee is busy to serve the customer, the employee should contact a colleague in the neighboring counter to help his/her friend customer. The sales/marketing director complained that:

*“Even if other frontline employees are vacant, the customers may not go to someone they do not know unless the friend employee transfers them to the vacant employee and tells their colleagues to serve the customer”.*

The reason for such culture is very simple. These customers were recruited through clan affiliation or friendship invitation. Therefore, whenever the customer arrives at the company's offices, the customer should first inform his/her needs to the person who recruited him/her.

#### 5.1.4. *The role of verbal communication*

In the context of oral society, which prefers the verbal (or unwritten) mechanisms of transmitting information, employees favor the use of verbal communication as a faster and easier way of achieving tasks rather than through formal (written) communication. The operation director complained that because of the communication informality, the company incurs some expenses. The operation director indicated that many times employees use the informal means to simplify business transactions. He has given an illustration of the sales division. Every day at 8 am, when the frontline employees of the sales division are starting business operation they have to collect air time cards to sell to the customers. Equal numbers of air time cards are given to every employee to serve the customers. However, air time cards with the frontline employees do not finish at the same. Therefore, when the air time cards finish from one frontline employee, that employee borrows additional cards from the neighboring employee in the next counters to serve customers instead of waiting a longer time to get air time cards from the store. Due to the borrowing habit of the employees the company may face the problem that borrowing air time cards from each other is not written by both employees, which may create the difficulty of who is responsible for the sales of these cards. The reason for using such informal transactions in business may be as a result of the personal trust and friendship among employees as well as that of their bosses.

The finance director also complained about the lack of accurate records in the sales/marketing departments' transactions. The finance director explains that the problem arises when there is a discrepancy between the air time cards that was collected from the store and the air time cards that have been sold. The finance director mentioned that their office has reported the problem several times, and suggested to develop a record for the frontline employees to write transactions, but there is no serious action taken.

#### 5.1.5. *Accounting and reporting of financial results*

Accounting unit is one of the main divisions in the company. The duties of selling, purchasing, cash receipt, cash payments, checking and recording of transactions are separated and assigned to different personnel. Similarly, disbursements are restricted to the approval of the CEO and the finance director.

*"We have accountant and chief accountant. There is an accountant in the headquarters and every branch we have assistant accountant. We have cashiers who collect sales and receive collections. When we produce air time cards we have stores who keep it and hand over to the sales department. Then we have other employees who handle collections of the credit sales. All these transactions should be reported to the accounting division"* (finance director).

Similarly, cash receipts and payments vouchers, payroll, purchases slips and sales invoices are organized and kept in the accounting division office. Accounting division prepares financial reports and submits to the finance director and CEO. However, financial reports are considered very sensitive to submit to anyone other than finance director and CEO. For the fear that financial results might reach the hostile parties; i.e. political fighting factions and competitors, the financial results are not released to the public as well as to the shareholders and employees. This issue was revealed by the finance director who explained that they cannot provide written financial information to the shareholders:

*"... It is difficult to give formal (written) financial information to the shareholders because we have no trust with them. They may put it on an unsafe place. Thus, we inform them (shareholders) by verbal or by sms (phone message). Likewise, we give it (financial results) to the CEO and he can give them to other owners"*.

But the non-disclosure of financial results caused dissatisfaction among the employees. Employees are feeling that they are not being trusted in the company when, in fact, they are the people who achieved the financial results. In addition, employees are afraid that the lack of transparency may affect their commissions and incentives which are measured by the reported financial results. Therefore, they usually gossip about the finance director and the CEO of certain amount of profit being retained by the company.

#### 5.1.6. *Financial performance measurement*

Formally, at the beginning of every year, the steering committee prepares the annual plan of the activities such as quarterly and annual sales, prices and rates of sales units, employees' training plans, marketing plans and the plans for growth of the network coverage such as building new sites and transmission towers. These activities

require financial budgets. Therefore, the finance department is responsible for submitting the initial draft of the divisional budgets as well as the master budget of the company. The budget, which is built on the planned annual activities, is distributed to the departments. The different departments should submit their suggestions within two weeks of the distribution. Then suggestions and comments are displayed again to the steering committee to finalize and approve the last draft of the budget for the next year.

The sales/marketing department is the largest department in STEL as it is the cornerstone of the company's operations. This department represents the profit center that focuses on the increase of the company's cash inflow while the other departments work as cost centers. To increase the sales and the number of subscribers, this department provides a lot of commissions and incentive packages. For instance, every employee can work as an agent and get a commission by recruiting subscribers. Therefore, the department sets sales target, average sales prices and rates of incentive packages. Besides the salary, commissions and incentives are considered essentials for encouraging employees.

*"To encourage the contribution of everyone in the sales growth, we allow all employees to recruit subscribers. Every employee has a list in our database that shows how many subscribers are registered under his/her name"* (Sales/marketing director)

Although sales/marketing department controls the main activities of sales operations such as selling air time cards, registration of new subscribers, collecting cash from customers and solving customer problems. However, employees in the other departments also involve in recruiting new customers to obtain additional income (commissions). To increase customers of the company, employees can recruit customers outside the company and earn additional commissions. Every employee has a list of mobile numbers registered under his/her name in the company's database. At the end of every month, the employee can earn a commission from the sales of the customers he/she recruited. In addition, to increase that type of commission employees sometimes offer a sub-contract to their close friends or relatives, who are not staff of the company. These sub-contractors also share the sales commission with the employee. Through this approach of creating sub-contract more customers are recruited as well as the additional income acquired by the employees. However, this sub-contract is not formal in the company, but it is a common practice that is promoted by the top management to increase sales.

In this regard, the company has developed a performance measurement system. During the interview with the CEO, he exhibited a document titled "management control systems" that was written in Somali Language. In the document, key performance measurement (KPIs) was detailed. This document, which is dated January 2012, categorizes the company operations into two major areas for assessment. The financial success of the company is measured by the: capital growth, market share, incremental performance and marketing victory. Equally, the indicators for the success of nonfinancial aspects include: subscribers usage, operational efficiency, services quality and the network coverage of the company.

Despite the fact that these KPIs are formally written, however, according to the sales/marketing director, the KPIs are at its theoretical stage that needs to be put in the reality of the company. Similarly, the operations director viewed that KPIs are just a copy from text books by some employees, but they do not know how to implement it in the company's different business activities.

The company does not make any long term or strategic planning. Although the company invests in the assets that may cost millions of USD, like transmission towers and building new sites, yet, these issues were not expressed in the planning and budgets of the company, which means that strategic planning is non-existent.

*"we would like to set it (strategic plans), and we are keen to develop long term plans for the company's future, but you know, Somalia's situation does not encourage to focus on the long run"* (CEO).

The reason for not considering the future or strategic plans of the company may be that, the unstable environment of Somalia does not encourage the long term investments and that decisions are affected by the fear that sudden changes of political and economic situation may occur within a year or even in months. From the year 1991, when the central state collapsed, it was difficult to predict the political situation of Somalia as there were a lot of drastic changes in the political environment. The worst political sudden changes were that of 1994<sup>3</sup>, 2000<sup>4</sup>, 2004<sup>5</sup>, 2007<sup>6</sup> and 2010<sup>7</sup>.

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<sup>3</sup> Fighting between United Nation peacekeeping forces and the militias of the warlord Mohd Farah Aided exploded.

<sup>4</sup> Transitional National Government (TNG) was established in Djibouti and fueled new civil war.

<sup>5</sup>Transitional Federal Government (TFG) was established in Kenya and escalated the conflict.

#### 5.1.7. Promotion and compensation management

Officially, the director of HR department is responsible for the recruitment process, appointments, promotion, and reporting about the performance of every employee in STEL. As mentioned previously, there is a “management control” document which has been written in January 2012. There is a section, in the document, that explains the performance measurement and compensation plans of the company. The document states that “clear standards should be developed for the measurement of employees’ performance at the organizational level as well as the divisional level”.

Likewise, the document explains the importance of determining employees’ performance and that all departmental and divisional managers should take part to develop such standards to simplify the measurement of individuals’ achievement as well as the performance of teams. Even though this document is dated January 2012, however, the company has its own practices of performance measurement since its inception. They use both team-based performance measurement and individual-based performance measurement.

*“We use both individual performance measurement and team-based performance. I do not know why, but our employees do not like individual-based appraisal, but they prefer to be measured as a “team” (HR director).*

Practically, the company employs both team-based and individual-based performance measurement. For example, in the database of the company, there are many subscribers who are registered under the names of specific employees. Based on that database, commission of each employee is evaluated on the amount used by the customers registered in the employees’ name. Therefore, according to the amount of monthly sales, individuals’ performance is measured by the amount of cash they contributed to the company’s sales. However, team-based assessment is used for the employees in the other departments rather than sales/marketing.

When it comes to the distribution of commissions and incentive packages, the process to determine and calculate the amount are much doubted by the employees. In their interview, the directors of sales/marketing, HR and IT, agreed that there is a lack of transparency in the application of the employees’ performance measurement; particularly the financial performance of employees. For instance, the HR director claimed that:

*“Every employee tries his/her best to maximize company’s profit but at the end of every month, when commissions and incentives are being distributed, employees feel that the processes are not transparent. Therefore, employees cannot predict their commissions and incentives. It is normal that everyone wants to know what he/she achieved and what he/she deserves”.*

In addition to the financial performance appraisal, individuals are assessed on their integrity, ethics and their religiosity. Even though it is not written in the job description of the employees, but, in the view of the sales/marketing director, ethical behavior is an important issue that can be understood by the common sense of everyone and already mentioned in every part of the religion. Therefore, if the employee is reported to have what the company considers as an unethical behavior such as smoking in the public places, chewing *qat*, or even not attending the prayers, the employee may lose his/her job instantly.

## 6. DISCUSSION AND CONCLUSION

In the findings of this case, it is evident that “*clanism*” plays the key role in structuring all other aspects of the organization’s business activities. The company was established on the basis of clan power sharing. The founding two men (CEO & GM) selected other co-founders from the sub-clans of the dominant clan in the south-central region. This is a way to balance the role of the different clans/sub-clans in the company and to avoid that one clan/sub-clan to dominate the company. In other words, it is a “business power sharing” concept that resembles the “political power sharing” system which is adopted by the Somali government for the last twenty years. This concept of “clans business power sharing” is reflected in the ownership structure and employment practices of the responsibilities and functions of the company. Therefore, depending on the “clan/sub-clan size”, the role of every founder is determined in the company.

This culture of “clans balance” or “business power sharing” concept that is used by the case company, is the easiest way to extend the company’s business activities to the different clan’s areas. Otherwise, the company would not be able to develop beyond the geographical borders of the founders’ clan/sub-clan. Through the strategy of building “clan affiliation or alliance” within the business owners from the different clans, STEL built

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<sup>6</sup>Terrible fighting erupted between IGAD peacekeeping forces and the militias of Islamic Union Courts.

<sup>7</sup>Severe fighting erupted between TFG and Al-shabab militias (Al-Qaeda linked Islamic insurgent).

the largest network in the country but perhaps through its own way of business management such as the previously mentioned strategies of clannish ownership and selective owners and employees.

Similar to the previous research findings, the case company practices both formal and informal control approaches; however, informal control systems override the formal control systems. This is reflected by the role of cultural values and religious considerations of the managers and employees. The cultural norms of honest, frankness, trustworthiness and reliability are considered as essential requirements for recruitment of any employee in the company. Similarly, adhering to the religious obligations is indispensable for the success of ones candidature. However, these requirements are not written in the company’s policies; but they are formally practiced during employment. The clan identity of the candidate, his commitment to the religious obligations and other cultural values are the control patterns that supersede the role of formal control systems in the company. Such process of selective ownership, selective employees from the close circle of relatives and friends may explain the role of the CEO in the company, who is considered the father figure of the entire company.

The sales/marketing director also seems to be the second most powerful person in the company’s operational issues. As one of the first employees in the company’s history, other employees will refer to him on any problem related to the business operations. It is not only the experience, but also he hails from the same sub-clan of the CEO. Therefore, he gains some respect through his clan affiliation. This shows the role of family relationships in the company management. This is similar to the findings of Tsamenyi et al. (2008) and Uddin (2009). They found that familial relationships were superseding the formal management procedures of case organizations.

Friendship and personal relations also become part of the formal system in the company. Open conversations, sharing tea with friends and exchanging information rumors are accepted in the company’s business operation. This culture has enabled the employees to fully know each other’s details. Such connections among different workmates have created also the horizontal relationship between bosses and subordinates. The GSM director described it well by mentioning that he does not like to appear as a boss among his subordinates, rather he prefers to be considered as one of their friends. In addition, friendship and personal connections made the schedule of the work more flexible to the employees. That flexibility of work schedule may provide better options to accommodate the work place (Dizaho & Othman, 2013).

As an oral society, the verbal communication also prevails in the company’s business operations. The sales/marketing department practices verbal communication which is considered an easier approach rather than using bureaucratic procedures of sales management. For instance, the verbal communication is used for providing SIM cards, inter-counter borrowing of the sales items, serving the customers and providing financial results to the shareholders as well as reporting the rates and ratios of commissions and incentive packages orally.

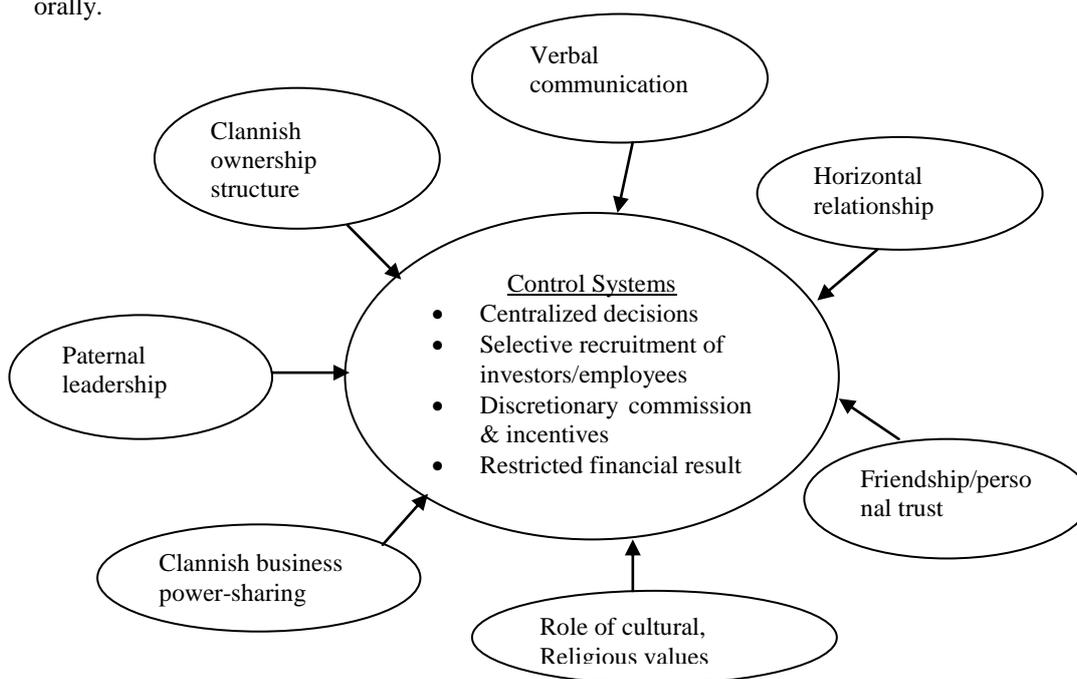


Figure 3: The control patterns identified in the case study findings

Even though, operations director views the verbal communication as a problem that creates additional costs to the company. However, it is accepted as a “formal approach” to manage the company’s most important activities; i.e. sales and customer care. Perhaps, verbal communication is seemed to suit to the oral culture of the Somali traditional society as a way to simplify business transactions.

Similarly, informality has affected the reporting practices, performance measurement (PM), commissions and incentives of the employees. The financial results are not disclosed even to the shareholders unless it is told through oral means. The nondisclosure of financial results also created a notion of mistrust about the amount of profit achieved in every period. The financial results are the base for commission and incentives calculations. However, since financial results are not released, many employees feel that such calculations used by the top management may not be the actual measures and that profit might be underestimated for personal purposes.

The CEO and his close friend such as general manager, play an important role in deciding the amount of monthly commissions and the incentives computation. These decisions are taken by the discretion of the CEO but with the consultation of his co-founders such as the general manager. However, no one can question his actions, since he was managing the company for the last 15 years which made him a “paternal figure” in the company that enjoys the highest authority, particularly in the operational aspects. Since the inception of the company, the CEO has a considerable authority in appointing, promoting and rewarding employees while HR department is possibly used for a mere validation of the CEO’s decisions.

For performance management, the company mainly focuses on the sales/marketing department operation. Sales/marketing department is considered as the core function of company’s business, whereby all other departments provide support services to the sales/marketing department. Therefore, it seems that the company’s focus is on the sales growth and the competition in the telecommunication market. Monthly commissions and incentive packages that are offered in the sales/marketing department seem to surpass the other benefits offered for the employees. The company’s policy for mobilizing all employees over sales and customers’ recruitment reveals that monetary based rewards are concentrated at the expense of the nonfinancial rewards.

As mentioned before, a theoretical framework has been developed to provide guidance to the field study as well as explanation of the control themes in the case study findings. For instance, the framework offers cultural, administrative and process control areas. Fundamentally, the framework provides a reasonable explanation about the main issues in the case study findings. For instance, the control patterns of clannish ownership, cultural norms and religious influence were explained by the framework. Similarly, the framework enabled us to understand the role of paternal leadership, friendship and personal trusts in administrative controls as well as the financial information that is restricted to a specific group of stakeholders. However, the framework offered partial explanations about the control patterns of clannish business power-sharing, paternal leadership, horizontal relationships, selective clannish recruitment of investors and employees as well as the discretionary decisions related to incentives management. Furthermore, the issue of verbal communication that is mainly used for sales, customer care and oral disclosure of financial information were not fully captured by the framework. These control patterns are commonly practiced by the case company in its traditional social context. Therefore, these control patterns that have not been captured by the framework show that further improvement of the framework is needed as additional MCS themes may emerge if further analysis is done.

In this regard, the data analysis of the study is still under process and this evidence is only a partial display of the evidences gathered from the case study, however, the failure of the framework to provide adequate explanation of all control themes and patterns would not fundamentally affect the role of framework to guide the issue of exploring and understanding MCS in its social context and particularly in the traditional society’s environment. In conclusion, the findings of the study provide a better picture about the control practices that is used by the case company. In response to the cultural settings of the Somali clannish society, the company developed its ways of doing things. For instance, clannish ownership is employed to balance the different clans/sub-clans of the society. Clan balance creates a sense of ownership from the different clans/sub-clans, which in turn, enables the company to expand its business operations into the different clans/sub-clans areas.

To survive under the traditional clannish settings, the only way is to satisfy all different clans/sub-clans in these different regions. To satisfy different clans/sub-clans, investors and employees are selected based on their clan affiliations and clan areas. However, what is interesting is that those selected investors and employees may not have significant authority in the making decisions, whereby decisions are centralized and are made by the CEO and the general manager. Perhaps, this is a way of legitimizing the company’s business activities in the respective clan area or, at least, to appear, in the eyes of different clans/sub-clans, that the company is neutral and it is not serving specific clan/sub-clan. Similarly, clan/sub-clan balancing may be ceremonial practices to

prove that the company is complying with the traditional norms of clan-based power sharing, which is constitutional in Somalia for the last two decades. The political power sharing system describes that all political positions should be distributed based on the formula of “four equal clans plus a half clan”, that is recognized by the national constitution of the country. The role of cultural norms and religious practices in the daily operation that is practiced by STEL is similar to what has been reported by Ansari and Bell (1991), Efferin and Hopper (2007) and Tsamenyi et al. (2008). In the day-to-day activities, employees have to observe the religious obligations such as performing prayers, fasting and wearing Islamic attire in the company’s premises. Not only performing religious activities is required, but also avoiding non-traditional stimulants; i.e. tobacco and *qat*, is an essential requirement for employment as well as maintaining the job.

On the other hand, the relationships between individuals in the company demonstrates another scenario of “trust among people of different clans”, which shows that management members and employees, from the different clans/sub-clans, created an environment of harmony, at least, in business affairs. This is reflected by the horizontal relationship, personal trusts and paternal leadership of the company management. Similarly, the practices of discretionary management of commissions and incentives as well as restricting financial information to specific stakeholders might dissatisfy some of the employees, but may not affect the balances of the different clans.

To conclude, it is hoped that the findings of the study will contribute to our knowledge about control systems that is used by a telecommunication company in the context of a traditional society, particularly that of Somalia. Finally, as with any study, the findings of this case study should be used with the following considerations. Firstly, the main shortcoming of the study is that the data heavily relied on the interviews of one case company. Secondly, as mentioned earlier, the findings are based on a partial analysis of the case study evidence. These shortcomings may limit the direct generalization of these findings to the other populations. However, these initial findings of the study may encourage us to further our researches to understand the field of control systems specifically that of the traditional societies in the developing nations.

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