

Management Control Systems in Small and Medium-Sized Enterprises: A Case Study

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Abstract

Small and medium sized enterprises (SMEs) are the backbone of the Philippine economy. They comprise 99.6% of the total business establishments in the market. Many studies have said that SMEs, particularly small firms, do not need and do not use management control systems (MCS) due to their simple organizational structure and limited resources. Only a few studies have shown that these firms have developed and are using MCS even those sophisticated management accounting practices (MAPs) and information. This empirical study was conducted to get an understanding of the use and the form of MCSs applied in SMEs in Misamis Occidental and to explore on their implementation of control. The study used the case study method. The study included 46 SMEs surveyed and seven SMEs interviewed. The companies have already been in the industry for more than 10 years and employed from 10 to 199 persons. They are a combination of traditional and modern enterprises due to the generation of the owners/managers handling the business operations. The results suggest that SMEs in Misamis Occidental do use a wide range of MCS practices and information although many practices are not integrated as highly and systematically into their normal operations based on the data of adoption rates and ranks. The results also indicate that MCS are themed along the lines of financial controls, clan controls, customer-oriented controls, relationship controls, and strategic-oriented controls. This shows a combination of traditional MCS and new sophisticated MCS which adds to the knowledge that SMEs do practice and adopt MCS in their operation.

Keywords- management control systems, small and medium-sized enterprises, case study, Philippines

I. Introduction

Micro, small and medium enterprises (MSMEs) play an important role in the Philippine economy. They represent 99.6 percent of the 777,687 total business enterprises in the Philippines while the remaining 0.4 percent is represented by large companies as of 2010 (National Statistics Office, 2010). The MSMEs contribute to the development of the Philippines by creating jobs for the labor force, stimulate economic development in the rural areas, serve as partners to large enterprises as suppliers and providers of support services (Senate Economic Planning Office, 2012).

Entrepreneurs are tasked to run the business smoothly to meet the growing challenges and demands of the corporate environment. Phihlela, Odunaike, and Olugbara Durban (2012) said that in order for a business organization to succeed, there is a need for timely information about its operations. To be able to get these, the operations have to be monitored and measured constantly.

Management control systems (MCS) enable managers not only to cope with increasing information needs, but also to avoid loss of control because of lack of monitoring (Child & Mansfield as cited by Chenhall, 2003). However, MCS are costly and time-consuming to install and operate. This would require that the

entrepreneur needs to formalize the activities of the business. Previous research suggests that small businesses engage in less formalized, more operational, and more personal planning than larger firms and that they utilize friends, family, and magazines to collect information (Robinson, Logan, & Salem as cited by Lyles, Baird, Orris, Kuratko, 1993). Lyles et al. (1993) also pointed out that formal planners have an average of 101 employees, which under the Philippine definition is already considered a medium enterprise. Thus, it can be noted that as an enterprise grows, the more inclined it is to formalize operations.

The role of MCS in smaller or medium-sized entities has received little attention in the contingency-based MCS literature (Reid & Smith, 2000). Many opportunities for MCS, contingency-based research are likely to be found in SMEs.

For Chenhall (2003), the goal of MCS research is to provide findings that assist managers achieve their goals or those of their organization. He also suggested for contingency-based studies to first establish adoption and use of MCS, then to examine how they are used to enhance decision quality and finally investigate links with organizational performance. He cited that few MCS studies have explicitly considered size as a contextual variable. In the main, studies have examined relatively large organizations, usually justifying this as it is large firms that tend to adopt the type of practices incorporated within more formal MCS.

Studies that have examined size as a variable, have considered its effects together with other elements of context. However, the issues underlying the choices of MCS in SMEs differ from those confronted by large firms: (1) large firms usually have an extensive amount of formal systems already in place; (2) SMEs utilize informal controls more intensely than do large firms (Cuguero & Rosanas, 2011; Davila & Foster, 2005). This study hopes to add to the literature on empirical studies about MCS in SMEs.

Second, it seems essential that more emphasis should be placed on the study of real control systems as they operate in practice. Theoretical speculation has its place, but it needs to be strongly grounded in organizational reality. This is especially true of an integrative activity such as MCS design and use. The advantages of field studies in this context are considerable. They help ensure that the many factors that influence the results of a control systems operation are considered. They help focus on issues that are very real to organizations, and they allow the changes that occur over time to be monitored.

This study aims to fill the gap in the management accounting literature by empirically examining the use of MCS practices and information of small firms applying a contingency theoretical framework.

II. Objectives of the Study

The study aims to explore the use of MCS in SMEs in Misamis Occidental. Previous studies noted that organizations tend to be more informal in its early stages and size. Thus, for this study, the performance management framework by Otley (1999) will be adopted using the five questions as follows:

1. What are the key objectives that are central to the organization's overall future success, and how does it go about evaluating its achievement for each of these objectives?
2. What strategies and plans has the organization adopted and what are the processes and activities that it has decided will be required to successfully implement these? How does it assess and measure the performance of these activities?
3. What level of performance does the organization need to achieve in each of the areas defined in the above two questions, and how does it go about setting appropriate performance targets for them?
4. What rewards will managers and other employees gain by achieving these performance targets - or, conversely, what penalties will they suffer by failing to achieve them?
5. What are the information flows - feedback and feed-forward loops that are necessary to enable the organization to learn from its experience and to adapt its current behavior in the light of that experience?

The structure of the framework analyzes the operation of MCS around the issues that relate to: objectives, strategies and plans for their attainment, target setting, incentive and reward structures and information feedback loops (Otley, 1999).

III. Methodology

The justification for case-based research in accounting and control systems is now widely recognized. Otley and Berry as cited by Tessier and Otley (2012) hold that the nature of controls requires their study within the settings in which they are used. They maintain that case study research makes possible a comprehensive - approach to the study of controls in use. Moreover, they encourage the pursuit of exploratory studies as means of capturing the richness of accounting and control systems when examined within organizational contexts.

Yin as cited by Meyer (2001) defined case studies as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context when the boundaries between the phenomenon and its context are unclear, and where multiple sources of evidence are used”. The case studies conducted here were exploratory to the extent that only the general aspects of the study design were determined and advanced (Yin, 1993). As Yin noted, “in this type of case study, fieldwork and data collection are undertaken prior to the final definition of study questions and hypotheses” (1993, p. 5).

This approach was considered particularly suitable given the general absence of prior knowledge regarding control practices in the host country. The research design involved seven short case studies. These endeavored to examine the functioning of MCS in seven small to medium (non-finance) companies located in Misamis Occidental. The purpose was to examine the design and use of control systems using the frameworks found in the literature mentioned, and to assess their ability to explain the evidence gathered. Further, Chenhall (2003) argued that the generation of propositions concerning novel relationships concerning MCS, processes and their contextual setting are often best identified and elaborated by using case study methods.

The study was done among the SMEs of Misamis Occidental. The respondents came from companies that are more than 10 years in the industry. This would provide credence to the agency being more formally managed. This criterion is following the same criteria of previous research studies that consider the firms that are not more than 10 years old as young (Beckman et al., Certo et al., Covin & Slevin, Yli-Renko, as cited in Durendez & Garcia, 2008).

For the case study, four interviewees come from the small sized enterprises and three from the medium sized enterprises. Among the interviewed for those owning/managing small sized enterprises: one owner-manager is engaged in the furniture manufacturing and trading industry, one owner-manager operates a fish wholesaler and retailer business; one owner-manager is engaged in coffee and tablea manufacturing; and one in the food manufacturing and service business. The medium sized owners/managers interviewed are: one manages a construction business, one owner/manager is engaged in the tourism industry and the other is engaged in the food franchise business.

Three of the respondents are first generation owner managers, three are second generation owners/managers and one is third generation from the original owner of the business.

The firms considered are seven SMEs of Misamis Occidental. The choice of seven firms is supported by Eisenhardt's (1989) approach to case study research which argues for the use of more than a single case. She concluded that "between 4 to 10 cases usually works well. With fewer cases, it is often difficult to generate a theory with much complexity, and its empirical grounding is likely to be unconvincing, unless the case has several mini-cases within it". (p.535)

An interview guide was used for the gathering of qualitative data. The interview guide was developed using the performance management framework by Otley (1999).

The responses of the research participants were analyzed line by line. The coding process followed Charmaz's (2006) model. The initial open coding was constantly compared to identify the focused coding leading to the emergence of the core category. The core categories derived from the cases revolved around financial controls, clan controls, customer-oriented controls, relationship controls and strategic-oriented controls of MCS adopted and used among SMEs in Misamis Occidental.

Face-to-face interviews were done with all the owners/managers and the interviews lasted for at least two hours to three hours to the maximum. Five of the interviews were conducted in the actual business sites of the interviewees and two were done in a coffee shop in Ozamiz City. There were instances when the interview was finished in one sitting while in some instances, the interviewer had to be told to come back and finish the interview at another time.

Three of the interviews were recorded (with permission from the interviewees) and transcripts were made while the rest were not recorded due to the requests of the interviewees but written transcripts were made during the interview process. After each interview, a case write-up was made directly.

Qualitative data analysis was done using the six steps as enumerated by Creswell (2009): preparing and organizing the data, exploring and coding the database, describing findings and forming themes, representing and reporting findings, interpreting the meaning of the findings, and validating the accuracy of the findings.

To ensure that research ethics were observed, the following have been undertaken: a) the objectives, issues and risks, and benefits of the project were conveyed to the participants through the introductory letters attached to the questionnaires and sent before the actual interview; b) formal verbal consents have been obtained from the participants prior to the start of the interviews and the interviews were proposed to be conducted at each participant's workplace or at a most convenient place for them; and c) the privacy of the participants and the confidentiality of data that were obtained from the survey participants were strictly maintained in such a manner that the participant cannot be identified in the report or any related publications.

IV. Results and Discussion

The discussion of the results of the MCS in SMEs was made through the development of case studies: four selected small and three medium-sized enterprises in Misamis Occidental. The cases described and exposed the enterprise's vision, strategy, organization, and MCS. The case studies highlighted the similarities, differences, and uniqueness of the enterprise's vision, strategy, organization, and MCS.

In the new economy, the SMEs play a critical role. They offer a rich area for prospective research. For this research, SMEs were studied in terms of the management controls put in place and whether they are

formal/informal controls. Secondly, the study wanted to establish whether the choices of management controls in SMEs are associated with the firm’s strategy.

A. *Data Analysis*

The practice and usage of MCS of four small and three medium-sized firms of the case studies were analysed. The coding process of the seven cases revealed the significant features in each of the cases to arrive at the dimensions relevant to the conceptualization of a model for SMES.

The vision of the SMEs can be generalized in terms of the generation running it. After the coding process of the answers of the interviewees in terms of the questions pertaining to their vision, Table 1 shows the themes and dimensions the SMEs’ vision. The data show that the founders want economic gain and stability for the business to continue on into the future. This is true both for SMEs that are owned and managed by the founders. The next generation owners/managers tend to focus on the growth and expansion of the business in terms of new markets. The next generation owners/managers are more aggressive for wanting to find new markets for their business and recognizing that market saturation is bound to happen thus, finding your own market niche will ensure that sustainability into the future can be assured.

Table 1 : Themes and Dimensions of the SMEs Vision

Themes				Dimensions
Founders/Owners		Next Generation Owners/Managers		
Small	Medium	Small	Medium	
Economic Gain	Economic Gain		Economic Gain	Financial
Family Provider				Relationships
	Succession			
Stability	Stability			Environmental Uncertainties
			Less Risk	
	Wellness Environmentalism		Wellness	Customer needs
	Faith			Values
		Growth in market	Growth Market Niche New Markets	Customers Financial

Table 1 shows that relationship goals are important for founding owners. This is observed in the statement by Mrs. Juanita, “*To earn enough to be able to provide for their needs especially a good education for their children.*” Employees are treated like family and the conduct in the operations are like that of running one’s own household.

Five of all the cases (whether small or medium-sized or founder owned or next generation owners) focused on the priority goal of the business and that is profitability not only for themselves but for the whole family. This includes their immediate families and the employees that serve the enterprises. This is supported by the results of the survey which indicated that the short run goals of the business focus on (1) Profitability; (2) Liquidity; (3) Growth; (4) Stable Development; and (5) Leverage.

Like that of the statement of Mrs. Cena wherein, “No one in their right minds will go into business, if not for profit.” According also to Mr. Johnny, “*as long as he can pay for his expenses, money is saved for the desired targeted expansion projects; he is satisfied with the outcome of his operations.*” This is supported by the study of Sweeting (1991) wherein controlling is geared towards the attainment of the desired liquidity.

All of the respondents admitted that the business goal is more family oriented rather than just for personal gain. This conforms to the statement of Herath (2006) wherein the expected outcomes of any control system as a whole is the survival and growth of the organization and the job satisfaction and personal development of its participants.

The results show that the SMEs have their own vision but they prefer to have it unwritten (Suranga & Rahman, 2014). The vision serves as their guide for their actions and the expected actions of their staff/employees. They informally communicate the vision of their company through daily performance evaluation as a monitoring tool to guide actions and decisions. These findings are supported by the result of the survey wherein quality improvement analysis, personnel analysis and analysis of business strengths and weaknesses are ranked as number two in the relatively high adoption of MCS practices and information in SMEs.

The themes derived from the open coding of the answers of the interviewees leads to the dimensions financial measures, relationships, environmental uncertainties, values and customers as the dominant aspects of the vision of the SMEs in Misamis Occidental.

Although the interviewed SME owners do not formally admit to having strategies in the conduct of their operations, five dimensions for the themes seem to dominate the discussions. These dimensions coded pertain to relationships, customers, financial measures, values and clan control. After the coding process, the themes and dimensions are developed as displayed in Tables 2.

Table 2 : Themes and Dimensions of SMEs Strategy

Themes				Dimensions
Founder/Owner		Next Generation Owners		
Small	Medium	Small	Medium	
Family Relations	Family Orientation		Family Orientation	Relationships
Partnerships (mentors, advisers, connetions)		Partnerships (mentors)	Partnerships (suppliers)	
Customer Loyalty	Customer service Customer driven	Customer satisfaction Marketability Quality Market Niche Innovation	Customer satisfaction Customer driven	Customers
Sales Targets Budgets (sales, costs) Capital Structure	Sales Targets Economies of Scale	Budgets (sales, costs) Capital Structure Liquidity and Growth Scale-up	Sales Targets Budgets (sales, costs)	Financial Measures
Faith Devotion Drive Loyalty Trust Honesty	Trust	Drive Objectivity	Accountability	Values
Personal Management Teamwork	Personal Management	Personal Management Planning Focus Empowerment	Personal management Planning Empowerment Information sharing Experiential learning	Clan control

Five of the interviewees admit that relationships are important that are built on the values: trust, faith, honesty, loyalty, drive, objectivity, accountability and devotion. These relationships with their employees,

customers, suppliers and advisers/mentors revolved around the concept of family relations geared towards the achievement of family specific goals. These themes and dimensions are observable whether the SMEs are founder owned/managed or owned/managed by the next generation. This is in agreement with Speckbacker and Wentges as cited by Senftlechner and Hiebl (2015) when they say that informal management controls are trust-based management accounting/management controls (MA/MC). These trust based controls are a strength and competitive advantage for family businesses.

Two small and three medium-sized enterprise owners/managers interviewed are concerned about the customers' patronizing their products or services for they believed that they are the real source of their profitability. This finding is supported by the results of the survey wherein quality improvement analysis, customer profitability analysis, calculations on customer costs and customer analysis (satisfaction, behaviour, etc.) ranked second, third, fourth in the rate of adoption of MCS practices and information among SMEs.

Customers are directly in contact with their employees, thus it is important to recruit/hire employees that share the same values and goals of the enterprise. It is therefore, customary among the interviewed enterprises to hire employees that belong to the extended family tree of the organization. This gives them the belief that they would act in the firm's best interest. Thus, as Moilanen (2008) said that the need for management controls may be reduced if trust is present in the company. But it can be noted in the table, that values are predominantly given importance by the founder owner/manager as a business strategy compared to the next generation owner/managers.

Five of the owners/managers have strategies based on intuition, and no written documents are made. They are usually developed based on past experiences in running their businesses. It could also come from advices from experts for which they consider in their group. Suranga and Rahman (2014) stated that the experiences of the owner are very influential. Sales and expense figures are closely monitored based on past experiences and deviations are analyzed based on market movements and environmental changes. These traditional financial management practices, market and customer oriented practices and strategic oriented practices are among those ranked in the survey as relatively high adoption.

Five of the interviewees also declare that personal management of their own enterprise is the key to their success. This theme is consistently practiced both by founder owned/managed and next generation owned/managed SMEs as can be seen in the table. Daily monitoring is important for their decision-making. In the decision making process of three of the SMEs, employees have the opportunity to be involved. The owners are open to the feedback given by their employees and they consult them in aspects where they believe the employees have a good knowledge of the issues at hand.

As for the owners/managers, they are the sole decision makers in the business. But for those managers, normally the second and third generation of the family, whose parents are still around, they are only recommendatory as far as major decisions are to be made. It is still their parents, who technically own the industry, which makes the ultimate decision for the business. Thus, for these generation of owners/managers, planning is important as part of the strategy since they are not the ones who directly makes decisions. They need to communicate to the founding owners or to their parents the plans and activities for the business and must get their approval first. It is therefore important for them to be empowered and they translate it to their own practices of management and running the business entrusted to them.

Throughout the study, five of the respondents stated that the business should be personally manage to monitor immediately actions and outputs. This is typical of a clan control practice of owners/managers. Mrs. Cena said that "The owner should be the one to personally manage the business." Experience served as the basis for the monitoring and evaluation. Cashflow monitoring is the most important area. Budgets for sales and expenses are generally established even if not documented and generally communicated to the employees. This is consistent with the study of Davila and Foster (2005) which concluded that budgets,

cashflows and sales projections are the first management control instruments implemented in a business. The results of the survey supports this finding wherein casflows, budgets and sales projections are among those of relatively high adoption and of high use.

As the number of employee’s increases, the business structure normally develops and adds sub levels to the owner-managers as can be seen in the themes under Table 12. At a lesser number personal management and overseeing of all the tasks are handled by the owner-manager themselves. As the number increases, there arises the need to add middle level managers to handle the different tasks in the organization. But although there are middle level managers, the communication lines directly leading to the owner is still open and employees can still go directly to the owner-manager for issues and concern and vice versa.

This kind of management reflects that of clan control culture wherein the culture is characterized by having a management style which promotes working as a team, and consensus and participative decision-making is observed (Durendez & Garcia, 2008) as can be seen in Table 3. The elements of culture here are considered as informal controls which act as a starting point for the design and use of formal control systems. Peljhan and Tekavcic (2008) agreed that informal controls are catalysts of efficient formal controls and these pertains to the culture and leadership style in an organization.

Table 1 : Themes and Dimensions of the SMEs Organizational Structure

Themes				Dimensions
Founder/Owner		Next Generation Owners		
Small	Medium	Small	Medium	
No middle managers Open communication		No middle managers Open communication Centralized decisions Few middle managers	Few middle managers	Flat
Family Orientation	Family orientation	Family orientation		Relationships
Consultative		Respect Camaraderie	Camaraderie	Values
		Performance evaluation	Goal congruence	Evaluation

Informal management controls are a source of strength and competitive advantage by family owned businesses (Speckbacker & Wentges as cited by Senfflechner & Hiebl, 2015). SMEs in Misamis Occidental use management control systems to facilitate decision-making as evidenced by the results of this study. These informal management controls usually focuses on mutual trust, family specific goals and centralization of power. These are important antecedents to formal controls (Senfflechner & Hiebl, 2015). The next generation owners/managers are the ones more concerned with the strategic oriented practices. This can be due to the vision of these owners/managers that drive them to be aggressive in their decisions in terms of the direction of their businesses. Table 4 gives the themes and dimensions developed from the open coding for the SMEs MCS practices and information.

Table 4: Themes and Dimensions of the SMEs MCS practices and information

Themes				Dimensions
Founder/Owner		Next Generation Owners		
Small	Medium	Small	Medium	
Sales targets Net profit	Gross Profit Liquidity	Profitability Gross Profit Liquidity Growth Cashlfow	Net Profit Profitability	Financial Measure

	Capital Structure		Capital Investments	
Bonus (monetary)	Bonus (monetary, non-monetary)	Bonus (monetary, non-monetary)	Bonus (monetary)	Feedback
Feedback (employees, customers, mentors, advisers, friends)	Feedback (employees, government regulations, suppliers)	Feedback (trusted people)	Feedback (employees, government agencies)	Internal and External sources of information
Owner Centered Experiential Opportunistic	Performance evaluation Environmental	Experiential Performance evaluation	Experiential Lenient	Clan Control
Seasonality Risk		Risk Innovation		Environmental Uncertainties
Themes				Dimensions
Founder/Owner		Next Generation Owners		
Small	Medium	Small	Medium	
Customer satisfaction Quality	Customer satisfaction	Customer satisfaction Quality	Customer satisfaction Market Niche	Customer
Teamwork	Honesty	Accountability Camaraderie Faith	Accountability Empowerment	Values
	Family oriented		Family oriented	Relationships

All of the interviewees expressed the importance of listening to everyone in the organization and the ability to fulfil the employees' needs of personal development in the organization. Five of the owners/managers allow their employees to decide over their actions, and the controlling function ends after evaluating if goals and objectives are achieved. Employee empowerment is greatly observed by the interviewees in their own workplaces. This result is parallel to previous research which suggests that small businesses engage in less formalized, more operational, and more personal planning than larger firms and that they utilize friends, family, and magazines to collect information (Robinson, Logan, & Salem as cited by Lyles et al., 1993).

The study revealed that employee monetary bonuses are given for good performances but they are not considered as formal established incentives. Most of the employees are motivated to work because of the treatment and the camaraderie practiced in the enterprise. In most of the instances, the employees had developed their family inside the business and the nurturing treatment extended to the whole family becomes the motivational factor to help in the success of the organization.

The study also revealed that human resource practices are present in all of the businesses. They all admit that they have incentive programs, evaluation of performances and communication to the employees. But even if the interviewees admits to the human resource practices, they are all undocumented and sometimes affected greatly by the owner's perceptions and subjective judgment. The survey results also showed that personnel analysis belongs to the relatively high adoption and high usage rates. These findings are in conformity with the findings of Davila and Foster (2005).

The table also shows that environmental uncertainties are taken into consideration primarily by small firms whether owned/managed by the founders or the next generation. It can be noted that small firms are threatened by drastic movements in the market due to the limitations that they face in terms of capitalization and manpower. Being able to adopt to the environment is a big challenge to these firms thus, for them the way they managed their businesses are greatly affected by these environmental uncertainties.

All of the actions and activities of the SMEs in Misamis the are geared and focused on the customers. The dimension on customers are predominantly present in all firms interviewed and it commonly has the theme of customer satisfaction. In the words of Mr. Lieu, “ *I am willing to sacrifice cost targets if it is for the satisfaction of the customers.* ” It is in this light that all of the interviewees monitor and control the acts and activities in the organization to achieve the desired goals of the enterprise.

Several studies affirm that the strategic orientation determines the types of MCSs needed (Chenhall, 2003; Otley, 1999). However, MCS can also support strategy formulation and the process of strategy control. This could include the monitoring and subsequent revision of the company strategies especially in the case of SMEs wherein there is little separation between and enterprise strategic thinking and decision-making (Lyles et.al., 1993). The themes and dimensions developed under strategy and MCS are presented in Table 5.

Table 5 : Themes and Dimensions under Strategy and MCS

Strategy		Management Control Systems	
Themes	Dimension	Themes	Dimension
Family Relations Partnerships (supplier, mentors, connections, advisers)	Relationships	Accountability Family Orientation Teamwork Empowerment Recognition, Honesty, Faith Camaraderie	Values/ Relationships
Faith Drive Trust Devotion Honesty	Values		
Customer Service Customer Loyalty Customer Satisfaction Marketability Quality Market Niche Innovation	Customers Oriented	Customer satisfaction Market Niche Product Quality	Customers
Sales Targets Budgets (Sales, Costs) Capital structure Scale-up/Economies of Scale Liquidity Growth	Financial Measures	Net Profit Sales target Gross Profit rate Cost Targets Liquidity Growth Cash flow Capital Structure/Investments	Financial Measures
		Feedback (advisers, employees, customers) Bonus (financial and non-monetary)	Internal and External sources of information
		Seasonality Risk	Environmental Uncertainties

The owners/managers directly control the operations of the business with little or no help from other persons. For them it is important that relationships are built and that all the forces act together for the attainment of the company specific goals. Thus, among the SMEs under study, MCS focuses primarily on the strategy execution which is highly affected by the interactions of the customers and the employees of the enterprise. MCS main role is to influence the behavior of employees to ensure that individual actions are taken to pursue personal goals that would also help achieve the organization’s goals (Anthony & Govindaran, 2004).

The results of the study revealed that the themes developed under strategy and MCS are of the same or related orientations. They have similar dimensions of relationships, values, clan control, financial measures and customers. This shows that there is a link between these management practices and processes in SMEs (Lyles et. al., 1993). There exists goal congruence between the strategy of the firms to build on relationships to attain the financial goals of the firms and the execution and control of these items as supported by the MCS of the SMEs (Anthony & Govindarajan, 2004).

The themes and dimensions discussed above are summarized in Figure 1 to capsulized the MCS practices and information in SMEs in Misamis Occidental.

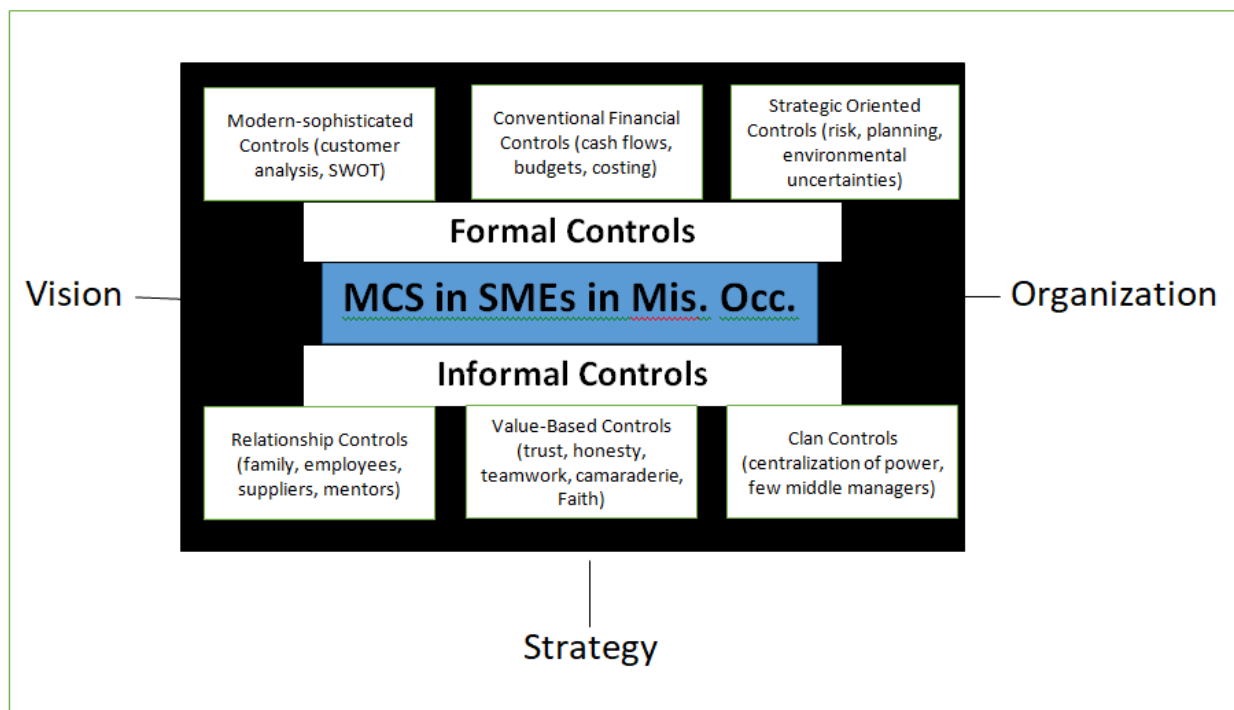


FIGURE 1. MCS MODEL FOR SMEs USING THE TEMPLATE

V Conclusion

The responses show that SMEs in Misamis Occidental have adopted and implemented various MCS practices and information from the traditional financial accounting practices and management to the new and sophisticated type of MCS. A high level of informal (social) control was identified in all of the studied companies. This usually involved mutual trust, devotion, honesty, teamwork, camaraderie, and centralization of power. Due to the direct contact between the environment and the owners/managers of the SMEs, management controls usually is about relationships and values shared by the whole organization. There emerge the core categories of financial controls, clan controls, customer-oriented controls, relationship controls and strategic-oriented controls of MCS among SMEs in Misamis Occidental. Formal financial controls like cashflows, budgets and costing are highly used and adopted in the SMEs of Misamis Occidental. These formal financial controls are supplemented in their use by non-financial measures like customer analysis and business strengths, weaknesses, opportunities and threats (SWOT) analysis. The SMEs in Misamis Occidental do not only employ traditional and conventional financial management practices but also modern sophisticated MCS even if the degree of use is not systematically integrated into the business operations. SMEs in Misamis Occidental also suffer mostly from the lack of human resources regarding the use and adoption of formal MCS information and analyses. The surveyed respondents indicated that they have too little staff, not having enough time or the needed skills and anticipating low benefits in relation to costs for a more comprehensive adoption and use of MCS practices and information. The MCS orientation among SMEs in Misamis Occidental are themed along the lines of financial controls, clan controls, customer-

oriented controls, relationship controls and strategic-oriented controls. This shows a combination of traditional MCS and new sophisticated MCS which add to the knowledge that SMEs do practice and adopt MCS in their operations.

VI Recommendations

To sum up, this explorative study has provided information on the use of MCS among SMEs in Misamis Occidental. The information can be used as a base for further academic research in the business context. These results also shows that aside from designing MCS suited to SMEs, there is a need to guide them in the technical implementation and adoption as well as the use of MCS information.

It is recommended to the academic community to investigate the curricula and program offerings to include in the content an in-depth discussion about informal controls involving mutual trust, devotion, honesty, teamwork, camaraderie as they are important controls that helps in the running and operations of SMEs.

The community building/extension projects of the academic community may include activities designed for the capacity building of SME owners/managers to in the adoption and implementation of MCS practices and information. The programs design should take into consideration the limitations of the SMEs in terms of availability of human resources, time or the needed skills for a more comprehensive adoption and use of MCS practices and information.

It is also recommended for SMEs to formalize operations in terms of control procedures for monitoring and accountability for the owners to be able to have more time outside of the business. Hands on management demands all the time of the owners, thus, developing an organizational structure for line/department managers/supervisors will entail sharing some management responsibilities to employees that will give them some free time to attend to other matters outside their business.

Conflict Of Interest

The authors declare the absence of conflict of interest in the completion of this research project.

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