# Understanding Management Control Systems in a Traditional Clannish Society: An Interpretive Case Study in Somalia

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# Understanding Management Control Systems in a Traditional Clannish Society: An Interpretive Case Study in Somalia

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**Abstract**
**Purpose**- The main purpose of the paper is to understand and report the nature of management control systems (MCS) that is designed and used by the business organizations in the traditional clannish society of Somalia. **Design/methodology/approach**- A qualitative case study of a telecommunication company was adopted to gather both primary and secondary data. Semi-structured interviews were carried out with the executive directors of the main divisions. To triangulate the data sources, observations and document analysis were also used. **Findings**- The findings of the study reveal that the MCS of the case organization is extremely affected by the traditional norms of the Somali clannish environment. Although, the company practices some formal MCS techniques; i.e. budgeting and performance evaluation, compensation management and financial reporting, however, the role of the traditional *clanism* is visible in all aspects of the company's daily operations. Hence, the main patterns of MCS include: clannish ownership, selective staffing and investors, collective responsibility of the clan/sub-clan members, personal trust and friendship, horizontal relationships and verbal communication. These control patterns have rendered the formal MCS techniques to become less relevant. **Originality/value**- The paper adds to the literature of MCS in the traditional societies especially in the African social context. Furthermore, the paper offers an insight to the academicians and practitioners about the business practices in the African traditional environments. Finally, the results of the study call for further researches, particularly in the traditional social settings that are mostly found in the less developed countries.
**Keywords:** management control systems, traditional clannish societies, Somalia.
**Paper type-** Research paper

## 1. INTRODUCTION AND BACKGROUND

Over the past three decades, there have been discussions about whether the management control systems (MCS) that is developed in certain socio-cultural contexts is applicable to other social settings that is different (Chenhall, 2003; Jackson, Amaesha & Yavuz, 2008; Joshi, 2001; Sulaiman, Ahmed & Alwi, 2004; Wickramasinghe & Hopper, 2005). Similarly, the recent studies in the MCS fields enforce the previous argument that embraced the belief that management accounting, including control systems, is the product of its socio-cultural settings that might not be transferable to the other socio-political and cultural environment (see example: Efferin & Hopper, 2007; Hauriasi & Davey, 2009; Mellahi & Wood, 2003; Tsamenyi, Noormansyah, & Uddin, 2008; Uddin & Choudhury, 2008; Uddin, 2009). These recent researches identified that the socio-cultural factors are the most important component that not only determines the design and practice of certain MCS but also as the main contributor to the emergence of specific MCS in the respective social environment under which MCS evolves. Hence, based on particular social context, it is anticipated that various MCS patterns and practices may emerge as a response to the needs of such social environment (Hopwood & Shield, 2007; Sulaiman et al., 2004).

More interestingly, the research findings of the very few studies that have been carried out in the less developed nations were more fascinating (see example Efferin & Hopper, 2007; Hopper et al., 2009; Tsamenyi et al., 2008; Uddin & Choudhury, 2008; Uddin, 2009). However, the findings of these recent studies do not provide definitive conclusions about the emergence of certain MCS practices in the respective socio-cultural settings and calls for further researches of MCS in the less developed countries.

Although considerable number of researches have emerged, however, the current studies, in less developed countries, mainly focus on Asian nations, while the largest part of the less developed nations (according to the UN Report, 2013, 69 percent of the less developed nations are in Africa) is the least researched area, especially in the accounting fields. More recently, Rahaman (2010) surveyed three of the most prominent accounting journals (i.e. Accounting, Organizations and Society Journal; Accounting, Auditing and Accountability Journal and Critical Perspectives on Accounting) and its publications of accounting researches in Africa. The findings show that only 24 accounting papers (out of 2,374 papers) have been published by the three accounting journals throughout the last three decades. Although these three accounting journals may not show the true picture about accounting researches in Africa, however, it offers an insight about the accounting research situation in the continent. Therefore, the main purpose of this study is to undertake an in-depth qualitative case study in Somalia. The study employed a semi-structured interview, observation and documents analysis to gather both primary and secondary data that would enable us to understand the MCS design and practices that is inherent to the social settings of a country like Somalia where "clannish norms" are the overriding rules that supersede all other regulatory mechanisms in the country.

## 2. THE FRAMEWORK OF THE STUDY

In the early management control literature, the terms of accounting, financial management and control might be used as a mechanism for providing information as well as a function of decision making (Otley, 1999; Carneys, 2010). However, Anthony's (1965) early works attempted to set boundaries for the different organizational functions and developed the conceptual foundations of management control in 1960s, and classified organizational management control into three main tasks that are common in any organization; strategic planning, management control and tasks control. Based on Anthony's conceptual foundation, other subsequent works have either adopted Anthony's control concepts or attempted to advance his control concepts (e.g. Anthony & Govindarajan, 2007; Harrison & McKinnon, 1999; Hoque, 2003; Merchant, 1985; Simons, 1995; Otley, 1999). These subsequent academic works mainly highlighted the limitation of Anthony's traditional view of MCS which narrowed and limited the functions of MCS to only quantifiable aspects of organization's operations (i.e. accounting functions), and ignoring the social and behavioral aspects of the organization's practices (Macintosh, 1994; Otley, 1999; Otley et al., 1996; Simons, 1995). Based on such limitations, the research on socio-economic and cultural perspectives of MCS have emerged (e.g. Merchant, 1985; Merchant & Van der Stede, 2007; Simons, 1995; Otley, 1999; Ferreira & Otley, 2009; Herath, 2007; Malmi & Brown, 2008). To broaden the scope of management control functions and to incorporate it with behavioral aspects, the contemporary MCS perspectives had emerged. For instance, the main contemporary frameworks in MCS included the object-of-control (Merchant, 1985; Merchant & Van der Stede, 2007), the levers of control (Simons, 1995), the performance management (Otley, 1999), the extended performance management (Ferreira & Otley, 2009), the organizational management (Herath, 2007) and the MCS as a package (Malmi & Brown, 2008). These new and contemporary perspectives of MCS view that management control approaches cannot be understood in isolation from the socio-cultural circumstances of the respective organization (Merchant & Van der Stede, 2007; Malmi & Brown, 2008). However, these contemporary frameworks did not provide adequate considerations to the specific socio-political and cultural circumstances of the less developed countries; particularly the traditional social contexts of the African less developed countries.

One of the key pitfalls of the aforesaid contemporary MCS view is the importance of the informal MCS approaches that are common in the less developed nations; particularly in the traditional clannish environments (Tsamenyi et al., 2008; Uddin & Choudhury, 2008; Uddin, 2009). For instance, Hopper et al. (2009) asserts that, in the less developed nations, the familial information sharing network, restricted information for specific group and kinship ties are commonly practiced which received less attention. Similarly, the role of intrinsic motivation factor that is socially very important might not be captured by the current contemporary MCS researches. Therefore, based on the above limitations of the recently developed frameworks, this study attempts to integrate the strengths of the current frameworks in order to make it more inclusive and applicable to the different socio-cultural contexts. Thus, the control components of this conceptual framework are categorized into three major constructs; i.e. cultural control, administrative control and the control of processes.

The first control construct is the "cultural control", which represent the main factor that shapes other organizational activities (Hofstede, 1984). Furthermore, the forms of MCS, within a society, is the product of its cultural constructs, where it might not be practical to comprehend individual's behavior without understanding the social settings in which the activities take place (Hofstede, 1980). Therefore, cultural control is the key construct that shapes the design and use of an organization's MCS (Ansari & Bell, 1991).

The second control construct is the administrative control. This type of control construct demonstrates the organizational governance system and the structure of the governing boards (Ferreira & Otley, 2009). The last control construct is the control of processes which refers to the operational and routine tasks of an organization. According to Anthony and Govindarajan (2007), control of processes includes the control of organizational functions such as; planning and budgeting, performance evaluation, information flow and incentives systems. In that sequence, the three management control constructs intertwine and endeavor towards the realization of the organization's ultimate goals.

## 4. RESEARCH METHODOLOGY AND METHODS

In the accounting research, the three dominant perspectives are the mainstream (or positivism), critical and interpretivism (Chua, 1986). Both positivist and critical perspectives are criticized for assuming that the researcher is detached from the reality under research, which might not be suitable to the social practices, including accounting (Ryan et al., 2002). As a socially constructed phenomenon that cannot be understood without its social context, MCS is a social product that is much influenced by the socio-cultural settings of the society (Ryan et al., 2002). Therefore, to understand MCS, implanted in its social context, an interpretive perspective is considered the most appropriate for this qualitative case study research. The main reason for adopting interpretive perspective is that it enables the interaction with the daily-life of the respective organization (Eriksson & Kovalainen, 2008) and it provides an in-depth understanding of the field compared to the other research paradigms (Chua, 1986).

Since the key objective of interpretive research is to offer an in-depth understanding of the social reality, a qualitative case study method seems a forceful strategy (Efferin & Hopper, 2007). The qualitative case study approach in MCS is an essential strategy that might not only penetrate into the organization's social aspects, but also genuinely may explore the subjective meanings that are attached to the daily routines of the organization's individuals (Parker, 2011). In addition, due to the ineffectiveness of the broad-based surveys that prevail in the current management control literature, qualitative case studies have been advocated by the contemporary scholars of MCS (Chenhall, 2003; Parker, 2011; Scapens, 2004; Vaivio, 2008). Therefore, a qualitative case study approach is one of the most promising research techniques to understand the socially constructed management control patterns in the different social settings.

In order to collect field data, a telecommunication company was selected with the criteria that the company's employees and owners should hail from the different regions (clans), and that the company should be the largest telecommunication service provider in the country. The reason for choosing telecommunication is that it is reported to be the leading industry for the last 10 years (International Alert, 2006; Leeson, 2007).

The researchers were motivated to carry out a field research about MCS, after attending training courses offered to the company's personnel. In this regard, in the year 2013, one of the researchers was a training facilitator to the company's employees and based on the open discussions among employees, the researcher has gained preliminary evidence about the company's MCS. During the training program, employees discussed the daily control challenges that they face within Somalia's cultural settings. For instance, during discussions, the main aspects that were emphasized by the employees were that *clanism* (or clannish culture) is the parameter that seriously influences employees' recruitment, assessment, promotion, reward and punishment, communication and information sharing. Similarly, the role of *clanism* on customers' relationship management was the pivotal issue in the discussion sessions.

Although c*lanism* existed since the downfall of the Somali central state in 1991, however, it became the main alternative mechanism for handling of the Somalis daily life. The role of *clanism* was accurately described by Lewis (2004) 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).

Therefore, having this preliminary information about the case company and its socio-cultural context, the research was carried out to understand the MCS in Somalia's clannish environment. Such evidence about the company and the researcher's familiarity to the company's management enabled the researchers to gain better access to the primary and secondary data of the company.

Semi-structured interviews with the executive managers have been used to collect the primary data. The interview was conducted with the CEO and the directors of: Sales/marketing, Human Resource Management (HR), Engineering, IT (information technology), GSM (Global System for Mobile Communications), Finance and Operations. The interviews lasted between 30 to 85 minutes, and they were tape-recorded along with hand-written notes. For better reliability of the interview data, confirmation of the interviewees were sought after each interview has been transcribed (Mason, 1996). In addition to the semi-structured interviews, observations and document reviews have also been used as a way of data triangulation (Merriam, 2012).

To analyze data, an exploratory-explanatory approach was used. In this regard, the three steps of Miles and Huberman (1994) have been employed to manage the data. These steps are data reduction, data display and drawing conclusions. These three processes were used to identify the management control themes that have been practiced by the company and to analyze the meanings attached to such practices.

## 5. CASE STUDY FINDINGS

In this section, the study presents the major findings from TELCO as well as the discussions and conclusions of the study. However, the study starts with a brief description about the case company.

### 5.1. TELCO Company: a Brief Description

Under the absence of central state in Somalia, the founders of TELCO (anonymous name for the case company) met in the year 1997, to take the advantages of the business opportunities under the crisis of the civil war. The current General Manager of the company (GM) and the current Chief Executive Officer (CEO) of the company were the first two persons who decided to establish a company that provides telecommunication services on the ruins of the civil war in the south-central part of Somalia.

In the year 2000, TELCO Company started its business operations providing fixed line services to the residents of the Somali capital city, Mogadishu. Similarly, it was the first telecommunication company that offers a mobile telephone services in the country. TELCO headquarters is in Mogadishu and it has the largest telecommunication network in all regions of the country under the same name, while majority of the competing telecommunication companies use different names in the different clan areas.

As of 2013, TELCO employs around 2,500 personnel with around 3,000 shareholders. Similarly, as of 2013, the total assets (book value) of the company were 75 million USD, whereas the gross sales of the years 2012 and 2013 are an average of 2.5 million USD. TELCO Company also manages around 2000 BTS sites (Base Transmitter System) with transmission towers throughout the country. In addition, TELCO is a member of the international terrestrial link to connect the foreign communication networks.

### 5. 2. The Main Themes of MCS in TELCO Company

#### 5.2.1. The Somali Clannish Structure and the Idea of TELCO Company

In Somalia, there are five clans that are recognized by the national constitution of the country. Based on a formula of "four point-five" (4.5), there are four full clans and a "half clan" that are recognized in the transitional charter of the country since the year 2000. The four-point-five formula is the main parameter for "clans-power sharing" of all socio-political interests (Lewis, 2004). The four-point-five formula compels that each full clan should receive double of whatever the "half-clan" receives from the public interests.

This clannish formula also affects the private sector. For instance, majority of the business companies in Somalia are either owned by members from one clan or by representatives of more than one clan. For TELCO Company, all clans are reasonably represented in the company. Owners and shareholders hail from all clans and even sub-clans of all major clans.

Initially, the idea of TELCO formation comes from the GM and the CEO. The two men hail from the same full clan but from two different sub-clans of the major clan. Their two sub-clans are the largest and the most influential sub-clans of the major clan that mainly dominates the Somali capital city as well as the central regions of the country. The two sub-clans had experienced a deadly four-month war over the control of Mogadishu in 1992, which led to the military intervention of the United Nations in 1992 and the partition of Mogadishu into two parts with the green line between the two sub-clans.

The two men started the idea of starting business on the ruins of the civil war and in order to be different from the other small business companies that are affected by the tribal boundaries, the two men innovated the idea of bigger company that accommodates all Somali clans. This idea was introduced to cross the clannish boundaries that were set by the political conflicts of the various clans who fought over the political powers and the economic resources.

The GM and the CEO shared their new idea with their close friends who were from the different sub-clans of the same major clan. According to the CEO, the approach of crossing clannish borderlines was the best way to survive in such a hostile business environment which lacks any type of regulatory system. The first step was to offer ownership to different investors from the different major clans/sub-clans who are also in the business market. These new investors were invited to extend the business operations of this newly formed Company into their clan/sub-clan area.

#### 5.2.2. The Formation of TELCO and Clannish Recruitment of Investors

The GM and the CEO started their plan to establish TELCO Company. The two men divided the establishment of the company into two stages. Stage one was the beginning stage where the company was small and only focused on Mogadishu and the neighboring towns. This area is dominated by the major clan of the GM and the CEO. Stage two, which was the extension stage, has enabled the company to extend its operations in the remaining regions.

In stage two, both the GM and the CEO were expected to find one of their close and trustable business investor to share the formation of the new company. The two men set several conditions for selection of the new investors; (1) the investor should be a trustable business friend who hails from one of the sub-clans of their major clan, (2) the investor should be trustworthy, religious and respected in his/her sub-clan, and (3) the investor should have never been involved in the civil war. Through these criteria, three investors were identified from the specified tribal area. The three investors were one female and two male investors. These five investors had been invited to play different roles in the company, specifically under the unstable clannish environment of Somalia. The role of each investor was dependent on the influence of his/her sub-clan politically. For instance, the investor who hails from the largest sub-clan had to act as the GM of the company, as well as the chairperson of the "board of owners". Automatically, the current GM fulfilled that condition and since the inception of the company in 1997, he is the GM of TELCO as well as the chairperson of the board of owners. Similarly, the investor from the second largest sub-clan has to act as the CEO of the company. The female investor, who is from the third influential sub-clan, acts as the third most powerful person in the company, but without any official title. Although she has not any explicitly stated authorities, the female investor, however, undertakes the functions of the CEO during his absence. This is commented by the Sales/Marketing Director:

> *"She (the female investor) is not formally appointed (for specific position) but when the CEO is outside (the country) she undertakes his functions and she (becomes) the highest executive person in the company"* (Sales/Marketing Director).

The other two investors also have no official titles, but still have to stay close in the company, to represent the company in any clan-related issues. Similarly, the other shareholders are also invited from certain sub-clans of the respective regions, particularly central regions and the capital city, to get access to sub-clans' area but with the condition that no sub-clan is over-represented in the company. The CEO commented:

*"The reason for inviting shareholders from sub-clans is that it was very difficult to get access to the other parts of the city (Mogadishu) unless (we) have a partner from that part. Similarly, (we invite shareholders from all sub-clans) to avoid clan sensitivities in Somalia"* (The CEO)

In addition, the CEO highlighted that since the project to establish a telecommunication company was a mega project, which was beyond the capacity of few people, they needed huge funds to be invested in such project. Therefore, they had to invite more shareholders from the different business persons. The invitation was selective and usually the offer is presented to specific business friends based on their clans/sub-clans. This selective process of investor recruitment was mostly based on the personal judgment of the GM and the CEO. They were in charge of negotiating with the potential shareholders. Since everything was at the start, the GM and the CEO did not prepare detailed information about the feasibility studies or market assessment to explain to the potential shareholders about the new business. Thus, they had to do their best to convince the persons considered significant for the business success in Somalia's business environment. The CEO explained:

*"(In those early days) we did not have written information (for potential shareholders). When we met some of the (potential) shareholders… they asked us … any feasibility study or assessment of the possible risks. We told everyone that we will carry out an assessment together with you (investors)"* (The CEO).

In the first time, the two men prepared a list of potential business friends and started contacting them one by one. They set a level of priority to meet the potential shareholders and if one potential shareholder rejects the offer, then they will invite the next potential shareholder. As mentioned earlier, currently there are over 3,000 shareholders being registered for the company, and they were mainly invited via their clannish connections. Moreover, there are other nonregistered shareholders who have shares under the registered investors. For instance, every founding investor owns specific allocation of capital investment in the company. Hence, that founding investor usually shares his/her allocation with his/her sub-clan members to create sub-contract with his/her sub-clan business owners.

**5.2.3. Clannish Structure and Business Extension in the Different Regions**

To extend the business operations of the company into the other regions, the CEO and the GM had to invite business owners from the targeted area such as northern and eastern regions (known as Somaliland and Puntland respectively). In the year 2009, the company initially started its activities in the northern region. Similar to the earlier selections approach, several business owners from the northern region (clans) were contacted and offered an ownership proposal. Usually, the GM is in charge to negotiate with the business owners and investors in the different areas. According to the CEO, the process of convincing business owners, from other clans, was not easy.

*"It was not easy to convince business owners (from other clans) since they want specific privileges such that of the founders. (If we do not give them foundership rights) they may start their own similar firms in their region and become our competitor. That is why we decided to cooperate instead of competing with them"*

(The CEO).

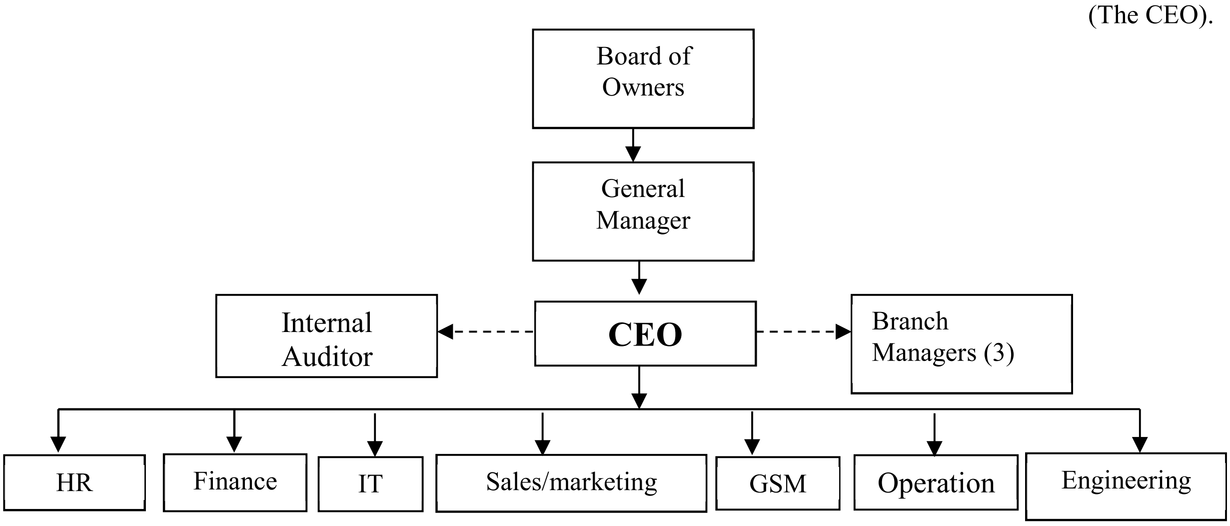


Figure 2: The current organizational chart of TELCO

In the company's policy manual, the initial founders have the right to select new investors as well as nominating new employees. Financially, they also enjoy a specific share of the company's entire profit which is allocated due to their foundership rights. The same privileges were asked by the new business owners from the northern region. According to the CEO, that privilege was accepted for the investors of northern region for the purpose of clan-balance between southerners and northerners. The same processes of negotiations were also used with the eastern region.

This approach of providing foundership privilege is adopted because some other similar telecommunication companies are founded on the basis of clan boundaries, where there are small firms that usually establish inter-network contract with the other small firms to allow customers for inter-network access. However, frequent disputes arise between these firms about the financial settlement of their inter-calls as well as when one firm faces network problem it affects other network's customers. So, learning from such problems, TELCO initiated this strategy of "clannish-interest sharing", where different business owners from different clans/sub-clans own one corporation to survive in Somalia's free-for-all business market. This strategy has enabled TELCO to unify the pricing policy and to offer the cheapest calling rate in the country, compared to its competitors, as well as creating the largest network coverage.

**5.2.4. Clannism and Employees Recruitment in TELCO**

As previously mentioned, clan is the parameter for selecting both investors and employees. However, the size of the clan/sub-clan is a major issue that determines the selection of employees and the role of each investor as well as the number of shares allocated to each investor. In addition, during the selection of an investor, the size and the influence of the clan/sub-clan determine what role that selected investor will have. In order to recruit more subscribers from the different clans/sub-clans, every investor is expected to promote the company's services in his/her respective clan's area. Therefore, the larger the size of the clan/sub-clan, the more customers were expected to be recruited from such clan/sub-clan. Similarly, the process of employees' recruitment goes through the same methods of clan basis. In the earlier days of the company, employees were selected by the founders; either through kinship ties or via friendship circles. This approach of recruitment is known in the company as the "selective recruitment" of the personnel, where every employee is selected and guaranteed by an investor. The main reason behind the selective recruitment process is that personal trusts are the best mechanism for business promotion and protection at least during the absence of the state institutions. Also hiring an unknown person might cause unpredictable security consequences. It was already argued by Lewis (2004) and Makinda (1991), that personal relationships and trust among the clan members are used by the traditional societies as a way to protect the society's interests.

**5.2.5. Employees' Recruitment Process Changed for the Company Expansion**

As previously indicated, TELCO expanded its activities into the northern and eastern regions of Somalia. During this expansion, the company developed the process of personnel selection, particularly to fill the key functions of the company, and created three levels of personnel categories. The first group is the executive managers and heads. For this group, clan/sub-clan background should be considered because of the importance of the executive functions. Due to the clan/sub-clan sensitivity, the company uses the "clan balance" concept which stands for the clans/sub-clans representation in the company. For the second group; the middle level staff, the qualification of the candidate is first required, but on one condition i.e. candidates should come from different clans/sub-clans. Finally, the lower level workers; i.e. drivers, security guards, cleaners, etc., the geographical location has more significance on this group rather than clan origins. The Operations Director commented on how they managed the recruitment process.

> *"Recruitment of an employee (in TELCO) for a specific job that requires a specialized profession, we have to select those people in that profession. However, we do not accept that one clan/sub-clan to dominate (the company) or specific department, because this will affect our neutrality"* (Operations Director).

The main reason for balancing clan/sub-clan in the company is to maintain the reasonable representation of every clan/sub-clan in the company.

The gender issue is also observable in the company's recruitment. In TELCO, male seems to be dominant in the operational positions. According to the Somali traditions, men usually represent their respective clans/sub-clans both in public and private interests. The reason is that woman can join any clan by marriage and they are not restricted by ancestral boundaries of different clans/sub-clans. Therefore, to preserve clan/sub-clan balances in the company, usually male personnel are employed to represent their respective clans/sub-clans.

**5.2.6. Traditional Norms and Values Shapes TELCO's MCS**

Traditional norms and religious values are highly observed in the company's operations. TELCO uses traditional norms for employee recruitment, promotion and dismissal. For instance, to recruit a new employee, a candidate should go through a screening program that is used to find out how such person adheres to the traditional norms such as being honest, being truthful and being committed to the religious requirements. To check the personal qualities of a candidate, the company requires a recommendation from a trusted person such as an Islamic scholar or a respected business person. Furthermore, other observable religious practices include praying, fasting during the holy month and dressing up in acceptable religious attire. According to the HR Director, personal commitment to the religious requirement is a prerequisite to trustworthiness, truthfulness and reliability of the candidate. Similarly, the dressing up according to the religious attire and appearance is important to preserve the image of the company in the society.

Also, it has been observed that all business activities are put to a halt during the prayer times, and were continued immediately after the prayers ended.

> *"Even though we are not very strict about the practices of religious duties, however, (in employment), religious practices are the first thing we have to test before everything else in recruitment"* (HR Director).

Similarly, during recruitment, candidate's ethical behavior will be tested. The common unethical behavior, that were not tolerated, included smoking cigarettes, chewing *qat*[1] and using any kind of stimulants.

> *"Generally, we try to ensure whether the candidate uses any stimulant such as cigarettes or tobacco, qat, or any similar elements. So, if we realize (that) the candidate uses such stimulants we will not hesitate to reject him/her"*(HR Director).

However, private usage of the stimulants by employees will not be spied. The HR Director noted that if an employee uses stimulants secretly, the company does not usually investigate or spy on such employee as far as the usage is not publicly practiced. In this regard, employees who use stimulants were identified through informal means such as oral rumors and personal information-sharing via employees. In addition, the HR Director emphasized that anyone who is reported to have used the stimulants will be subject to close scrutiny by the respective supervisor. In Somalia's traditional culture, the use of stimulants is a symbol of bad character which associates with dishonesty, fraud, corruption, theft, etc., and that is why the use stimulants are considered unacceptable practices in the company that could lead to employee dismissal.

**5.2.7. Decision Making Process**

In the early days of the company's operation, founders and other investors did not discuss about the organizational structure, the hierarchical authorities and the responsibilities of the different positions. The only thing that founders verbally agreed on was that the GM is responsible for the chairmanship of the company and the external relations, while, the CEO was made responsible for the day-to-day operations. In this regard, the major operational decisions are taken by the CEO who is the core person in the company and has a control over all business activities.

> *"The CEO was the main source of the company's information, particularly on the clan and the security issues as well as on the behavior of employees. That is why he directly supervises the company's daily operations"* (Sales/Marketing Director).

Thus, the CEO screens, appoints, promotes and orders reward system, while HR division merely validates the CEO's decisions.

Although the CEO consults with his friend; the GM, however, no one can question the decisions taken by the CEO. Since the start of the company's business, the CEO was managing the company and the length of his term in the position made him a "paternal figure" in the company, enjoy the ultimate authorities, particularly on the operational aspects.

According to the policy manual, executive committee, who sits on the operational board (consists of the CEO, the directors of all divisions and the branch managers), are responsible for administering operational activities. However, the directors usually refer to the CEO on any issue related to the company's problems. In addition, in the current written organizational structure, Board of Trustees (BOT) is the highest authority of the company; however, the main decisions are at the CEO's discretions; where he seems to have the last words in every important issue in TELCO. According to the policy manual, the CEO and the GM should be elected every three years, but no formal elections have ever taken place since the inception of the company's operations. Usually, whenever, the term of the CEO and the GM ends, the initial founders and some influential investors extend the CEO's term but through informal arrangements.

> *"Due to the kinship and friendship ties of the owners, formal election of the two top officers (the CEO & the GM) seems to be non-existent in the company".*
>
> (GSM Director).

**5.2.8. Employees' Relationship and Friendship**

Personal relationships among employees are also visible in TELCO. For instance, before employees start their daily activities, usually they have to exchange news about the country's security, political situation and the company information. In that way, every employee makes round to the other offices to say '*salam*" and ask about the security situation as well as their personal conditions.

Generally, the working hours of TELCO are from 8 am to 5pm for six days, starting from Saturday. Similarly, there is a one hour break for lunch and prayer. However, it was observed that employees in the different divisions, particularly those in the frontline, have their short breaks that are not allowed formally by

[1] *Qat* or *Khat* is a tropical evergreen plant whose leaves are used as a stimulant by many people in Africa and Middle East.

TELCO policies, but are tolerated by their supervisors. For example, in the morning shift (from 8am to 12 pm), there are two short breaks; 15 minutes each. Similarly, there is an unofficial break of 30 minutes for Assar (afternoon) prayer with a tea break. In these short breaks, employees come together and openly tease each other over tea. This culture of taking tea together and having informal chatting helps employees to know each other genuinely and that makes everyone know his/her colleague very well in the company. Describing such practice, the HR Director commented:

> *"We do not restrict the relationship between employees and their friendship connections. (Instead) we attempt to concentrate on the tasks of each person to minimize personal conversations during working hours,… (we have) to be flexible with them since they are loyal to the company. We want to maintain that culture in order to keep the commitment of the employees to the company"* (HR Director).

The relationship among employees and their subordinates appear to be horizontal relationships. During an informal conversation with one on of the Directors, it was observed that employees from the different divisions were entering the office and joking with the Director as though they were friends of equal position. Similarly, the Director informed the researchers that he does not like to treat his subordinates as employees. Rather he likes to consider everyone as a colleague. This is a common culture of the traditional clannish societies, where personal relationships and trusts overrule the formal regulations (Tsamenyi et al., 2008).

In another occasion, while one of the researchers was in the company's premises, it was observed that friendship was openly practiced and that subordinates could come in and sit with their bosses without asking for prior permission. Explaining how such flexible culture is common in the company's offices, the GSM Director views that he is flexible with his subordinates and treats them as his friends:

> *"I do not like to make restrictions because (friendship) is common in all offices and every officer can visit my office or even (can visit) the highest persons in the company and ask whatever they want. I believe such culture might disturb the smoothness of my daily schedules, but (there is) no choice"* (GSM Director).

Similarly, the GSM Director mentioned that he uses the word "friends" for his colleagues, and does not like to use the word "subordinates" in the company. In the same way, friendship and personal links are used for customers' relationships management. For instance, it was observed that when a customer requires services from the company, the customer will look for an employee he/she knows in the frontline staff. Therefore, if the friend employee is busy, then a neighboring employee might be asked for assistance to serve the customer. Explaining such practice, the Director of Sales/Marketing commented:

> *"… Customers may not deal with those employees who they do not know unless a friend employee transfers the customer to another employee who can help the customer"* (Sales/Marketing Director).

Previously, it was explained that customers are recruited through friendship and/or clan affiliation, and as a result, whenever a customer arrives at the company's offices, the customer looks for his/her friendship employee who recruited him/her.

**5.2.9. The Verbal Communication at TELCO**

Verbal communication is one of the common habits that are widely used in the oral societies (Jackson *et al*., 2008). An oral society usually prefers unwritten (informal) mechanisms of information sharing as oral communication is considered as a faster and an easier technique of achieving organizational functions (Merchant & Van der Stede, 2007). The Operations Director commented:

> *"Because of the communication informality, the company incurs some expenses".*
>
> (Operations Director).

Although oral communication is used as a common process to simplify business transactions, however, the Operations Director indicated that oral communication costs much to the company. He has given an example of the sales division. Every morning, the frontline staff in the sales division starts business operations at 8 am. Equal numbers of air time cards were given to every worker for them to sell to the customers. However, those air time cards were not sold at the same time. Hence, when the air time cards have been sold by one employee, he/she may borrow extra air time cards from his/her colleagues in the next counters instead of waiting to get air time cards from the stores. The habit of borrowing air time cards from each other is the result of personal trust and friendship among employees as well as that with their bosses. According to the Operations Director, the habit of borrowing air time cards from each other, however, was not recorded by the employees. Hence, when there is a discrepancy between the cards provided by the store and the number of cards sold, it creates difficulty in tracing the missing cards and in knowing who is responsible for the sale of the air time cards.

Similarly, the Finance Director complained of the lack of correct records in the Sales/Marketing division. The Finance Director noted the challenges that have been caused by the inconsistencies between the air time cards collected from the store and that which were sold by the sales staff. In addition, the Finance Director also mentioned that Finance Division has submitted several suggestions about recordkeeping of transactions, but the top management did not get any action regarding this problem.

**5.2.10. Accounting and Reporting of Financial Transactions**

Finance division is one of the oldest divisions that have been established since the start of the company. The transactions of cash receipt, cash payments, sales and purchases transactions are recorded and are assigned to different individuals. Similarly, as a cash control tool, cash payments are subjected to the approval of the Finance Director and the CEO. Equally, vouchers are issued for cash receipts and payments, and sales invoices and purchases slips are organized and kept in good manner. The Finance Director commented:

> *"We have accounting unit that manages all financial transactions. There is a chief accountant and assistant accountants in the different branches. We have also cashiers who receive and record cash collections. We also have store keepers who keep and record air time cards and hand over to the sales personnel for selling it. All these transactions are functions of the accounting division"*
>
> (Finance Director*).*

In this regard, accounting personnel are in charge of records keeping and preparing financial reports. However, financial reports are produced cautiously as it is considered very sensitive to disclose to the public. For the fear that financial information might reach to the wrong hands of the aggressive fighting factions and the business competitors, the financial information of the company is not disclosed to the public as well as to the shareholders and employees. The main reason for keeping financial reports confidential was explained by the Finance Director:

> *"… It is difficult to provide written financial information to the shareholders as we cannot trust all of them …… we only disclose financial information to them (shareholders) by verbal or by telephone messages and by informing each investor about his/her profit amount. Similarly, we provide financial reports to the CEO and he can give to anyone he wants".*
>
> (Finance Director).

However, it was observed that the non-disclosure of financial information has caused disappointment to many employees. They felt that they were not trusted by the top management as they were the people who realized the financial results. Employees were worried about the lack of transparency of financial information that may affect their financial incentives which are measured based on the reported financial results.

**5.2.11. Performance Measurement and Evaluation**

Officially, the executive committee is responsible for the preparation of the annual plans and budgets of the company. For instance, at the beginning of every year, all activities of the coming year should be prepared. The issues that should be planned annually include the annual sales, prices, purchases of the year, employees' training, marketing plans and the plans for expanding network project as well as building transmission towers. After the planning for those activities, the Finance Division has to prepare the first draft of budgets of all divisions as well as the master budget of the company. Usually, the budget is built on the annual planned activities and the first draft of the budget is distributed to all divisions so as to allow adding their suggestions within two weeks of the distribution. Then comments are discussed again by the executive committee to finalize the last draft of the budget for the next year.

The Sales/Marketing Division is the largest unit of TELCO as it is the foundation of the company's business operations. This division represents the profit center of TELCO, where it focuses on the growth of the company's cash inflow, while other divisions represent cost centers. To increase the sales and the number of customers, the department sets sales targets, sales prices and rates of incentive packages and provides the highest incentive packages to its employees. For instance, every employee in the Sales//Marketing Division works as an agent by recruiting new customers (subscribers) and based on these new customers, the agent can receive commissions. Besides the constant salary of the employees, commissions and incentives are paid to encourage employees.

> *"To encourage the involvement of everyone in the sales growth, the Division encourages all employees to recruit new subscribers. (In the company's database) every employee has a list of customers that shows the number of subscribers registered under his/her name. Based on the amount paid by those customers, the employee's performance is measured"* (Sales/Marketing Director).

In this regard, even though the Sales/Marketing Division controls the sales operations such as the selling of air time cards, new customers' recruitment, and the cash collection, however, employees in the other Division are also encouraged to recruit new customers to get additional commissions. This approach is used to increase the number of customers, where every employee is required to own a list of subscribers who are registered under his/her name in the database. Hence, at the end of every month, the employee can earn a commission from the purchases made by the subscribers he/she recruited. In addition, employees sometimes offer a sub-contract to outside friends or relatives, who can then recruit subscribers and receive commissions accordingly. Through this approach of sub-contracts, both employees and outside agents can receive commissions. However, sub-contracting with the outside (informal) agents is not official in the company, but it is a way that is commonly practiced by the company to increase sales.

Similarly, the company has developed its own management control systems. During the interview with the CEO, a document named "management control systems" that was written in Somali Language was exhibited. In the document, key performance indicators (KPIs) were explained. This MCS document, which is dated January 2012, categorizes the company business operations into two major parts for control and evaluation. The financial success factors that were used include: capital growth, market share, incremental performance and marketing victory. Similarly, the nonfinancial factors were: subscribers' usage, operational efficiency, services quality and the network coverage of the company.

Despite the fact that the management control systems document was formally written, however, according to the Sales/Marketing Director, the KPIs were at its theoretical stage and have yet to be implemented. In addition, the Operations Director viewed the KPIs as a duplicate of the text books which were not easy to be implemented in the company.

Even though the company constantly practices short term planning, but there were not much concern about the long term or strategic planning. Although the company invests in mega assets such as transmission towers, yet, these investments were not expressed in the planning or financial budgets of the company, which means that strategic planning is almost non-existent.

> *"(in the future) we would like to establish strategic plans, and we are keen to develop long term plans, but you know, the country's situation does not help us to think about the future"* (The CEO*).*

The top management did not provide any justification for not developing strategic plans; however, the reasons might be due the political unrest in the country that did not encourage business owners to invest in long term projects. Since the collapse of the central state in 1990s, the political changes were unpredictable and a lot of sudden changes had occurred several times. From the year 1991, the drastic and the worst political sudden changes were those of 1994[1], 2000[2], 2004[3], 2007[4] and 2010[5].

**5.2.12. Compensation Management**

Formally, the HR Division is responsible for the employment, staff promotions, and employee appraisal. As mentioned earlier, there is a written document about "management control systems" that has been written in January 2012. In the document, there is a section that explains the performance evaluation and compensation plans of the employees. The document states that "clear standards must be used for the performance evaluation of employees' at the organizational level as well as the divisional level".

Similarly, the document indicated the importance of employees' performance evaluation and that all executive and divisional managers should implement the standards of employees' performance appraisal. Although the management control document is dated January 2012; however, there were certain practices about performance appraisal and evaluation that were commonly practiced since the company's inception. For instance, the company uses both team-based and individual-based performance measurement system.

> *"We use both individual performance appraisal as well as team-based performance system. I do not know the reason, but our employees prefer team-based performance appraisal system instead of individual-based"* (HR Director).

Basically, the company uses both team-based and individual-based performance appraisal systems. For instance, there were many customers who were registered under the names of particular employees who have recruited them through friendship or personal relationship. Based on the purchases volumes of those customers, commissions of the respective employees were determined. Therefore, based on the amount of monthly sales, every employee's financial contribution to the company's was measured. However, team-based evaluation was mainly used for the employees' evaluation in all divisions rather than of Sales/Marketing Division which used both approaches.

With regard to the distribution of incentive packages, employees were not satisfied with the process to calculate the rate and the amount of the incentives. In their interview, the Directors of the Divisions of Sales/Marketing, HR and IT agreed that there was a lack of transparency in the implementation of the employees' performance appraisal; particularly the financial performance of employees. For instance, the HR Director claimed that:

> *"It is normal that every employee tries to maximize his/her economic interests but at the end of every month, when incentives are being distributed, many employees feel that the processes were not transparent. Thus, some employees would not be able to predict their incentives. Similarly, it is normal that everyone wants to know what he/she achieved and what he/she deserves"*(HR Director).

Apart from financial performance, employees were also assessed on their integrity and their religious values. It was informal mechanism that is used by the company to evaluate employees' behavior. Although this

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[1] Fighting between United Nation peacekeeping forces and the militias of the warlord Mohd Farah Aided exploded.
[2] Transitional National Government (TNG) was established in Djibouti and fueled new civil war.
[3] Transitional Federal Government (TFG) was established in Kenya and escalated the conflict.
[4] Terrible fighting erupted between IGAD peacekeeping forces and the militias of Islamic Union Courts.
[5] Severe fighting erupted between TFG and Al-shabab militias (Al-Qaeda linked Islamic insurgent).

 

is not written in the policy manual, but employees' ethical behavior is an essential factor that does not need to be written in the policy manual. According to the Sales/Marketing Director, ethical behavior is understood by common sense and it does not need to be stated as everyone should adhere to the general guidelines of the religious commands. Hence, if an employee is reported to have committed for an unethical behavior such as smoking in the public places, chewing *qat*, or not performing prayers, that employee might lose his/her respective job instantly.

## 6. DISCUSSION AND CONCLUSION

In the findings of the study, it is apparent that traditional clannish norms play an important factor in structuring TELCO major MCS practices. The role of clan is obvious in the company's formation, investors' selection, staffing, customers' recruitment and the daily routines of the company.

The arrangement of TELCO formation idea was based on the two major sub-clans in Mogadishu. The current CEO and the GM (from the two major sub-clans) agreed to start the company. The two men were depending on their clannish role and their influence to start the new business. Based on the clannish structure of the sub-clans and the traditional norms in Somalia, the two men selected other business partners from the balance of the different sub-clans. This approach is adopted to create a balance between the various sub-clans in the company and to avoid that one of the clans/sub-clans from having control of the company. Similarly, to expand the company's services into the other Somali regions, the clannish structure of the respective regions were used. The clan balance in the company is a "business-interest sharing" among different clans/sub-clans that resembles the "political-power sharing" which is employed by Somali government for the last two decades.

Through the practice of "business-interest sharing", the company's business activities expanded to the different regions (clans). This strategy enabled the company to create "alliances" of the different business owners who hail from the different clans/sub-clans, and is used as a tool for developing company's services beyond the geographical borders of the different clans/sub-clans. Thus, through such strategy, the company built the largest telecommunication network in Somalia.

Similarly, the company practices both formal and informal control techniques; however, informal control techniques supersede the formal control methods. This is reflected by the traditional clannish norms and the religious concerns of the managers and the employees. Adhering to the religious duties is considered central to the success of a candidature, though, such requirements were not written in the policy manual; but it was routinely practiced for behavior control of employees. Therefore, the clan/sub-clan identity of the applicant, his religious background, and the compliance to other traditional values are the control forms that supersede the formal control techniques.

The personal trusts, friendship, verbal communication, kinship ties for information sharing, informal information flow, centralized decision making and restricted financial information are the major informal control practices that dominate the company's management control practices.

Although the informal control approaches dominate the company's control system, however, formal control practices are trivially adopted. For instance, the company developed its own basic Key Performance Indicators (KPIs) for evaluating both financial and nonfinancial business activities. The KPIs were used to evaluate employees' performance, their motivation and the company's profitability. However, although it was written officially in the company policy manual, but the nonfinancial indicators were not formally practiced.

Similarly, the other notable formal control practiced that is formally used is the accounting practices. The Accounting Unit is one of the oldest and most organized units in the company, where it was established since the start of the company and it is responsible for handling all business transactions. As accounting information is the source for the preparation of budgets and the annual plans, the CEO has given a special consideration to directly control the unit. However, the role of the accountants in the company's decision making process is almost non-existent.

Table 6.1 summarizes the control themes that depicts the form of MCS practiced by TELCO.

**Table 6.1, Summary of General MCS Findings of TELCO**

| MCS elements | Control themes in TELCO |
|---|---|
| Cultural control | **Clannism:** clan-interest sharing is used to balance any different clans/sub-clans in the company and to attract customers from all clans/sub-clans. *Clannism* also helps in the process of staffing and investors' selection |
| | **Religious norms:** religious values are used for screening candidates and controlling their traditional norms compliance. Though informal, practices of religious obligations are essential. |
| | **Religious symbols:** religious attire, beard growing, praying and fasting are necessary but not written in the policy manual. |
| Administrative control | **Organizational structure and policies:** there is formal organizational structure that classifies different levels of authorities. However, authorities and job descriptions are not clearly defined. |
| | **Governing boards:** the company has board of trustees (BOT) and the executive committee as well as some ad hoc committees for temporary tasks. But the CEO and the GM take the major decisions and there are no formal meetings of BOT. Similarly, there have never been formal elections for the CEO and the GM though written in the policy manual. |
| | **Process of MCS change:** some changes of control techniques took place, but the process is not clear and mostly centralized. |
| Control process | **Planning:** TELCO leans on short term planning. Guidelines of the short term plans are provided to the different Divisions and asked for putting further details. |
| | **Budgeting:** Mostly operating budgets were prepared by TELCO. Finance Division is responsible for budget preparation, but no capital budgeting. |
| | **Performance evaluation:** monthly, quarterly and annual reports are prepared to evaluate company's performance. Sales volume and ratios are used to evaluate target achievement as well as financial indicators. There are also KPIs for financial success indicators. |
| | **Information flow and networks:** financial information is partially disclosed in verbal methods (e.g. telephone messages), and financial information is restricted to specific group of people with kinship ties. |
| | **Compensation and reward system:** both team and Individual-based compensations exist; i.e. salary, commissions, individual incentives, paid vacations and sick leaves. |

Although the results of this case study might not be generalizable to other social context, however, it offers an insight about the MCS in the traditional clannish societies, particularly in an African traditional setting. As with any case study, the findings of this study ought to be used with some considerations. Firstly, the key limitation of the study is that the data is extracted from one company only. Secondly, the interviews were conducted in the local language and translated into English for analysis, which might affect the accurateness of the meanings as meant by the respondents. However, these limitations will be helpful to carry out more studies in the similar traditional social settings. In addition, it is hoped that this study adds to the emerging body of the academic works in the MCS in traditional societies of less developing countries.

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