

The Influence Of Business Strategy, And Company Size On Management Control Systems

(Survey on Credit Union at West Java Province)

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Abstract: The purpose of this research is to know the influence of business strategy and Company size to a management control system. The sample in this research is Credit Union in West Java, with the amount of 33 Credit Union, which became an observation unit (respondent) in this research is Manager and Board. The result show to simultaneous as Business strategy and Company size affect the management control system. Business strategy affects management control system. Company size does not affect the management control system

Keywords: Business Strategy, Company Size, Management Control System

1. Introduction

The management control system is a process carried out by managers in influencing other members to achieve company goals. Strategy formulation is basically not systematic, whereas management control is systematic. Strategy analysis involves relatively few people, whereas management control involves managers and staff at all levels to coordinate each section (Zhang, 2014).

The management control system contributes to fast internal growth. The role of formal and interpersonal control will differ depending on the size of the company and the degree of change. Many research opportunities in contingency-based management control may be found in small and medium-sized companies (Chenhall, 2003). Management control systems are important for developing companies because they provide information for the decision-making process and achieve higher organizational performance (Duréndez, Madrid-Guijarro, & García-Pérez-de-Lema, 2011)

The implementation of a management control system in small, micro, and medium enterprises does not have a formal process (Garengo, Biazzo, & Bititci, 2005). Furthermore, (Lämsiluoto, Varamäki, Laitinen, Viljamaa, & Tall, 2015) stated that SPM plays a key role in small companies, managers need to create management controls to improve company performance (Voss & Brettel, 2014).

The management control system is also applied in cooperatives (Bialoskorski Neto, Barroso, & Rezende, 2012). Problems related to the management control system in cooperatives are limited human resources, access to productive resources, low ability in research, legality (Muharam, 2016).

Data shows that 163 or 52% of the 314 cooperatives in the city of Sukabumi were dissolved, which were dominated by small cooperatives, this was due to difficulties in providing capital to marketing and human resources (Supriatna, 2018). Furthermore, Saefudin (2018) said that 83% of cooperatives in Banjar City are inactive,

Furthermore, Abdurachim (2017) said that as many as 4,643 cooperatives in West Java had been proposed to be dissolved. Rasmana (2017) noted that out of 750 cooperatives in the city of Bogor, as many as 400 cooperative units were declared unhealthy, or inactive, this was due to the RAT problem, the residual proceeds from small businesses, neglected, and so on. The data above shows one of the failures of the cooperative. The implementation of poor management controls will have an impact on the achievement of poor performance.

2. Literature review

Govindarajan and Fisher (1990) stated that the management process to ensure the strategy can be implemented following organizational goals is a management control system. Zhang (2014) management control system is the process conducted mainly by managers. Managers monitor other members of the organization to implement the

organization's strategies. The purpose of control management is strategic implementation, which will fulfill the organization's objectives.

Based on the definition above, it can be stated that the process used by management to ensure that the company it manages has implemented effective policies and strategies and management control. Effective management control on projects that require precise procedures, making it possible for managers to manage and manage input and output optimally.

The management control system is a process by managers for in implementing strategy and achieving organizational goals. Simons (1994) develops the dimensions of a management control system consisting of four levers of control namely: diagnostic controls, interactive controls, boundary systems, belief systems. Thus management requires a system to handle processes that will be used by management to ensure that the organization it has implemented strategy effectively and efficiently. The system used a management control system.

1.1. Strategy and Management Control System

According to Merchant and Van de Stede (2012), a strategy is part of the company's internal analysis to deal with opportunities and threats. The management control system design is influenced by the strategy used. Strategies that managers develop how the role and potential in the environment and determine the appropriate response. Control is designed to help the organization to achieve its goals. An organization can gain a competitive advantage by integrating separate functions of strategy and control.

The form and system of the business unit of the mission that has been set. Strategic planning, budgeting, and incentive or compensation systems are key aspects in determining the form and structure of the control system. Management strategy management (Langfield-Smith, 1997), The company's strategy is influenced by the business environment, risk, and competition so that it will affect the control system.

Different company strategies will affect the control system. Factors affecting one or more of the management control systems include in aspects of national culture; structure, stability, growth, competition, and the industry or market regulation; Differences in ownership, size, strategy, and organizational culture; production processes, the complexity of services, technology, employee, experience, skills, and training (Merchant & Van der Stede, 2012).

A business strategy, company size, and company type have a significant influence on the design of a management control system (Dropulić, 2013). Furthermore, Chenhall (2003) strategy and company size affect the design of management control systems. Furthermore, the results of research (Auzair, 2011; Jänkälä, 2007) that business strategy affects the management system. Thus, the continued concern in the design of the control system should be whether the behavior induced by the system is consistent with the strategy (Sinha, 2012).

1.2. Company Size with Management Control System

Some ways to measure Company sizes, such as profits, sales volume, assets, stock valuations, and employees (Classify companies as small, medium, and large). The size of the company will affect the design of the management control (Dropulić, I.,2013).

Control is largely dependent on people and quality control (Merchant, & Van der Stede, 2012). The control system in the organization differs according to the size of the organization. Organizations that have small size businesses rely on simpler controls with a personal approach. As the size of the organization of the formal control system increases. Along with the organizational hierarchy, the greater the need for control (Batool, 2011).

Company size is related to management control system design (Merchant, 1982). As the company grows, the control system is not structured into a formal system. In the business and information technology environment, the design and use of management control systems not only exist in large corporations but also make it possible for smaller Company s, Company size is important in influencing management control systems (Cenhall, 2003). The use of sophisticated MCS associated with the size of the organization seems to dominate.



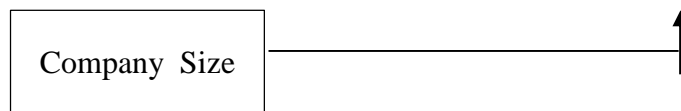


Figure 2.1.
Chart of Thinking Framework

1.3. HYPOTHESES DEVELOPMENT

Based on the above framework, the authors formulate a hypothesis for this study as follows:

H1: Business Strategy affects the management control system.

H2: Company size affects the management control system.

H3: Business Strategy and Company size simultaneously affect the management control system.

3. Research design and methodology

Population in this research is Credit Union in West Java, with an amount as many as 33 Credit Union, which become an observation unit (respondent) in this research is Manager or Board. The method used in this sampling is purposive sampling. The sample selection criteria are Credit Union which has assets above 5 billion Rupiah. The data used are primary data obtained by sending questionnaires to respondents through questionnaires. To measure the effect of independent variables on the dependent variable either partially or simultaneously, using multiple regression analysis with the following formula:

$$Y = a + b_1X_1 + b_2X_2 + e$$

Y = Management Control System
a = Constant
b₁, b₂ = Regression coefficients
x₁ = Business Strategy
x₂ = Company Size
e = error

4. Result and discussion

The number of cooperatives used in this study was as many as cooperatives. A total of 61 (sixty-one) questionnaires were distributed to primary cooperatives, 33 questionnaires were returned. Respondent profiles 67% were men and 33% were women. Based on the type of position, 42% Chairman, 6% Secretary, 9% Treasurer, and 42% Manager. The profile of respondents based on their education level can be as many as 12% have a Masters degree, 55% are S1, 12% have a Diploma, and 21% have a high school or vocational education.

From the results of respondents' answers to business strategies, it shows a score of 238 or 72%, the achievement of this score is in the sufficient category. The average asset was 27 billion, the highest asset value was 148 billion and the lowest asset was 5.3 billion.

The management control system for the belief system dimension shows a score of 388 or 60%, the achievement of this score is in the sufficient category. The boundary system dimension shows a score of 407 or 62%, the achievement of this score is in the sufficient category. The diagnostic control dimension shows a score of 424 or 64%, the achievement of this score is in the sufficient category. The interactive control dimension shows a score of 642 or 65%, the achievement of this score is in the sufficient category.

The results of the path coefficient calculation are presented in the following table:

Table 4.1
Results of the Influence Coefficient

Coefficients					
Model		Unstandardized Coefficients		Standardized Coefficients	Sig.
		B	Std. Error	Beta	
1	(Constant)	-19.387	60.980		.753
	X1 = Business Strategy	4.879	1.294	.560	.001
	X2 = Company Size	5.337	5.954	.133	.377

a. Dependent Variable: Y = Management Control System

Based on the business strategy test, a significance value of 0.001 is obtained which is smaller than the specified significance value of 0.05, so it can be said that business strategy affects the management control system. Furthermore, the company size obtained a significance value of 0.377 which is greater than the specified significance value of 0.05, so company size does not affect the management control system.

Table 4.2
Coefficient of Determination

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.591 ^a	.349	.305	15.60224

a. Predictors: (Constant), X2 = Ukuran Perusahaan, X1 = Strategi Bisnis

The magnitude of the influence of Business Strategy and Company Size on the Management Control System was 34.9%, 65.1% was influenced by other factors.

Table 4.3
Significance Test Result of F
ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3912.621	2	1956.310	8.036	.002 ^b
	Residual	7302.894	30	243.430		
	Total	11215.515	32			

a. Dependent Variable: Y = Management Control System

b. Predictors: (Constant), X2 = Company Size X1 = Business Strategy

In table 4.3, it can be seen that the resulting significance value is 0.02. This value is smaller than the specified level of significance, namely $\alpha = 0.05$. So it can be concluded that the business strategy and company size affect the management control system.

5. Discussion

The discussion was carried out to analyze the findings of the variables studied about the theoretical concepts and previous research. From the results of statistical tests it can be seen that 34.90% together, business strategy and company size affect the management control system. It can be seen that many other factors influence the management control system. Referring to contingency theory that focuses on the interaction between organizations and their environment, it is assumed that organizations and the environment change the circumstances in which organizations operate.

Business strategy affects the management control system, this study supports the results of Drupolic (2013) research; Chenhall (2003); Auzair (2011); Jänkälä, (2007). The firm strategy has implications for the design of management control systems (Langfield-Smith, 1997) As the business environment varies depending on risk and level of competitiveness, many different types of strategies also exist.

For effective implementation, different strategies require different task priorities; different keys, success factors; and skills, perspectives, and behaviors. A control system is a measurement system that influences the behavior of those activities that are being measured. Thus, attention continues in the design of control systems as to whether the behavior induced by the system is consistent with the strategy.

Firm size does not affect the management control system, this result is inconsistent with the results of Drupolic's (2013); (Merchant, & Van der Stede, 2012) ; Merchant (1982); Cenhall (2003); (Batoool, 2011). This is presumably because in small companies simple management does not require sophisticated information and management control systems. The use of management control system practices does not need it to be formal, this may be because the size of the company is very centralized management, secondly, it is suspected that there is a lack of infrastructure or human resources needed to utilize the management control system and its practice (Mitchell & Reid, 2000).

6. Conclusion

The results showed that business strategy affected the management control system, company size did not affect the management control system, and simultaneously business strategy and company size affected the management control system.

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