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Owner power: deliberate strategy formulation, and strategic management accounting
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Owner power, deliberate strategy formulation, and strategic management accounting

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Abstract

This research was conducted to identify the correlation between hotel owner power over the strategy formulation preference and the implementation of strategic management accounting, with the application of the sequential mixed-method approach. In the qualitative phase, 11 hotel managers and 2 hotel owners were interviewed. The result of the research demonstrates that a no controlling owner power will promote deliberate strategy formulation and the implementation of strategic management accounting. In conclusion, the preference of deliberate strategy formulation will promote the implementation of strategic management accounting on a larger scale.

Keywords: Owner Power, Deliberate Strategy Formulation.
Poder del dueño, formulación de estrategia deliberada y contabilidad de gestión estratégica

Resumen

Esta investigación se realizó para identificar la correlación entre el poder del propietario del hotel sobre la preferencia de formulación de la estrategia y la implementación de la contabilidad de gestión estratégica, con la aplicación del enfoque de método mixto secuencial. En la fase cualitativa, se entrevistó a 11 gerentes de hoteles y 2 dueños de hoteles. El resultado de la investigación demuestra que un poder de propietario no controlador promoverá la formulación de estrategias deliberadas y la implementación de la contabilidad de gestión estratégica. En conclusión, la preferencia por la formulación de estrategias deliberadas promoverá la implementación de la contabilidad de gestión estratégica en una escala mayor.

Palabras clave: poder del propietario, formulación de estrategia deliberada.

1. INTRODUCTION

There is a rapid growth of hotel industry in Sumatra during the last decade. Statistics Indonesia records that in the period of 5 years between 2012 and 2016, the growth of hotel industry in Sumatra increased by 38.74% and keeps increasing until 2018. However, the growth of hotel industry exceeded the occupancy rate that accounted for 48.44% in the period of 5 years between 2011-2015. The figure remained stagnant until 2017. Such data represents the situation of a
promising development of the hotel industry, yet leading to a dynamic and intense competition. The condition of the hotel industry in this island leads to the significance of a study that observes how the major stakeholders in the hotel industry anticipate the competition (Cadez and Guilding, 2008; Mazaro, 2018).

The models of research on the relationship between strategies, management accounting, and performance have been applied numerously, among others are by Cadez and Guilding (2008), up to the most recent ones by Cadez and Guilding (2008). Those researches focus mainly on the formal structure as the internal aspect of a company. The models applied in some of those researches, in fact, disregard the informal aspect that instead may operate as a significant feature that can impair the independence of management or company in determining strategic policies to follow.

The informal aspect of a business entity is related to external factors. One of the factors is national culture. Power distance is the operationalization of power-sharing relation and functions as a dimension of national culture concept. The contribution of power sharing in the hotel industry is expressed in the relation of power between the hotel owner and hotel operator. Several researchers have put their efforts to investigate the phenomena on the relationship between owner and management/operator, among others are Tur et al., (2001), Turner and Guilding (2013).

With that being said, there are three risk categories in the main phase of a hotel’s life cycle, namely developmental risk, operational
risk, and property devaluation risk. Hotel management or operator will tend to make the most of the capital expenditure in the interest of hotel performance. On the other hand, owners will demand minimum capital expenditure to earn more revenue for them in return (Ahmed, Umran, Qureshi & Sarmad, 2018; Ali & Haseeb, 2019; Haseeb, Abidin, Hye, & Hartani, 2018; Haseeb., 2019).

2. LITERATURE REVIEW

2.1. The Relationship between Owner Power and Deliberate Strategy Formulation

The relationship between owner power and strategy formulation may be described from the perspective of the agency. The primary nature of this agency relationship involves power bargaining. Hotel management or operator will tend to make the most of the capital expenditure to deliver hotel performance. On the contrary, the hotel owner will promote capital saving to earn more revenue for the owner. The better the human capital capacity of a hotel’s general manager, the greater the autonomy given by the hotel owner to perform their function effectively. The style of carrying on business will determine the formulation of the business plan (Abidin & Haseeb, 2018).
2.2. The Relationship between Owner Power and the Implementation of Strategic Management Accounting

The actual agency problem in the hotel industry comes when hotel owner and management/operator do not have a high congruency for the goals they want to achieve. Hotel owners with a narrow point of view that pursue the benefit of short-term goals will hinder the implementation of the advanced accounting instruments. Chen and Tan (2013) argue that foreign-owned companies and joint ventures in China are supported with high managerial skill and experience, a better resource, and high priority of diversification. As a matter of fact, local state-owned or private companies have just the opposite. On the other hand, the more power owners hold, the more reluctant they are to implement financial analysis instruments for the purpose of capital budgeting (Turner and Guilding, 2013; Chen and Tan, 2013).

2.3. The Relationship between Deliberate Strategy Formulation and Implementation of Strategic Management Accounting

Competitive strategy preference is a primary factor viewed as a trigger to promote the adoption of advanced accounting instruments. Several types of research were already conducted to observe such evidence, among others, are by Callahan and Gabriel (1998) who discovered that the strategy mapped out by the company is related to the application of specific management accounting instruments. The
concept of strategic management accounting is used to develop and monitor business strategy (Cadez and Guilding, 2008).

3. METHODOLOGY

This research was conducted with the sequential mixed-method approach. Qualitative phase was carried out in the first stage, and quantitative phase was conducted in the second stage. This approach was preferred to facilitate qualitative data in describing quantitative result in details.

4. QUALITATIVE PHASE

4.1. Qualitative Methodology

The first thing first in the qualitative phase is collecting qualitative information. The information in this stage was collected by conducting a semi-structured in-depth interview with 13 informants, with 11 of representing the management group, and 2 hotel owner. The interview was carried out in 1 to 2 hours, recorded with a voice recorder. During the interview, the researcher took importance notes concerning the information collected to confirm with the corresponding informants upon the closing of the interview. Information gathered from the interview is, first of all, information related to the use of
strategic management accounting. The instruments of semi-structured interview used to extract such information referred to the instrument of management accounting implementation.

4.2. Qualitative Result

In relation to the power of the hotel owners in putting pressure on the operator/management to respond to their demand, information collected vary. Several informants provided the following feedback:

....in some ways, the owner holds a more controlling position in making a decision...they have a better bargaining power....in a context of coercive control.......(General Manager B).

..... the owner will be more dominant than the operator if the owner is more competent than the operator....(General Manager Bz).

....in a context of coercive control, owners hold a more significant power compared to operators (Indriastuti, 2019; Amfanijoe et al., 2018).

The findings from the qualitative phase may serve as a basis to examine further the correlation between owner power, strategy formulation, and the implementation of management accounting in the quantitative phase. The qualitative analysis indicates that dominant owner power will lead to the preference of incidental strategy formulation. Dominant owner power will cause the pessimal use of strategic management accounting, vice versa. This indicates that there is a negative relationship between owner power with strategy
formulation preference and the implementation of strategic management accounting. Deliberate strategy formulation makes a positive impact on the use of strategic management accounting.

5. QUANTITATIVE PHASE

5.1. Quantitative Method

5.1.1. Population and Samples

Based on the searching, 395 star-rated hotels were found. Table I below displays the distribution of research questionnaire. The questionnaire was addressed to the general manager in each hotel.

5.1.2. Variables

Owner power is observed from the locus power, which is the comparison of owner power and operator or general manager power in influencing the policy of hotel operation. Owner power is represented based on coercive power, defined as the power exercised by owners to administer punishment to control the organization. The measurement of coercive power is adopted from the instrument developed by Turner and Guilding (2013). Respondents were asked to demonstrate their level of the agreement through a 6-level Likert scale, with 1 for strongly disagree and 6 for strongly agree. Deliberate strategy formulation is associated with the appraisal of an organization in
establishing strategies in a meticulous manner (Cadez and Guilding, 2008).

The instruments are developed according to the terminology introduced by Mintzberg. Respondents were asked to indicate their level of the agreement through a 6-level Likert scale, with 1 for strongly disagree and 6 for strongly agree. The implementation of strategic management accounting system involves the use of advanced management accounting techniques in company operation. The system is implemented using 11 instruments introduced by (Cadez and Guilding, 2008). Respondents were asked to indicate their implementation of management accounting techniques on a 6-point scale (Soo et al., 2019).

5.2. Quantitative Result

Structural Equation Modeling (SEM) using Partial Least Squares (PLS) was applied along with the use of Warp PLS version 5.0 software to conduct a qualitative analysis. However, prior to the testing of SEM-PLS, the data gathered by means of the survey using questionnaires required to be tested with data quality assessment. Questionnaires were distributed to identify 3 latent variables of the research, measured using the method of reflective measurement for the constructs. Table 3 signifies the result of validity and reliability of the research data, which clarifies that the composite reliability value of every construct is >0.7. Correspondingly, convergent validity (average
variance extracted) value of every construct is $> 0.5$ and the indicator reliability (loading) values of all constructs are $> 0.7$. Unquestionably, all construct indicators in this research are relevant.

Table 4 displays the result of discriminant validity testing on the measurement of construct instruments. The result indicates that the square root of each AVE is higher than the highest correlation value of other constructs. Based on the data shown in Table 3 and Table 4, the construct measurement in this research model is then valid and reliable. Thus, the data of this research is qualified for the subsequent testing. As stated in table 5, the values of APC, ARS, and AVIF respectively meet the criteria. The significance value of APC is $< 0.001$, and ARS is $< 0.001$, which are below 5% as required. The AVIF value of 1.177 satisfies as well the criteria of below 5.

This research model is then confirmed to be fit, thus qualified for further testing. Figure 2 clarifies that the correlation between owner power and strategy formulation has a coefficient $\beta$ of $-0.39$ with p-value of $< 0.01$ or in the $\alpha$ value of 1%. It signifies that there is a negative influence between those variables. Such negative influence is also found in owner power and the implementation of strategic management accounting for the correlation between them generates a coefficient $\beta$ of $-0.20$ with p-value of $< 0.01$ or in the $\alpha$ value of 1%. The analysis also reveals that the correlation between strategy formulation and the implementation of strategic management accounting results in a coefficient $\beta$ of 0.64 with p-value of $< 0.01$ or in the $\alpha$ value of 1%, assuming a positive correlation between the said variables.
6. DISCUSSION AND CONCLUSION

This research identifies the correlation between owner power over the preference for strategy formulation and the implementation of strategic management accounting. It also recognizes the correlation between strategy formulation and the implementation of strategic management accounting. Based on the mixed-method analysis, the qualitative findings observed with the application of SEM-PLS confirms the qualitative findings based on in-depth interviews with several hotel managers (Yang et al., 2019). The research findings reflect that, first, hotel owners with less dominant power compared to management/operator leads to the preference of deliberate strategy formulation (Chima and Kasim, 2018).

As the second finding, noncontrolling owner power will promote the implementation of a management accounting system on a larger scale, and vice versa. The confirmation for this finding is obtained from the quantitative analysis result which shows that the majority of hotels in Sumatra have implemented strategic management accounting to a relatively high extent. The finding also conveys the non-influential owner power towards the management in establishing a strategic policy of the hotel management the owners are responsible for. This finding supports the previous finding confirming that companies with open-minded owners will encourage open management sustained with highly skillful and experienced managers, better resource availability, and high priority of diversification (Erdogan, 2016: Radhy, 2019).
The third finding reveals that the preference of deliberate strategy formulation will promote the implementation of strategic management accounting on a larger scale, and this applies the other way around. This finding is confirmed from the quantitative analysis result that specifies how deliberate strategy formulation is preferred by hotel companies in Sumatra, and the majority of hotel companies in the area have implemented strategic management accounting to a relatively high degree. This finding validates the other finding stating that deliberate strategy formulation positively influences the implementation of strategic management accounting system (Cadez and Guilding, 2008). Such a strategy formulation represents intentional action by the company through frequent dialogue to discuss strategies to achieve effectiveness in the company.

The findings of this research present several significant implications. For researchers and academics, previous researches rarely identify organizational external factors that may influence organizational activities. This research portrays that owner power as the external element of a company is worth discussing in the context of the formal organizational study. As for hotel operator/management, the autonomy in managing hotel operation will be disrupted with the owners’ short-term interest. Owner power becomes dominant enough to intervene with hotel operator/management when competence and experience of the operator/management are a concern. General managers, specifically, are required to improve their bargaining skill to obtain the managerial autonomy they need.
REFERENCES


CHEN, Z., & TAN, K., 2013. The impact of organization ownership structure on JIT implementation and production operations


Table 1: Questionnaire Distribution

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of questionnaire</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of a questionnaire distributed to the respondents</td>
<td>395</td>
</tr>
<tr>
<td>Number of respondents refusing to participate</td>
<td>(168)</td>
</tr>
<tr>
<td>Number of questionnaires returned incomplete</td>
<td>(3)</td>
</tr>
<tr>
<td>Number of questionnaires returned and analyzed</td>
<td>224</td>
</tr>
<tr>
<td>Response rate</td>
<td>56.71%</td>
</tr>
</tbody>
</table>

Table 2: Descriptive Statistics of Research Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Theoretical Score</th>
<th>Actual Score</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliberate strategy formulation</td>
<td>3 – 18</td>
<td>5 – 18</td>
<td>14.11</td>
<td>3.30</td>
</tr>
<tr>
<td>Owner power</td>
<td>3 – 18</td>
<td>3 – 18</td>
<td>12.13</td>
<td>5.09</td>
</tr>
</tbody>
</table>

Table 3: The result of Data Validity and Reliability Testing

<table>
<thead>
<tr>
<th>Research Variable</th>
<th>Loading</th>
<th>Composite Reliability</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>The implementation of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ABC</td>
<td>0.803</td>
<td>0.969</td>
<td>0.738</td>
</tr>
<tr>
<td>LCC</td>
<td>0.819</td>
<td></td>
<td></td>
</tr>
<tr>
<td>QC</td>
<td>0.861</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TC</td>
<td>0.853</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VC</td>
<td>0.899</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CC</td>
<td>0.808</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPM</td>
<td>0.909</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCA</td>
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</tr>
<tr>
<td>CPA</td>
<td>0.895</td>
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<tr>
<td>BM</td>
<td>0.887</td>
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<tr>
<td>IPM</td>
<td>0.861</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deliberate Strategy</td>
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<tr>
<td>Formulation</td>
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<td></td>
</tr>
<tr>
<td>PS 2</td>
<td>0.962</td>
<td>0.970</td>
<td>0.915</td>
</tr>
<tr>
<td>PS 3</td>
<td>0.941</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PS 4</td>
<td>0.967</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner Power</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PP 1</td>
<td>0.980</td>
<td>0.987</td>
<td>0.963</td>
</tr>
<tr>
<td>PP 2</td>
<td>0.985</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PP 3</td>
<td>0.978</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 4: Discriminant Validity of the Research Data

Square roots of average variances extracted (AVEs) shown on diagonal

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.859</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>0.716***</td>
<td>0.957</td>
</tr>
<tr>
<td>3</td>
<td>Deliberate strategy formulation</td>
<td>-</td>
<td>0.413***</td>
</tr>
<tr>
<td></td>
<td>Owner Power</td>
<td>-</td>
<td>0.369***</td>
</tr>
</tbody>
</table>

***significant to p < 0.01

Table 5: Model Fit and Quality Indices

<table>
<thead>
<tr>
<th>Model Fit Item</th>
<th>Value</th>
<th>Criteria</th>
<th>Relevance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average path coefficient (APC)</td>
<td>0.409, P &lt; 0.001</td>
<td>P &lt; 0.05</td>
<td>Relevant</td>
</tr>
<tr>
<td>Average R-squared (ARS)</td>
<td>0.350, P &lt; 0.001</td>
<td>P &lt; 0.05</td>
<td>Relevant</td>
</tr>
<tr>
<td>Average block VIF (AVIF)</td>
<td>1.177</td>
<td>AVIF &lt; 5</td>
<td>Relevant</td>
</tr>
</tbody>
</table>

Figure 1: Structural Model of Research