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Research Paper

Management Control Systems in SMEs: A Case Study Using Otley's Performance Management Framework

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Abstract

This study explores the management control systems (MCS) within a small family-owned furniture retail business using Otley's (1999) performance management framework. Limited research on SMEs examines how informal and relationship-based controls interact with formal performance management mechanisms in family-owned enterprises. The case study adopts a qualitative, exploratory approach to examine how the business aligns its objectives, strategies, target setting, reward systems, and feedback loops to optimize its operations and achieve long-term sustainability. Data collection involved semi-structured interviews with the owner and 3 personnel, along with on-site observations, yielding rich insights into the informal and formal controls at play. The findings reveal that while the business emphasizes family-oriented objectives and informal decision-making, there are significant opportunities to improve financial planning, performance monitoring, and strategic alignment. The lack of formalized systems leads to inconsistencies in budgeting, performance tracking, and employee motivation. However, the case also highlights the strengths of flexible, relationship-based controls, which foster unity and adaptability in a family business context. The study suggests that SMEs can benefit from integrating formal MCS with their existing informal practices to strike a balance between efficiency and cultural alignment. The findings contribute to the understanding of MCS design in SMEs by illustrating how Otley's framework operates in a single-case SME and highlighting the hybrid nature of formal and informal control mechanisms. The study, therefore, provides practical SME insights for improving performance management practices in family-owned enterprises operating under similar organizational conditions.

Keywords: *Management Control Systems, Family Business, Small and Medium Enterprises, Performance Management, Strategic Planning, Informal Controls.*

INTRODUCTION

Small and medium-sized enterprises (SMEs) are widely recognized as vital drivers of economic growth, employment creation, and local development across both developed and developing economies. In the Philippines, SMEs constitute the overwhelming majority of registered enterprises and provide substantial employment, particularly in provincial and semi-urban areas where large corporations are less prevalent. These enterprises play a crucial role in sustaining household incomes and supporting regional economic resilience. Despite their economic significance, however, SMEs often operate under conditions of uncertainty, limited resources, and managerial constraints that challenge their ability to achieve long-term sustainability and competitiveness. Recent studies further emphasize that SMEs remain central to inclusive economic development, yet many continue to struggle to implement structured performance management systems that support strategic decision-making and operational accountability (Abane & Brenya, 2021; Shakarchi & Mohamed, 2025).

One of the most persistent challenges for SMEs is designing and using management control systems (MCS) that effectively align organizational objectives, strategies, and day-to-day activities. Management control systems are mechanisms that ensure employee behavior and operational decisions are consistent with strategic intentions and performance expectations. Contemporary research conceptualizes MCS as integrated mechanisms that coordinate planning, monitoring,

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incentives, and feedback to support organizational performance (Hansen, 2021; Baird & Su, 2018). While large organizations typically rely on formalized systems such as standardized budgeting, detailed performance indicators, and structured reward schemes, SMEs often depend on informal, experience-based, and relationship-oriented controls. These differences reflect variations in organizational size, complexity, ownership structure, and access to managerial expertise, suggesting that control practices must be understood within their specific organizational contexts.

The dominance of informal controls in SMEs has both advantages and limitations. On the one hand, flexibility, close interpersonal relationships, and centralized decision-making enable SMEs to respond quickly to environmental changes. On the other hand, the lack of structured planning, systematic performance monitoring, and formal feedback mechanisms can undermine accountability, financial discipline, and strategic alignment. Recent literature indicates that hybrid control arrangements—where informal relational mechanisms coexist with formal monitoring systems—are increasingly common in smaller organizations seeking to balance flexibility with accountability (Dimes & de Villiers, 2021; Passetti et al., 2021). These challenges are particularly pronounced in family-owned SMEs, where business objectives are often intertwined with familial values, social obligations, and personal relationships. In such settings, management practices are shaped not only by economic considerations but also by trust, loyalty, and shared identity.

In the Philippine context, SMEs commonly operate as family-run enterprises marked by strong relational ties and owner-manager dominance. While these features can foster commitment and cohesion, they may also obscure performance evaluation, blur the boundaries between personal and business resources, and complicate decision-making. Provincial SMEs, in particular, face additional constraints, including limited access to capital, technology, and professional management support. Despite the growing body of research on management control systems, empirical studies examining how such systems function in family-owned SMEs in developing and provincial contexts remain limited (Truant et al., 2025). Most existing studies focus on large organizations or rely on quantitative performance measurement models, leaving insufficient understanding of how established MCS frameworks operate in smaller, relationship-driven enterprises.

Misamis Occidental, a province in the southern Philippines, provides a relevant context for exploring these issues. The province hosts a growing number of SMEs that contribute meaningfully to local employment and commerce, particularly in the retail and service sectors. These enterprises often rely on long-established business practices shaped by family involvement and informal governance structures. However, little is known about how SMEs in Misamis Occidental articulate their objectives, translate strategies into operational actions, evaluate performance, motivate employees, and learn from feedback. This lack of empirical insight highlights a broader theoretical gap regarding how management control frameworks are enacted in SMEs where informal governance and relational decision-making dominate managerial practice.

This study adopts Otley's (1999) performance management framework as the analytical lens for examining management control systems in an SME context. The framework conceptualizes performance management as an integrated system comprising organizational objectives, strategies, and plans; performance targets; reward mechanisms; and feedback loops. Rather than treating control tools in isolation, Otley's framework emphasizes coherence among these elements and highlights the role of feedback and learning in adapting to environmental change. Recent scholarship continues to recognize Otley's framework as one of the most comprehensive models for examining performance management systems across diverse organizational contexts (Abdel-Halim & Ahmed, 2022; Bruesch & Quinn, 2024). This integrative perspective is particularly suitable for SMEs, where formal and informal controls coexist and evolve organically over time.

SMEs often prioritize short-term survival objectives, such as maintaining cash flow stability and retaining customers, over formally articulated long-term strategies. Strategic decisions frequently arise from day-to-day problem-solving rather than structured planning processes. While this adaptive approach supports flexibility, it may also limit SMEs' ability to systematically assess performance and align actions with broader organizational goals. Examining SMEs through Otley's framework enables a structured analysis of how objectives are defined, how strategies are enacted, and how performance expectations are communicated and monitored in practice. Applying the framework within a small family-owned enterprise, therefore, provides an opportunity to contextualize Otley's theoretical propositions in settings characterized by informal governance and relational control mechanisms.

Performance measurement is central to management control systems, providing the basis for evaluating progress and guiding decision-making. In SMEs, performance is commonly assessed using basic financial indicators alongside informal judgments of customer satisfaction and employee effort. However, the lack of formal measurement systems and documentation can reduce the reliability of performance information and constrain learning. This study examines how performance targets are set and monitored within an SME and how financial and non-financial measures are used to assess success.

Reward systems are another critical element of performance management. In small and family-owned enterprises, rewards are often discretionary and based on personal judgment rather than predefined criteria. While such practices may reinforce trust and loyalty, they can also create ambiguity and perceptions of inconsistency. Understanding how reward systems operate within SMEs provides insight into how employee motivation is shaped and how performance expectations are reinforced.

Equally important are information flows and feedback mechanisms that enable organizations to reflect on outcomes and adjust behavior. SMEs typically rely on informal communication and direct supervision rather than formal reporting systems. Although these mechanisms support rapid interaction, they may limit the organization's capacity to identify recurring issues or evaluate performance trends over time. Investigating feedback processes within SMEs contributes to a deeper understanding of organizational learning and adaptability.

Against this backdrop, the purpose of this study is to examine how management control systems are designed and used within an SME in Misamis Occidental, using Otley's (1999) performance management framework as a lens. Specifically, the study seeks to understand how organizational objectives are articulated, how strategies and plans are developed, how performance targets are set and evaluated, how reward systems are implemented, and how feedback mechanisms support decision-making and learning. By addressing these dimensions, the study responds to calls for context-sensitive research on management control systems in SMEs operating in developing economies.

The study contributes theoretically by situating Otley's performance management framework within a family-owned SME context where informal relational controls coexist with formal management practices. By examining how the framework's five elements operate in a small, owner-managed enterprise, the study offers empirical insights into the hybrid nature of SME performance management systems. In doing so, the research extends existing MCS literature by showing how Otley's framework can be interpreted and applied in organizational contexts marked by informal governance, relational decision-making, and resource constraints.

The findings of this research contribute to the literature by providing empirical evidence on how management control systems function within a provincial, family-owned SME. From a practical perspective, the study offers SME owners and managers insights into balancing formal and informal controls to enhance performance without undermining relational strengths. For policymakers and development practitioners, the study highlights areas where targeted support and capacity-building initiatives may strengthen SME management practices and promote sustainable growth.

LITERATURE REVIEW

Management Control Systems and Organizational Performance

Management control systems (MCS) are organizational mechanisms that ensure strategies, activities, and outcomes remain aligned with organizational objectives. Recent literature describes MCS as integrated systems that combine planning, monitoring, incentives, and feedback to guide managerial behavior and organizational performance (Baird & Su, 2018; Hansen, 2021). Rather than functioning solely as accounting tools, MCS provide a framework for coordinating decision-making and ensuring that operational activities support strategic goals. As Goebel and Weißenberger (2017) note, effective control mechanisms influence not only performance outcomes but also employee behavior, organizational learning, and strategic adaptation.

Contemporary studies increasingly emphasize the multidimensional role of performance management systems. According to Abane and Brenya (2021), organizational environments significantly shape the design and effectiveness of these systems, particularly in contexts marked by uncertainty and evolving institutional demands. Similarly, Hristov, Camilli, and Mechelli (2022) highlight that managerial decision-making within these systems is often affected by cognitive biases, underscoring the need for structured frameworks to guide evaluation and monitoring.

In the management accounting literature, Otley's performance management framework remains one of the most influential conceptual models for examining management control systems. Otley (1999) proposed that effective performance management depends on aligning five interrelated components: organizational objectives, strategies and plans, performance targets, reward systems, and information feedback mechanisms. Together, these elements shape how organizations translate strategic intent into operational outcomes. More recent research continues to build on this framework, emphasizing its usefulness for analyzing the interaction between formal control mechanisms and organizational behavior (Bruesch & Quinn, 2024; Truant et al., 2025).

Management Control Systems in Small and Medium Enterprises (SMEs)

Although management control systems have been widely studied in large organizations, their application in small and medium-sized enterprises (SMEs) poses unique challenges. SMEs typically operate with limited financial resources, simplified organizational structures, and less formalized managerial processes. As a result, their control systems tend to be more flexible and adaptive than those in larger corporations (Baird & Su, 2018). Hansen (2021) further explains that performance management systems in smaller organizations often serve multiple purposes simultaneously, including coordination, motivation, learning, and strategic communication.

Research also suggests that SMEs often rely on simplified performance measurement methods. For instance, Kathuria and Lucianetti (2024) emphasize that aligning performance metrics with business strategy is critical to sustaining competitive advantage, particularly in resource-constrained organizations. However, many SMEs struggle to develop comprehensive performance measurement systems because of limited technical expertise and managerial capacity. This limitation often leads to an emphasis on short-term financial indicators rather than broader strategic metrics.

Recent studies underscore the importance of integrating management control systems with strategic planning in SMEs. Li, An, and Liu (2021) show that integrating strategy mapping with performance monitoring helps organizations align operational activities with long-term strategic goals. Similarly, Dimes and de Villiers (2021) argue that management control systems foster integrated thinking by linking strategic priorities to operational decision-making. This integration is especially important in dynamic environments, where organizations must continuously adapt their strategies to shifting market conditions.

Family-Run Enterprises and Informal Control Mechanisms

Family-owned SMEs exhibit distinctive managerial dynamics that shape the design and use of management control systems. In these organizations, control mechanisms are often embedded in personal relationships, shared values, and informal governance structures. According to Linder et al. (2021), informal control mechanisms, such as shared norms, trust, and direct communication, can significantly shape employee behavior and organizational performance.

Relationship-based control systems may enhance cooperation and organizational cohesion, but they can also pose challenges for accountability and performance evaluation. As Bukh and Svanholt (2020) note, empowering employees through participatory control systems can improve engagement and decision-making effectiveness; however, these systems require clear communication and monitoring to maintain transparency and fairness.

Recent research also underscores the importance of ethical considerations in designing management control systems. Linder et al. (2021) argue that poorly designed control mechanisms may contribute to job-related stress or dysfunctional organizational behavior. Consequently, scholars increasingly recommend hybrid control systems that combine formal monitoring with relational governance structures. Passetti et al. (2021) further emphasize that multiple control mechanisms can complement one another, particularly when organizations seek to integrate operational objectives with employee well-being and organizational values.

Otley's Framework and Its Application to SMEs

Otley's performance management framework offers a useful lens for examining how organizations align strategic objectives with operational performance. The framework's five key dimensions—objectives, strategies, performance targets, rewards, and feedback—enable researchers to analyze both the structural and behavioral aspects of management control systems (Otley, 1999).

Recent studies continue to demonstrate the relevance of Otley's framework in contemporary organizational contexts. For example, Abdel-Halim and Ahmed (2022) assess the usefulness of performance management frameworks in business practice and confirm that integrated control structures improve strategic alignment and performance monitoring. Likewise, Bruesch and Quinn (2024) emphasize the critical role of management accountants in supporting the implementation and coordination of performance management systems across organizational functions.

Contemporary research suggests that management control systems play an essential role in organizational resilience and adaptability. Shakarchi and Mohamed (2025) highlight that well-designed control systems enable organizations to respond effectively to environmental uncertainty and operational disruptions. Similarly, Rikhardsson et al. (2021) show that management control mechanisms are particularly important during periods of crisis, providing structured processes for monitoring performance and guiding managerial decision-making.

For SMEs operating in emerging economies, management control systems often blend formal mechanisms with informal practices. As Teoh, Siti-Nabiha, and Farhana (2023) explain, organizations frequently adapt performance monitoring systems to their specific operational contexts, balancing structured measurement with relational coordination. This hybrid approach enables SMEs to maintain flexibility while still benefiting from systematic performance evaluation.

Overall, the literature suggests that effective management control systems require alignment among strategy, measurement, and organizational behavior. By applying Otley's framework to a family-owned SME, the present study contributes to the growing body of research on how performance management systems operate in smaller organizations where informal and relational controls remain prominent.

Research Gap and Theoretical Relevance

Despite growing interest in SME management practices, few empirical studies have examined MCS through Otley's (1999) framework in developing economies. Most extant research emphasizes quantitative models or large-firm dynamics (Ates et al., 2013; Chenhall, 2003), leaving a gap in understanding how contextual and cultural factors shape performance control in smaller, family-based enterprises. Misamis Occidental, a province with a strong entrepreneurial culture and limited institutional support, offers a unique setting to explore these dynamics.

RESEARCH METHOD

This study adopts a qualitative, exploratory case study approach to examine the design and use of management control systems (MCS) within a single furniture retailing enterprise in Misamis Occidental. Case study methodology is well-suited to capturing the complexity and contextual nuances of MCS practices in real-world business settings (Otley & Berry, 1994). The selected case enterprise, a long-established family-owned business operating for over 20 years, provides a rich context for exploring MCS practices in small and medium-sized enterprises (SMEs).

Data Collection

The respondent was purposively selected based on the business's longevity, formal management practices, and alignment with the study's objectives. Data collection involved semi-structured interviews with the business owner and key personnel, complemented by on-site observations. Interviews lasted two to three hours and were conducted in flexible settings convenient for the participants. A total of four participants were included in the study, consisting of the business owner, one operations manager, one accountant, and one purchasing officer. These participants were selected for their direct involvement in decision-making, financial management, and operational control, enabling a comprehensive understanding of the firm's management control systems.

Data saturation was achieved as recurring themes related to performance management practices, informal control mechanisms, and decision-making processes consistently emerged across interviews, with no substantially new insights observed in the latter stages of data collection. Including participants in distinct functional roles provided sufficient depth and triangulated perspectives, enhancing the reliability and credibility of the findings.

An interview guide grounded in Otley's (1999) performance management framework was used, focusing on themes such as goal setting, performance measurement, organizational communication, and strategic alignment. Where permitted, interviews were audio-recorded and transcribed verbatim, and detailed field notes were taken in other instances to ensure comprehensive documentation.

Data Analysis

Data analysis was conducted using thematic analysis to systematically identify, analyze, and report patterns in the qualitative data (Braun & Clarke, 2006). Thematic analysis offers flexibility and is particularly suited to exploring the contextual dynamics of MCS practices. To enhance analytical rigor, the process was guided by a structured coding framework anchored in Otley's (1999) performance management dimensions, ensuring theoretical alignment while allowing context-specific insights to emerge.

Familiarization with Data: The transcribed interviews and observation notes were thoroughly reviewed to gain an in-depth understanding of the data. This initial step enabled immersion in the dataset and the identification of recurring concepts.

Generation of Initial Codes: A coding system was developed using both inductive and deductive approaches. Deductive codes were informed by the theoretical framework, including themes such as goal-setting, performance measurement, and communication. Inductive codes were derived directly from the data to capture unexpected patterns or insights. Specifically, the initial coding framework categorized data across key dimensions, including organizational objectives, strategic actions, performance targets, reward systems, and feedback processes, with additional open codes capturing emergent practices such as informal decision-making and relational control.

Searching for Themes: Codes were grouped into broader themes that captured key aspects of the case. For instance, themes such as "integration of formal and informal controls," "family influence on decision-making," and "adaptability of MCS in resource-constrained environments" emerged from the analysis. Multiple codes related to verbal instructions, owner oversight, and trust-based delegation were consolidated into the theme "informal relational controls," illustrating how control mechanisms operated beyond formal systems.

Reviewing and Refining Themes: Emerging themes were reviewed to ensure coherence and relevance to the research questions. This iterative process involved refining definitions and identifying subthemes to capture the data's complexity. Themes were continuously compared with the coding framework and raw data to ensure consistency, with particular attention to overlaps between formal control structures and informal practices.

Integration and Interpretation: Themes were integrated with contextual information about the enterprise and the theoretical framework, ensuring the analysis captured both the case's uniqueness and its broader implications for MCS research in SMEs. This analytical approach enabled the study to move beyond descriptive categorization toward explanation, highlighting how and why specific control practices emerge in a family-owned SME context.

Rigor and Trustworthiness

To enhance the credibility and dependability of the findings, data triangulation was employed by cross-referencing interview data with observational insights. Member checking was also conducted by sharing preliminary findings with respondents to validate interpretations. Detailed documentation of the coding process and reflexive notes ensured transparency and reliability in the analysis. Additionally, a theoretically informed coding framework, combined with iterative theme refinement, strengthened analytical depth and ensured that interpretations were both empirically grounded and conceptually robust.

Contribution

This case study contributes to a nuanced understanding of MCS in SMEs by illustrating how these systems are tailored to the contextual demands of a specific industry and organizational setting. It offers valuable insights into the interplay between formal and informal controls, particularly in family-run businesses in emerging markets. Using thematic analysis, the study highlights both the commonalities and unique features of MCS practices in the SME sector, offering implications for theory and practice.

FINDINGS AND DISCUSSION

This section examines ABC Enterprises' management practices through thematic analysis, guided by Otley's (1999) framework. The findings are grouped into five key themes: Objectives, Strategies and Plans, Target Setting, Reward Systems, and Information Feedback Loops. Insights from Mrs. Juanita, the owner-manager, add contextual depth to the discussion.

Table 1. Participants Profile

Participant Code	Role	Key Responsibility
P1	Owner	Strategic direction, final decision-making
P2	Manager	Operations oversight and sales monitoring
P3	Accountant	Financial recording and reporting
P4	Purchasing Officer	Supplier coordination and inventory

All participants are directly involved in management control processes, enabling triangulation of perspectives across strategic, operational, and financial functions. Specifically, the owner provides insights into strategic direction and overarching decision-making; the manager offers an operational perspective on the implementation of controls and performance monitoring; the accountant contributes detailed knowledge of financial recording and reporting practices; and the purchasing officer reflects on the execution of supplier-related and inventory control activities. This distribution of roles allows the study to capture how management control systems are designed, interpreted, and enacted at different organizational levels. By integrating these varied perspectives, the research strengthens the credibility of the findings through data triangulation, as converging and diverging views across participants provide a more comprehensive and nuanced understanding of the firm's control environment.

Objectives. The findings indicate that ABC Enterprises' primary organizational objective is strongly family-centered. The owner (P1) emphasized that the business exists not only as an economic entity but as a mechanism for sustaining the welfare of the extended family:

> "Tinabangay ang tibuok pamilya sa pagdumala sa negosyo kai para ra pod ni sa atong kaayuhan". ("The entire family works together in managing the business for our collective good.") (P1, Owner)

This perspective was reinforced by the manager (P2), who highlighted the shared responsibility embedded in daily operations:

> "We all work not just for profit but for the family. If the business grows, everyone benefits." (P2, Manager)

These statements reflect a deeply embedded familial orientation in which success is defined by collective welfare rather than purely by financial outcomes. Consistent with prior studies of family-owned SMEs, organizational objectives are socially constructed and aligned with shared values and long-term relational commitments.

In addition to family welfare, customer satisfaction emerged as a secondary objective. However, this objective is operationalized informally. Rather than using structured feedback tools, the firm relies on observable customer behavior:

> "If customers come back or recommend us, that is already a sign that they are satisfied." (P2, Manager)
>
> "We don't really need surveys because we know our customers personally." (P4, Purchasing Officer)

While this relational approach strengthens customer loyalty, it limits the firm's ability to systematically assess service quality. From Otley's (1999) perspective, the absence of measurable targets weakens the link between objectives and performance evaluation mechanisms.

Another key finding is that organizational objectives are largely implicit rather than formally articulated. As the accountant (P3) notes:

> "We don't write down our goals, but everyone already understands what is expected." (P3, Accountant)

This implicit understanding promotes alignment through shared norms; however, it also introduces ambiguity in performance assessment. Without documented objectives, translating strategic intent into measurable outcomes becomes difficult.

A notable tension emerges between family-centered objectives and financial discipline. While the emphasis on collective welfare strengthens trust and cohesion, it also blurs the boundaries between personal and business priorities. For instance, observations indicate that financial decisions are sometimes guided by family needs rather than profitability considerations.

This tension is further reflected in reliance on informal performance indicators. While repeat patronage signals customer satisfaction, it does not provide actionable insights for improvement. Thus, the same relational strengths that sustain the business may also constrain its ability to adopt more structured management practices.

Another contradiction lies in the coexistence of strong strategic intent and weak formalization. The organization demonstrates a clear long-term purpose and alignment among members yet lacks formal mechanisms to translate these into measurable targets. This suggests a hybrid control environment where cultural cohesion substitutes for formal systems, but not without limitations..

Within Otley's (1999) framework, clearly articulated objectives form the basis for aligning strategies, performance measures, rewards, and feedback systems. The findings indicate that although ABC Enterprises demonstrates strong internal coherence in its objectives, these objectives are embedded in social and relational structures rather than in formal management processes. This aligns with emerging literature highlighting the hybrid nature of control systems in SMEs, where informal mechanisms complement—or substitute for—formal controls.

However, the absence of explicit, measurable objectives weakens the effectiveness of downstream control elements. As Basuony (2014) suggests, translating broad organizational goals into specific performance targets enhances accountability and strategic clarity. In this case, the lack of formalization limits the organization's ability to systematically evaluate performance and adapt to changing market conditions.

Table 2. Summary of Themes on Organizational Objectives

Theme	Description	Illustrative Evidence
Family-centered objectives	Business exists to support family welfare	"The entire family works together…" (P1, Owner)
Informal customer satisfaction measures	Reliance on repeat customers and referrals	"If they come back, we know they are satisfied" (P2, Manager)
Implicit goal setting	Objectives are understood but not formally documented	"We already know what to do without writing it down" (P3, Accountant)
Tension between relational and financial goals	Family priorities may weaken financial discipline	Observed lack of formal tracking systems

Strategic and Plans. The findings indicate that strategic planning at ABC Enterprises is largely informal and deeply embedded in family cooperation and relational decision-making. The owner (P1) emphasized that the business's success depends largely on the collective involvement of family members:

> "Tinabangay ang tibuok pamilya sa pagdumala sa negosyo kai para ra pod ni sa atong kaayuhan."
>
> ("The family will help in the management and success of the business for it is for the benefit of the family also.") (P1, Owner)

This perspective is reinforced by the manager (P2), who highlighted the collaborative nature of operational strategy:

> "Nothing can be achieved if everyone does not work together and help each other." (P2, Manager)

These accounts suggest that strategic direction is not formalized through documented plans but instead emerges from shared values, mutual trust, and collective responsibility. As the accountant (P3) notes, "We don't really write down our plans, but we already know what needs to be done," indicating reliance on tacit knowledge rather than explicit strategic articulation. This informal strategic orientation extends to customer and supplier relationships. The firm adopts relational strategies to sustain competitiveness:

> "We give discounts to our suki so they keep coming back." (P2, Manager)
>
> "Our suppliers give us good prices and credit terms because of our relationship." (P4, Purchasing Officer)

Such practices demonstrate that relational capital can substitute for formal market positioning strategies. By leveraging trust-based relationships, the firm can maintain customer loyalty and secure favorable procurement arrangements without relying on structured market analysis.

However, strategic decision-making is largely reactive rather than proactively planned. Observations indicate that product selection and inventory decisions are based on past sales trends and experiential judgment rather than on systematic forecasting or competitor analysis. As described by the owner (P1), decisions are often guided by faith and situational response:

> "Bahala na si God sa ato." ("God will take care of us.") (P1, Owner)

A key tension arises between strategic flexibility and the lack of formal planning. While the absence of rigid structures enables the firm to respond quickly to changing conditions, it also limits its ability to anticipate risks and plan for long-term growth. The reliance on experiential knowledge enables adaptability but may lead to missed opportunities for strategic positioning.

Another contradiction lies in the coexistence of strong relational strategies and weak analytical practices. The firm demonstrates sophisticated use of relationship-based strategies to manage customers and suppliers, yet lacks formal tools such as competitor analysis, demand forecasting, or market segmentation. This suggests that strategic effectiveness is driven more by social capital than by analytical rigor.

Additionally, integrating faith-based decision-making introduces both resilience and uncertainty. While belief systems provide psychological assurance and cohesion, they may also reduce the perceived need for formal risk management practices. This creates a hybrid strategic environment in which rational planning and non-rational elements coexist.

Within Otley's (1999) performance management framework, strategies and plans serve as the critical link between organizational objectives and operational activities. The findings indicate that although ABC Enterprises demonstrates internal alignment between its family-centered objectives and day-to-day actions, this alignment is achieved through informal, socially embedded mechanisms rather than formal strategic planning processes.

This aligns with prior research indicating that SMEs often rely on experiential knowledge and relational networks to navigate uncertainty (Duréndez & García, 2008; Moilanen, 2008). However, the findings also extend this perspective by showing that informal strategies are reinforced not only by relationships but also by cultural and faith-based elements, which shape decision-making in ways not fully captured by traditional MCS frameworks.

The absence of formal strategic articulation constrains the effectiveness of downstream control mechanisms, particularly performance measurement and feedback systems. As Singh, Garg, and Deshmukh (2008) argue, integrating basic planning tools enhances an SME's ability to sustain competitiveness and manage risk. In this case, the lack of formal strategy documentation limits the organization's capacity to evaluate its competitive position and adapt systematically to external changes.

Moreover, limiting participation to core family members restricts the diversity of strategic input. While this strengthens cohesion, it may reduce exposure to alternative perspectives that could enhance decision quality. Incremental formalization—such as periodic planning discussions or simple market assessments—could improve strategic clarity while preserving the relational strengths that underpin the firm's operations.

Table 3. Summary Table of Themes: Strategies and Plans

Theme	Description	Illustrative Evidence
Informal strategic planning	Strategies are not documented but guided by shared understanding	"We don't really write plans…" (P3, Accountant)
Family-driven decision-making	Strategic direction is shaped by family consensus	"The family will help…" (P1, Owner)
Relational market strategies	Customer and supplier relationships drive competitiveness	"We give discounts to suki…" (P2, Manager)
Reactive strategy formation	Decisions emerge from daily operations rather than formal analysis	Observed absence of formal planning tools
Faith-based resilience	Reliance on belief systems in managing uncertainty	"Bahala na si God…" (P1, Owner)

Reward Systems. The findings indicate that reward systems at ABC Enterprises are highly informal and discretionary. Monetary incentives are distributed annually during the company's Christmas celebration, with the amount allocated to each branch determined solely by the owner (P1) based on her personal assessment of overall performance:

> "The amount depends on what I think they have contributed to the business." (P1, Owner)

This view is echoed by the manager (P2), who described the evaluation process as largely intuitive:

> "We don't have exact measures. We just know who performed well." (P2, Manager)

Rewards are typically given as financial incentives at year-end gatherings, reinforcing both organizational performance and social cohesion. The purchasing officer (P4) further noted:

> "We receive incentives during Christmas if the branch performs well, but there is no fixed basis for how much." (P4, Purchasing Officer)

These accounts indicate that reward allocation is not guided by predefined performance indicators or documented criteria. Instead, it relies heavily on the owner's subjective judgment, informed by her close interactions with employees and branches.

A central tension emerges between relational trust and perceived fairness. While the discretionary nature of rewards allows flexibility and reinforces personal relationships, it also creates ambiguity about how performance is evaluated. Employees may remain uncertain about which behaviors or outcomes are valued, potentially weakening motivation over time.

Another contradiction lies in the coexistence of collective recognition and individual ambiguity. Although rewards are framed as recognition of group performance (e.g., branch-level success), individual contributions are assessed informally and may be swayed by personal relationships. This creates a risk of perceived favoritism, particularly in a family-based organizational structure.

Additionally, there is a disconnect between performance expectations and reward mechanisms. While employees are expected to contribute to sales growth and operational success, these expectations are not formally translated into measurable criteria that directly influence reward allocation. As a result, the motivational impact of rewards is partially constrained.

Within Otley's (1999) performance management framework, reward systems are a critical mechanism for reinforcing desired behaviors by linking performance outcomes to incentives. The findings suggest that, at ABC Enterprises, this linkage is weak and largely implicit. Rewards function more as expressions of appreciation and relational reinforcement than as structured responses to clearly defined performance targets.

This pattern aligns with prior research on family-owned SMEs, which commonly report informal, relationship-based reward systems (Senftlechner & Hiebl, 2015). Such systems can enhance loyalty and emotional commitment, particularly when employees perceive the owner-manager as fair and benevolent. However, the lack of objective performance criteria introduces subjectivity, which may reduce perceptions of transparency and accountability.

From a management control perspective, the absence of formal performance benchmarks undermines coherence across Otley's framework dimensions. As Anthony and Govindarajan (2004) emphasize, effective reward systems depend on clear links between performance measurement and incentive structures. Similarly, Otley (1999) highlights that alignment among objectives, measures, and rewards is essential to ensure control effectiveness.

At ABC Enterprises, reliance on discretionary rewards reflects a hybrid control environment in which relational mechanisms substitute for formal systems. While this approach supports cohesion and flexibility, it constrains the organization's ability to systematically motivate performance and ensure consistent reward allocation.

To address this limitation without undermining the firm's relational culture, a hybrid reward system may be considered. For instance, incorporating simple, transparent performance indicators—such as branch-level sales targets, customer retention metrics, or observable teamwork behaviors—could improve the clarity and perceived fairness of reward allocation. Such incremental formalization would preserve the system's personal and relational nature while enhancing its effectiveness as a management control mechanism.

Table 4. Summary of Themes Rewards System

Theme	Description	Illustrative Evidence
Discretionary rewards	Incentives based on owner's judgment	"The amount depends on what I think…" (P1, Owner)
Informal performance evaluation	No documented criteria or metrics	"We just know who performed well" (P2, Manager)
Relational motivation	Rewards reinforce loyalty and family ties	Observed during group incentives
Perceived subjectivity	Decisions may be influenced by personal relationships	Acknowledged by participants
Weak performance–reward linkage	No clear connection to measurable outcomes	Absence of formal benchmarks

Information Feedback Loops. The findings indicate that information feedback loops at ABC Enterprises are predominantly informal and person-centered. Branch managers submit monthly sales figures; however, these reports are consolidated into annual summaries and are not systematically analyzed for trends or performance variations. As noted by the accountant (P3), "We prepare reports mainly to see total sales, but we do not really analyze patterns over time," underscoring the limited analytical use of financial data.

Performance feedback is primarily communicated through verbal, spontaneous interactions between the owner (P1) and employees:

"We usually just talk about issues when we see each other in the store." (P2, Manager)

Feedback on product quality and customer concerns is collected indirectly through frontline workers:

"I rely on my assembly men to give feedback regarding the product quality." (P1, Owner)

These practices reflect a participatory, trust-based communication structure in which employees contribute insights from their direct operational experience. The purchasing officer (P4) further explained that “problems are discussed immediately when noticed, but they are not formally recorded,” indicating the absence of systematic documentation.

While these informal mechanisms enable rapid responses to immediate concerns, they offer limited depth for long-term evaluation. Recurring issues, performance trends, and operational inefficiencies may go unexamined because of the lack of structured recording and analysis.

A key tension exists between openness in communication and analytical limitations. While the organization demonstrates strong internal communication and information accessibility, the absence of formal documentation limits its ability to convert feedback into actionable insights for long-term improvement.

Another contradiction lies in the coexistence of real-time responsiveness and a lack of strategic learning. Immediate issues are addressed quickly through informal discussions; however, the absence of trend analysis prevents the organization from identifying systemic problems or recurring inefficiencies.

Additionally, there is a disconnect between data availability and data utilization. Although sales and operational data are collected, they are not fully leveraged for decision-making. This limits the organization’s ability to align feedback with performance targets and strategic objectives.

Within Otley’s (1999) performance management framework, information feedback loops are essential for organizational learning, adaptation, and control. The findings suggest that although ABC Enterprises maintains active communication channels, its feedback system functions primarily as a reactive mechanism rather than a structured tool for continuous improvement.

This pattern aligns with Chenhall (2003), who notes that informal feedback systems are prevalent in SMEs because of their relational and flexible nature. These systems foster trust and inclusivity but are inherently subjective and dependent on individual interpretation. While effective for short-term problem-solving, they limit the organization’s capacity for systematic performance evaluation.

The findings also extend prior literature by showing that feedback processes in family-owned SMEs are embedded not only in relational dynamics but also in role-based trust, particularly in reliance on frontline employees for operational insights. However, without formal mechanisms to record and analyze this information, valuable experiential knowledge may remain underutilized.

As Hared, Abdullah, and Abdullah (2013) emphasize, structured feedback systems are critical to organizational learning, especially in dynamic environments. Without such systems, decision-making may rely on incomplete or anecdotal evidence, weakening the integration among feedback, performance measurement, and rewards.

From a management control perspective, this limitation reduces coherence within Otley’s framework. Feedback is not effectively linked to target setting or incentive systems, thereby constraining its role in reinforcing desired behaviors and improving performance outcomes.

To enhance effectiveness without disrupting the firm’s participatory culture, incremental formalization may be adopted. For instance, introducing simple documentation practices—such as recording customer complaints, product defects, or branch-level issues—could provide a foundation for trend analysis and informed decision-making. Additionally, basic performance indicators and periodic reviews could strengthen the link between feedback and strategic objectives.

The adoption of accessible digital tools for data recording and reporting may further improve the timeliness and accuracy of information (Davila & Foster, 2005). These tools would enable the organization to shift from reactive problem-solving to proactive performance management while preserving its relational strengths.

The analysis of objectives, strategies, target setting, reward systems, and feedback loops shows that ABC Enterprises relies heavily on informal, relationship-based management control practices shaped by its family-oriented culture. These practices foster trust, cohesion, and adaptability, contributing to operational resilience and short-term stability.

However, the findings also highlight a fundamental tension between flexibility and control. While informal systems enable responsiveness and strong interpersonal relationships, they lack the structure needed for strategic alignment, financial discipline, and sustained organizational learning. This aligns with prior research on family-owned SMEs, which emphasizes the coexistence of strong informal controls and weak formal mechanisms (Moilanen, 2008).

Theoretically, the study shows that the effectiveness of Otley's (1999) framework in SME contexts depends on the balance between formal and informal controls. At ABC Enterprises, alignment across performance management dimensions is achieved through shared values and relational governance rather than formal systems. However, this alignment remains implicit and may weaken as the organization grows or faces greater environmental complexity.

As Anthony and Govindarajan (2004) argue, management control systems are essential for aligning organizational objectives with performance outcomes, especially in uncertain, resource-constrained environments. The findings suggest that ABC Enterprises would benefit from incremental formalization—such as clarifying performance metrics, strengthening feedback mechanisms, and introducing basic planning tools—without adopting overly complex systems designed for larger organizations.

Consistent with Chenhall and Langfield-Smith (1998) and Brocardo (2013), a hybrid approach that integrates simple formal controls with existing informal practices can enhance coherence across performance management dimensions. This approach would preserve the firm's relational strengths while improving decision-making quality, accountability, and long-term sustainability.

Overall, the study underscores that effective performance management in family-owned SMEs requires a context-sensitive balance between structure and flexibility. For ABC Enterprises, achieving this balance is critical to sustaining competitiveness, enhancing organizational learning, and supporting long-term growth in an increasingly dynamic business environment.

Table 5. Summary of Themes Information Feedback Loops

Theme	Description	Illustrative Evidence
Informal feedback channels	Feedback communicated verbally and spontaneously	"We usually just talk about issues…" (P2, Manager)
Limited data utilization	Sales data used for reporting, not analysis	Annual aggregation of reports
Reliance on frontline insights	Assembly workers provide product feedback	"I rely on my assembly men…" (P1, Owner)
Reactive feedback system	Issues addressed as they arise	Observed absence of trend analysis
Weak documentation	Minimal recording of feedback and issues	No formal reports or logs

CONCLUSIONS

This study examined the design and use of management control systems (MCS) in a family-owned small and medium-sized enterprise (SME) in Misamis Occidental through the lens of Otley's (1999) performance management framework. By analyzing organizational objectives, strategies and plans, target setting, reward systems, and information feedback loops, the study offers a holistic understanding of how performance management operates in a resource-constrained, family-oriented business context.

The findings show that ABC Enterprises relies primarily on informal, relationship-based control mechanisms shaped by strong family ties, trust-based governance, and centralized owner-manager decision-making. These informal controls have contributed to short-term operational stability, employee cohesion, and adaptability in a dynamic local market. Objectives are deeply rooted in family welfare; strategies emerge organically through relationships with customers and suppliers; targets emphasize revenue generation over comprehensive financial planning; rewards are discretionary and personalized; and feedback is largely verbal and reactive. Together, these practices reflect a coherent yet largely implicit performance management system.

However, the study also reveals significant limitations stemming from the lack of formalization across key dimensions of Otley's framework. The absence of clearly articulated and measurable objectives, systematic budgeting and cost controls, transparent reward criteria, and structured feedback mechanisms constrains accountability, financial discipline, and organizational learning. While informality enhances flexibility, it weakens alignment among objectives, performance measures, and incentives—an alignment central to effective management control. As competitive pressures intensify and business environments grow more complex, these limitations pose risks to long-term sustainability and scalability.

Theoretically, this study extends Otley's (1999) performance management framework by showing that its five interrelated components can function primarily through informal, socially embedded mechanisms in SME contexts, rather than through fully formalized systems as traditionally conceptualized. The findings indicate that alignment across objectives, strategies, targets, rewards, and feedback can be achieved through relational governance, shared norms, and tacit understanding, thereby broadening the framework's applicability to resource-constrained and culturally embedded organizational settings.

Moreover, the study provides empirical evidence on how informal controls interact with formal management control systems in emerging economies. Rather than functioning as substitutes, informal controls—such as trust, family involvement, and experiential knowledge—serve as foundational mechanisms that both enable and, at times, constrain the development of formal controls. This interaction shows that the effectiveness of MCS in SMEs depends not on the presence of formal structures alone, but on how these structures are integrated with existing social and cultural control practices.

Importantly, the findings support the view that hybrid control systems are a contextual adaptation rather than a transitional stage toward full formalization. In the case of ABC Enterprises, the coexistence of informal and emerging formal practices reflects a deliberate, context-sensitive configuration that balances flexibility, trust, and control. This contributes to the literature by positioning hybridity as a stable and functional form of management control in SMEs operating in developing economies, rather than as a deficiency or limitation.

Practically, the study offers important implications for SME owners and managers. Rather than adopting complex control systems designed for large organizations, SMEs like ABC Enterprises would benefit from incremental formalization that complements their existing relational strengths. Simple interventions—such as defining basic performance metrics, introducing modest budgeting practices, clarifying reward criteria, and systematizing feedback through key performance indicators or customer surveys—can significantly enhance performance management without undermining trust or family cohesion. This balanced approach allows SMEs to retain flexibility while improving strategic alignment and decision-making quality.

For policymakers and development practitioners, the findings underscore the need for targeted capacity-building initiatives that reflect the realities of family-owned SMEs. Training programs focused on basic financial management, performance measurement, and the use of digital tools for reporting and feedback can strengthen SME competitiveness, particularly in provincial contexts where access to professional support is limited.

In conclusion, this study underscores that effective management control in family-owned SMEs is not a matter of choosing between formal and informal systems but of integrating both in a coherent, context-sensitive manner. By aligning relational governance with structured performance management practices, SMEs can enhance accountability, foster learning, and support sustainable growth. Otley's (1999) framework is a valuable tool for understanding and guiding this integration, offering a practical roadmap for SMEs seeking to navigate the challenges of growth and competitiveness in developing economies.

Recommendations

Guided by Otley's (1999) performance management framework and informed by this study's findings, several recommendations are proposed to strengthen the design and use of management control systems in family-owned SMEs such as ABC Enterprises. These recommendations emphasize incremental formalization that complements, rather than replaces, existing relational and cultural strengths.

Clarify and Formalize Organizational Objectives. SMEs should translate broad, family-oriented objectives into clear, measurable goals that guide decision-making and performance evaluation. While maintaining the firm's commitment to family welfare and employee security, ABC Enterprises should define core financial and non-financial objectives, such as targeted profitability levels, customer retention rates, or service quality standards. Explicitly documenting these objectives can improve strategic clarity and ensure consistent alignment across operational activities without undermining the firm's familial ethos.

Strengthen Strategic Planning through Structured but Flexible Processes. ABC Enterprises would benefit from adopting simple, periodic strategic planning practices that formalize existing tacit strategies. Annual or semiannual strategy reviews with branch managers and key personnel can foster a shared understanding of market conditions, competitive positioning, and operational priorities. Basic market analysis, competitor monitoring, and risk identification should be integrated into these discussions to enhance preparedness and long-term competitiveness while preserving adaptability.

Integrate Financial Planning into Target Setting. Target-setting practices should move beyond a sole focus on sales revenue to include budgeting, cost control, and profitability. Implementing a basic budgeting system—covering expected revenues, major expenses, and cash flow projections—would improve financial discipline and predictability. Simple performance indicators, such as sales-to-expense ratios or branch-level contribution margins, can support informed decision-making without imposing an excessive administrative burden.

Enhance Transparency and Consistency in Reward Systems. To strengthen motivation and perceived fairness, ABC Enterprises should tie rewards to clearly defined performance criteria. A hybrid reward system that combines discretionary recognition with basic, transparent indicators—such as sales growth, customer loyalty, or teamwork—can reinforce desired behaviors while maintaining personal engagement. Clearly communicating how rewards are determined will enhance accountability and reduce the risk of perceived favoritism in a family-oriented environment.

Systematize Information Feedback and Performance Monitoring. Feedback mechanisms should be formalized to support organizational learning and continuous improvement. ABC Enterprises is encouraged to adopt simple tools such as customer satisfaction surveys, performance dashboards, or regular performance review meetings. Documenting key feedback data will help identify trends and recurring issues, supporting more proactive, evidence-based management decisions.

Leverage Digital Tools to Support Management Control. Adopting basic digital technologies can significantly enhance the effectiveness of management control systems. Simple accounting software, spreadsheet-based reporting tools, or customer relationship management (CRM) systems can improve data accuracy, timeliness, and accessibility. Digitalization should be implemented incrementally to ensure usability and alignment with the firm's existing capabilities.

Balance Formalization with Relational Strengths. Finally, SMEs should strive to balance formal management controls with the relational and cultural elements that underpin their success. Formal systems should be introduced gradually and designed to support—not replace—trust, personal relationships, and family cohesion. This balanced approach will help SMEs enhance accountability and strategic alignment while preserving the flexibility and commitment that characterize family-owned enterprises.

LIMITATION & FURTHER RESEARCH

While this study offers valuable insights into applying Otley's (1999) performance management framework in a small, family-owned enterprise, several limitations warrant acknowledgment.

First, the study is based on a single case in Misamis Occidental, limiting the generalizability of the findings to other SMEs with different industries, ownership structures, or cultural orientations. The case's unique characteristics—particularly its family-oriented governance and informal decision-making processes—may not fully represent the diversity of management control practices across SMEs in the Philippines or other developing economies.

Second, the study's qualitative, interview-based approach relies heavily on key informants' perspectives. Although semi-structured interviews and on-site observations provided rich contextual data, there remains potential for subjectivity and social desirability bias in participants' responses, especially in family-run contexts where loyalty and reputation are highly valued. Triangulation with additional data sources, such as financial records, employee surveys, or customer feedback, could further strengthen the robustness of the findings.

Third, this study primarily examined MCS through the lens of Otley's (1999) framework, which, although comprehensive, may not fully capture the evolving dynamics of digitalization, environmental uncertainty, and socio-cultural factors affecting SMEs today. Incorporating complementary frameworks—such as Simons (1995), as cited by Langfield-Smith, 1997, Levers of Control, or the Balanced Scorecard—could provide a multidimensional understanding of performance management in small business settings.

Furthermore, the research is context-bound to Misamis Occidental, an emerging province in the southern Philippines. Regional economic conditions, access to financing, and local governance structures may shape the implementation of management control systems differently than in more urbanized or industrialized contexts. Comparative analyses across provinces or regions would allow for a more nuanced appreciation of how contextual variables influence MCS design and effectiveness.

Directions for Future Research

First, multi-case or comparative studies of SMEs across industries (e.g., manufacturing, retail, agribusiness, and services) could yield broader insights into how business size, market competition, and resource availability shape management control practices. This approach would also help identify common patterns and contextual variations in the adoption of Otley's framework.

Second, quantitative research using survey-based methods could empirically test relationships among formal and informal controls, organizational culture, and performance outcomes. This would complement the present study's exploratory findings and enhance external validity.

Third, as digital technologies and accounting information systems become more integrated into SME operations, future research could examine how digital transformation influences control systems, feedback loops, and decision-making. Such studies would address the intersection of traditional management control principles and modern technological enablers.

Lastly, further research may explore succession planning and generational shifts within family-owned SMEs. Understanding how new generations integrate formal control mechanisms while maintaining relational and cultural strengths can provide actionable insights into sustaining growth and governance continuity in family enterprises.

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