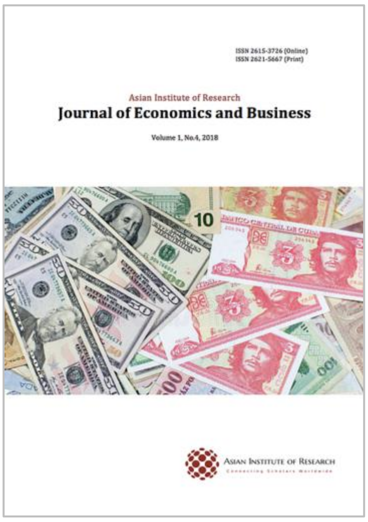

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The Impacts of Transformational Leadership on Competitive Advantage of Local Accounting Firms

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Abstract
The emergence of the ASEAN Economic Community (AEC) had increased the competitiveness of many industries in South-East Asia. Since the accounting services have been heavily regulated by the Mutual Recognition Arrangements (MRA), the impact of AEC has led to the entrance of many foreign accounting firms in Indonesia, which may harm the local accounting firms if they do not have the competitive advantage to prosper. This research aims to find the influence of transformational leadership, organizational culture, and management control system to a competitive advantage. A set of questionnaires was assembled to measure each of the variables using the statements adapted from previous researches of the respective variables. Each statement is rated using a 5-point Likert scale and analyzed using SmartPLS. This study was conducted on 27 public accounting firms and 18 accounting service firms in Surabaya, Indonesia. The findings confirm that both transformational leadership and organizational culture have significant influence to competitive advantage, while management control system has no significant influence to competitive advantage. Moreover, the transformational leadership also shows significant influence on organizational culture and management control system and the influence of organizational culture to management control system as mediating variables also show a significant impact. Finally, this paper concludes that local accounting firms can, in the long run, improve their competitive advantage by adopting an interactive management control system and showing idealized influence characteristic as transformational leaders. Moreover, to answer the rapid changes in market demand caused by AEC, local accounting firms can also adopt market culture.

Key Words: Accounting Firm, Competitive Advantage, Management Control System, Organizational Culture, Transformational Leadership

1. Introduction

Earlier this century, the declaration of Association of Southeast Asian Nations Economic Community (AEC) has opened up new areas of opportunities, bringing forth the freedom of operating business across Southeast Asia Countries. AEC is an initiative of international economic integration of Southeast Asia countries which the main objective is to limit obstructions to Southeast Asian regional trade in goods and services as well as foreign investment (Gunadi, 2016). AEC will potentially affect roughly US$ 2.6 trillion in market values and over 622 million people (ASEAN, 2015a). AEC was created in order to improve the economic conditions in ASEAN and provides ASEAN countries the opportunity to compete against countries with superior economic power (Taty, Possumah, & Razak, 2017). However, this milestone has also increased the intensity of competitiveness and rivalry across firms in Southeast Asia (Gunadi, 2016). To firms and countries that are unprepared, the nature of free trade brought by AEC gives birth to new threats and challenges.

In Indonesia's perspective as the most populous country in ASEAN with immeasurable but untapped potential, Indonesia's competitiveness can be considered as still below par. Based on Human Development Index 2016, out of 187 countries, Indonesia was ranked 121st which was way below its neighboring countries including Singapore (18th), Malaysia (64th), Thailand (103rd), and the Philippines (114th) (Taty et al., 2017). Furthermore, in 2016, Indonesia's gross domestic product per capita ranked 5th out of 10 ASEAN countries below Singapore, Brunei Darussalam, Malaysia, and Thailand (Statista, 2018). In short, it can be bluntly said that the potential threats and challenges brought by AEC will adversely affect Indonesia's economy.

In the turbulence of the enormous growth caused by AEC in Indonesia, the role of accounting firms cannot be overlooked. The complexity of businesses caused by AEC has changed the daily routine of an accountant into something much more complicated. The needs of the ever-changing business environment forces accounting firms to be adaptive. This was the case especially with the sign of 2009 Mutual Recognition Arrangements (MRAs) on Accounting Services. MRAs are meant to expedite the employment of professionals into any of the ASEAN countries while paying attention to the relevant domestic regulations and market demand conditions of ASEAN countries **(**ASEAN, 2015b**)**. From then on, Indonesia's accounting scene is heavily dominated by foreign companies. As mentioned by Saepudin, Gunawan, Nuryanto, and Rusmanto (2017), the total earnings of Big Four (abbreviation for four biggest foreign accounting firms including Ernst & Young, KPMG, Deloitte and PricewaterhouseCoopers) accounted for over 80 percent of the total industry revenues. Furthermore, the existence of Big Four is considered to be vital in the development of the accounting and auditing industry. As a result, some local accounting firms chose to cooperate with foreign accounting firms while others maintain its own identity while at the same time develop their competitive advantage.

The role of leadership in the organization is very important in order to achieve competitive advantage (Agbor, 2008). By utilizing the resources at their disposal, leaders are able to inspire creativity to their subordinates (Khan & Anjum, 2013). The creative nature that was instilled to the employees will eventually give birth to many innovations which in turn will consolidate into a sustainable competitive advantage (Garcia-Morales, Llorens-Montes, & Verdu-Jover, 2008). However, this process is laborious and perpetual. Moreover, several direct or indirect determinants of competitive advantage cannot be ignored. These mediating variables include organizational culture and also management control systems (MCS).

According to Block (2003), many researches had been conducted attempting to examine the influence of leadership on organizational culture which implies that the leadership-culture connection affects the performance of organizations. Ali, Jangga, Ismail, Kamal, and Ali (2015) also corroborated the importance of organizational culture in achieving success while mentioning the possible effects caused by leadership style on organizational culture. In short, the influence of leaders on the creation of competitive advantage cannot be separated from the culture of the firms.

On the other hand, the role of leadership towards the organizational design of a firm vanished from the literature many years ago (Abernethy, Bouwens, & Lent, 2010). In a similar manner, the relationship between company strategy as a manifestation of competitive advantage with MCS was insufficiently explained in past researches (Pant & Yuthas, 2001). The lack of research between leadership style, MCS and competitive advantage is undesirable since the connection between leadership style, MCS and management performance, which arguably the result of competitive advantage, is proven to be positive (Abernethy et al., 2010).

In contemporary literature, one of the leadership styles that many considered to be effective and superior in influencing subordinates is transformational leadership (Ehrhardt & Klein, 2001). Transformational leadership generates advantages for organizational performance while stimulating knowledge and innovation (Howell & Avolio, 1993). Thus, in pursuit of explaining competitive advantage, it is worthwhile to investigate the nature of transformational leadership style with its positive impacts.

With the purpose of contributing to the existing studies, the objective of this study is to explore the effect of transformational leadership to the five dimensions of competitive advantage, which are pricing/cost (PC), quality (QU), dependable delivery (DD), product innovation (PI), and time-to-market (TM) (Wijetunge, 2016; Li, Ragu-Nathan, Ragu-Nathan, & Rao, 2006). Another aim is to investigate the mediation effect of organizational culture and management control systems to transformational leadership. Examining the impact of each independent variables would allow the researchers to gain a better knowledge of the relative effects of each independent variables to the competitive advantage.

The remainder of this paper is organized as follows: first, the researchers discussed the definition of variables used in this study; second, the hypotheses of the variables were constructed; third, the methods and results of this research were presented; finally, the researchers tried to elaborate on the results of this research and its implications and presented the limitations of this research as well as recommendations for further study.

2. Conceptual Model

2.1 Theoretical Framework

2.1.1 Transformational Leadership (TL)

The definition of leadership has experienced several changes over the last 100 years (Rost, 1991). Fleishman and Peters (1962) defined leadership as acts occur when one individual attempts to influence the behavior of others towards some goals. On one hand, leadership style can be seen as a continuum, ranging from highly structured and autocratic style at one end and people-oriented, considerate style at another (Otley & Pierce, 1995)**.** Based on this consideration, many leadership styles were investigated and theorized.

In this paper, the researchers chose to investigate transformational leadership. Transformational leadership is a leadership style in which leaders take part in their subordinates' activity and forges a relationship with the followers that boosts the level of motivation and morality of both parties (Burn, 1978). In their paper titled "Leading in the 1990s: The Four I's of Transformational Leadership", Avolio, Waldman, and Yammarino (1991) discussed thoroughly the four dimensions of transformational leadership. These four dimensions include individualized consideration, intellectual stimulation, inspirational motivation, and idealized influence.

Individualized consideration is proven to be an important leadership behavior (Sarros, Gray, & Densen, 2002). Bass and Avolio (1994) defined Individualized consideration as the behavior of paying attention to the different needs of each individual employee rather than treating all followers alike and having the same needs. By paying attention to their employees, leaders are able to develop their followers' strength in order to finish their tasks (Rowold, 2005). Leaders are considered to be a coach or mentor (Brown, 2008) and become the source of encouragement and support to their followers (Chan & Mak, 2014).

Intellectual stimulation promotes intelligence, rationality and careful problem solving (Bass & Avolio, 1994). Leaders who practice intellectual stimulation introduce employees to new perspectives on how to solve problems. By stimulating subordinates ability to solve challenges, subordinates will develop a sense of pride to follow their leaders (Avolio et al., 1991) Furthermore, intellectual stimulation encourages employees to be more committed to the organization and thus, allowing the organization to achieve its predetermined goals (Anjali & Anand, 2015).

Inspirational motivation is interpreted as leaders' ability to give attention to their subordinates which in consequence makes their followers feel respected, become self-confident and assured that their leader could overcome obstacles and introduce the organization to new challenges and opportunities (Avolio et al., 1991). Inspirational motivation often creates attractive goals and shows optimism and enthusiasm regarding those goals (Bruch & Walter, 2007). Additionally, leaders who encourage their subordinates are linked to the extra effort given by employees to finish their jobs (Densten, 2002). This extra workforce support is important when organizations need to embrace opportunities for growth and development (Gibson, Conger, & Cooper, 2001).

Idealized influence means following and acting upon the communal sense of mission and values (Rowold, 2005). Leaders who exercise idealized influence set up a personal example and high ethical standards and maintain them (Chan & Mak, 2014) and thus, respected and trusted by their subordinates (Brown, 2008). The combination of idealized influence and inspirational motivation makes leaders being seen as charismatic and inspiring (Bass, 1998). This is important in order to influence employees to achieve great accomplishments (Bass, 1990).

The effect of transformational leaders to their subordinates may manifest in their encouragement for their subordinates to realize their full potential and exceed their individual aspirations for the benefit of the organization (Berson & Avolio, 2004; Ali et al., 2015**).** The leaders often assign tasks to the followers in attempts of teaching the followers to be responsible and autonomous (Jain & Duggal, 2018). In their attempts to influence behavior, transformational leaders usually emphasize on the morality enhancement and motivation of their subordinates (Bass, 1999). Thus, transformational leaders are often seen as charismatic and inspiring leaders (Nguyen, Mia, Winata, & Chong, 2016).

2.1.2 Competitive Advantage (CA)

Competitive advantage emerges when firms are able to create more economic value through implementing and exercising a strategy that is unique to other firms than their competitor in its product market (Birasnav, 2012; Sigalas, Economou & Georgopoulos, 2013). Competitive advantage comprises competitive capabilities that allow organizations to distinguish itself and is the result of critical management decisions (Li et al., 2006). When firms make full use of the available resources and further develop their strategy, firms will create a sustainable competitive advantage.

In this research, the researchers adopted the dimensions of competitive capabilities constructed by Li et al. (2006) since it is suitable for measuring the competitive advantage of the non-manufacturing business. The factors that form a competitive advantage consists of five dimensions: Pricing or Cost, Quality, Dependable Delivery, Product Innovation, and Time-to-Market (Wijetunge, 2016; Li et al., 2006).

Pricing or Cost (PC) is interpreted as financial superiority that is achieved by obtaining a better margin than the other competitors within the similar market and industry (Khan & Anjum, 2013). Competitive advantage is achieved when a company is able to manufacture a similar product or execute a similar service to its competitor with lower cost, thus able to generate margin. Ownership or possession of low-cost, valuable resource such as the privilege to acquire inputs and enter markets will create competitive advantage (Ma, 1999).

Quality (QU) is the capability of a company to create more valuable products or services to the customer than its competitors (Birasnav, 2012; Wijetunge, 2016). Through quality, a company can generate competitive advantage by creating a better product than the competitors. Quality help satisfy the customer by introducing a product that was created to perfection (Motwani, Frahm & Kathawala, 1994). In addition, quality can also be developed through adding valuable benefits to the products or services, such as reliability, durability, and perceived quality.

Dependable Delivery (DD) is the competence of a firm to fulfill the delivery requirement needed by the customer better than the competitor (Koufteros, 1997). Giunipero and Brand (1996) explained that consistent on-time and reliable delivery would enhance operational performance better than the competitor and thus, creating a competitive advantage. Competitive advantage can be realized through responsiveness, fast delivery, and variety, which allow firms to meet customers' need in a timely manner (Al Serhan, Julian & Ahmed, 2015).

Product Innovation (PI) is described as the infusion of resources and relevant knowledge to create a new product to meet a currently unmet demand (Varadarajan, 2018). Product innovation pushes firms to create new and better products more frequently than its competitor and hence, leading to competitive advantage (Liu & Huang, 2018). In the perspective of service firms like accounting firms, it can be used to further improve their competitive positions in the market by offering important new core benefits or reviving old services. In addition, alteration of the firms' service systems will also create a competitive advantage through the creation of new value streams to enhance value delivery (Anning-Dorson, 2018).

Time-to-Market (TM) is an important competitive priority in a time-based competition. It establishes a competitive advantage by being responsive and adaptive to the market. It provides a competitive advantage by changing their competitive strategies accordingly in order to be ‘fast-to-market' or ‘fast-to-produce.' Being aware of the importance of time-based management allows the company to have an edge in the time-sensitive market environment (Al Serhan et al., 2015).

2.1.3 Organizational Culture (OC)

A firm is the summation of diverse personalities, backgrounds, and a range of experiences that shaped each individual in it (Sadri & Lees, 2001). Culture is the core of the firm that guides how employees interact and make decisions. While it is always invisible, culture is manifested in mutual values, assumptions, beliefs, and organizational artifacts (Lee, 2011). Organizational culture is crucial to organizational success (Twati &

Gammack, 2006). Understanding the importance of organizational culture will affect the strategic development of the firm and hence, gaining competitive advantage for the firm.

In this research, we adopt the classification of organizational culture based on Cameron and Quinn's (1999) Competing Values Framework (CVF) since it has been widely used in the literature and practiced in over 10 000 organizations globally within a variety of fields (Parolini & Parolini, 2012). CVF classified cultures into four different types: Clan culture, Adhocratic culture, Hierarchical culture, and Market culture. Each culture type represents a specific way of thinking, an approach to address the challenges and adopt specific strategies that lead to the creation of values in organizations (Jaeger & Adair, 2013). The classification of these cultures is based on two sets of the continuum. The first differentiate effectiveness criteria that emphasize flexibility as opposed to stability. The second characteristic differentiates effectiveness criteria that emphasizes internal orientation as opposed to external orientation

Clan culture orientation focuses on human relations that prioritizes on internal cohesiveness and orientation, participation and loyalty, teamwork, and commitment in employee-firm connections (Morgan & Vorhies, 2018). Organizations that adopt clan culture orientation will feel like a family that is portrayed by following those in the higher position, less restriction on operational activities and tolerance for ambiguity in structure and procedures that can obscure information disclosure (Elkelish & Hasan, 2014). With such values implemented in an organization, it will create collectivism nature and high sense of loyalty and commitment. Furthermore, leaders in clan culture organization are expected to be collaborative, cohesive, participative, empowering, and communicative, so there is good moral, satisfaction, development of people, and high commitment to the organization (Parolini & Parolini, 2012).

Adhocratic culture orientation emphasizes external focus and differentiation and also flexibility and discretion. A company that adopts adhocratic culture is characterized as entrepreneurial, creative, dynamic and risk-taking that supports change, innovation, constant growth, entrepreneurship, adaptiveness to changes, and initiative (Cameron & Quinn, 1999). Furthermore, leaders of adhocratic organizations are expected to be risk-oriented, ideal, and creative (Moonen, 2017). Leaders of adhocratic organizations are also heavily involved with the market in order to maintain the position of the company as the top provider of creative products or services, which may require a low degree of risk disclosure (Morgan & Vorhies, 2018).

Hierarchy culture orientation emphasizes internal focus and integration while focusing on stability and control values (Cameron & Quinn, 1999). A hierarchical organization is established as a formal and structured working environment to manage the expanding responsibilities. It concerns maintaining stability, predictability, efficiency, and certainty (Twati & Gammack, 2006). This type of organization is based on formal rules and procedures and formalized and well-structured bureaucracy. Organizations with hierarchical culture maintain swift operations by adhering to strict and numerous procedures and policies. Within the hierarchy, there are centralized structures in place for most processes, especially communication and decision making (Parolini & Parolini, 2012). Leaders of hierarchical organizations are expected to be more risk-averse due to the emphasis on being transparent, enforcement of roles, and rules regulations under the basis of highly structured organizations (Elkelish & Hasan, 2014). By disclosing risks and information, the uncertainties are reduced and thus, increasing certainty and clarity.

Market culture emphasizes external focus and stability (Cameron & Quinn, 1999). It concentrates on productivity, market share growth, and competitive actions and outcomes (Oney-Yazici, Giritli, Oraz-Topcu, & Acar, 2007). It engages in exchanges with suppliers, customers, and vendors (Cameron & Quinn, 1999). Market culture tends to disclose information, especially with regards to customers by prioritizing on the market demand in order to achieve a higher level of customer satisfaction and hence, maintaining market leadership. Leaders of this culture are expected to be tough, demanding, and hard-driving, while focusing on productivity, market share and penetration, and profitability (Moonen, 2017).

2.1.4 Management Control System (MCS)

In order to execute corporate strategies, the management control system (MCS) can be seen as complementing mechanism (Jordao, Souza & Avelar, 2014). It is defined as a series of processes in which managers ascertain the effective and efficient use of controlled resources so that the previously set goals can be achieved (Langfield-Smith, 1997). There are two broad main objectives of MCS which are the use of information in performance evaluation (decision-influencing role) and its use for enhancing managerial decision making (decision-making role) (Nguyen et al., 2016). In many pieces of literature, MCS is often mentioned in different terms including management accounting system, management accounting, and organizational controls.

MCS also possesses several groups of systems. One of the frequently researched groups of systems is the 'levers of control' framework that was developed by Simons (1995). This group of systems consists of belief systems, boundary systems, interactive control systems, and diagnostic control systems.

The belief system is used to enhance the core values related to business strategy and encourage the search for new opportunities (Tuomas, 2009). Belief system manifests in the forms of statements of purpose and formal mission statements of the organization (Simons, 1995**.** Initially, managers who utilize belief systems define and communicate the existing core values of the organization (Simons, 1994). By clearly communicating its missions and values, management can then motivate and guide its employees' desirable behavior (Marginson, 2009).

Unlike the belief system which inspire employees to behave accordingly, boundary system is used to reduce risks by setting limits to strategically undesirable behaviors (Tuomas, 2009)**.** Boundary system manifest in the form of the code of conduct of the organization. Although categorized as a negative control by Simons (1995), boundary system are needed in order to facilitate organizations operating at "high speeds" (Tessier & Otley, 2012).

The interactive control system is defined as a formal system that can be employed to signal all organizational levels on actions to be monitored and where new ideas should be introduced and tested (Tuomas, 2009). According to Simons (2000), there are several attributes of the interactive control system. First, management is heavily engaged in the use of the control system. Second, the interactive control system is not exclusive to the higher level management, but instead, all members of the organization are participating in it. Third, the interactive control system emphasizes the importance of organizational learning. Fourth, the interactive control system deals with strategic uncertainties and thus, initiate the learning process and strategic changes.

The diagnostic control system is a system used to monitor organizational outcome through formal feedback (Tuomas, 2009). It is used by the management to communicate and monitor the critical success factors of the company (Tuomela, 2005). There are several similarities but also differences between the diagnostic control system and other control systems. Both systems can be applied to team management in all levels of organization (Matsuo & Matsuo, 2017). Moreover, the diagnostic control system is also related to the learning process of organization (Argyris, 1991). On the contrary, the diagnostic control system is categorized as a necessary negative control system which is required to set the foundation of the interactive control system (Simons, 1995).

While each lever of control have a specific purpose, the four controls need to be elaborated in order to create organizational effectiveness (Hoque & Chia, 2012). Control features offered in the levers of control are proven to be interdependent (Milgrom & Roberts, 1995). Belief and boundary systems serve a similar purpose in that they both are intended to motivate employees to be more adventurous (Simons, 1995). As for interactive and diagnostic control systems, both are demonstrated to have dynamic tension and positively affect performance (Henri, 2006).

2.2 Hypothesis Development

2.2.1 Transformational Leadership and Competitive Advantage

Birasnav (2012) explained that since transformational leadership is the core of attaining and maintaining competitive advantage, the transformation of managers into competent leaders will increase the competitiveness of the current firm over its competitors. Similarly, Devie, Semuel, and Siagian (2015) expressed that transformational leadership is the primary factor in the success of the organization. Transformational leaders that exist in the firm are able to encourage and lead the employees in achieving organizational goals in creating competitive advantage. In addition, it can also boost and develop the subordinates' competencies to further create competitive advantage by motivating and guiding the employees and seeking new opportunities and challenges (Bass, 1999).

According to Imran, Ilyas, Aslam, and Ubaid-Ur-Rahman (2016), transformational leaders will stimulate transfer of explicit and tacit knowledge in the organization that will generate sustainable competitive advantage and enhancements in organizational performance. When transformational leaders integrate persistence, creative insight, and sensitivity to their subordinates, it will motivate, inspire and create competitiveness in the firm (Avolio et al., 1991). Furthermore, it also influences absorptive capacity which will improve individual absorption and increase human capital. Based on the arguments above, the researchers proposed:

H1. Transformational Leadership has an influence on Competitive Advantage.

2.2.2 Organizational Culture and Competitive Advantage

Some research findings found that by understanding organizational culture, a firm can develop and intensify its corporate competitive advantage through increasing margins, efficiency, and the level of financial performance (Sadri & Lees, 2001; Barney, 1986; Flamholtz & Randle, 2012). Firms with valuable, rare, and imperfectly imitable cultures could turn their cultures to be the source of sustained competitive advantages (Barney, 1986).

A valuable culture is one that enables a firm to act in ways that lead to higher sales, lower cost, higher profits, or adding economic value to the firm. A rare and unique culture must have attributes that are uncommon to most cultures. Having unique and rare attributes will enable the firm to generate sustained competitive advantage. Finally, imperfectly imitable culture means that other firms cannot fully replicate the culture and if they do, they will be at a disadvantage (reputational, experience, etc.) compared to the firm that they are trying to imitate (Barney, 1986). Chan, Shaffer, and Snape (2004); Flamholtz and Randle (2012) stated that culture has shown to have a significant direct influence on competitive advantage-sustained financial performance. Based on the arguments above, the researchers proposed:

H2. Organizational Culture has an influence on Competitive Advantage.

2.2.3 Management Control System and Competitive Advantage

In order to achieve a competitive advantage, an organization must be able to facilitate the mechanism of executing corporate strategies. The use of MCS in the firm will affect the innovation and business strategy, in other words, how does a company compete and differentiate itself among its competitors and hence, creating competitive advantage (Simons, 1990). MCS will further develop the way the management does the business by boosting their core values, setting limits to regulate business flows, improving and implementing new ideas, and controlling their outcomes through feedbacks.

Pant and Yuthas (2001) explained that competitive advantage could be achieved by integrating the usually separate functions of strategy and control. In other words, competitive advantage can be gained by a series of processes in MCS. Furthermore, MCS is beneficial in improving the firm's performance. MCS enhances organizational commitment and coordination towards desired outcomes, reduces the uncertainty, and leads to higher performance. In addition, MCS will also increase the efficiency of solving organizational problems and thus, increasing competitive advantage (Duréndez, Ruiz-Palomo, García-Pérez-de-Lema, & Dieguez-Soto, 2016). Moreover, through the induced increase in product innovation as one of the five dimensions of competitive advantage, MCS can be expected to affect organizational performance (Bisbe & Otley, 2004). Based on the arguments above, the researchers proposed:

H3. Management Control System has an influence on Competitive Advantage.

2.2.4 Transformational Leadership and Organizational Culture

As previously mentioned, leaders can be defined as someone who influences others' behavior in order to achieve specific and mutual goals. This influential relationship between leaders and subordinates works within existing organizational culture, in a sense that the leaders' decision-making process and actions are based on the operating norms and procedures of their own organization (Bass & Avolio, 1993). Thus, it can be concluded, with the exception of the founders of the organization served as the leaders of the organization, that the existence of organizational culture precedes its leaders.

Leadership is the center of any change process. The actions and attitudes of the employees can be affected through the actions and attitude of those in positions of authority (Block, 2003). When it is needed and possible to do so, leaders can change the key aspects of organizational culture in accordance with new directions desired by the leaders and members of the organization (Bass & Avolio, 1993). The changes that occur in the organizational cultures, therefore, affected by its leaders and differ according to the leadership style that leaders practice.

Transformational leaders have the ability to carry out changes to the organization's vision, strategy, attitude and culture (Turner, Muller & Dulewicz, 2009). There are distinct cultural attributes in organizations that practice transformational leadership based on Bass and Avolio (1993). In transformational culture, every member of the organization shares a sense of purpose and belonging. Commitments are long-term with leaders and subordinates share the same interests and interdependent. On the other hand, transformational culture does not prevent individuals from pursuing their own goals. Based on the arguments above, the researchers proposed:

H4. Transformational Leadership has an influence on Organizational Culture.

2.2.5 Transformational Leadership and Management Control System

The four dimensions of transformational leadership correlate differently to MCS. Each of the four correlations was further explained by Nguyen et al. (2016). First, the inspirational motivation and idealized influence of transformational leadership suggest that leaders can further develop MCS that rewards their subordinates for their attainments. Second, individualized consideration can further develop a control system that contributes to the decision-making role of the managers. Third, intellectual stimulation can further develop a control system that acknowledges creativity and innovations by having performance measures and reward systems.

On the contrary, instead of explicit and direct influence, Rochdianingrum and Samuel (2017) suggested that there should be other variables that mediate transformational leadership and MCS. Transformational leadership cannot directly influence the MCS, instead, it needs to be mediated by information technology and organizational culture. They further explained that this phenomenon happened as the result of three factors: using information technology as communication media and as a control to day-to-day operation; the repetitive characteristic of the industry used as the object of research, and the existence of the third party as representative of the leaders of the organization.

Regardless of the direct or indirect nature of the influence of transformational leadership on MCS, the influence of transformational leadership to MCS need to be considered. By understanding the influence of transformational leadership to MCS, people who are responsible for setting and developing the upper-level management can benefit from it in addition to giving notice of the sometimes-ignored factor of control choices (Abernethy et al., 2010). Based on the arguments above, the researchers proposed:

H5. Transformational Leadership has an influence on the Management Control System.

2.2.6 Organizational Culture and Management Control System

Organizational culture was defined by Schein (1985) as a custom of shared assumptions, developed, invented or discovered by the firm as it tries to overcome the problems of external adaptation and internal integration that has to succeed to be deemed valid. Hence, organizational culture is passed to new members of the firm as the right way to think, feel, and perceive in relation to solving their problems. In facing external challenges and maintaining the internal environment of the business, organizational culture, therefore, may alter the implementation of MCS (Reginato & Guerreiro, 2013). The research was done by Jordao et al. (2014), for example, explained that changes in the MCS of the company acquired in acquisition process happened due to the new results-oriented culture introduced by the acquirer.

Furthermore, the presence of MCS is also affected by the culture of the organization. In the research by Duréndez, Madrid-Guijarro, and García-Pérez-de-Lema (2011), they did not explicitly establish the influence of organizational culture to MCS, but their choice to include MCS as their research variable was based on the use of organizational control system to transmit and support the culture of the firm (Flamholtz, 1983) and the previously researched reciprocal relationship between organizational control system and culture (Herath, Herath, & Abdul Azeez, 2006). Based on the arguments above, the researchers proposed:

H6. Organizational Culture has an influence on the Management Control System.

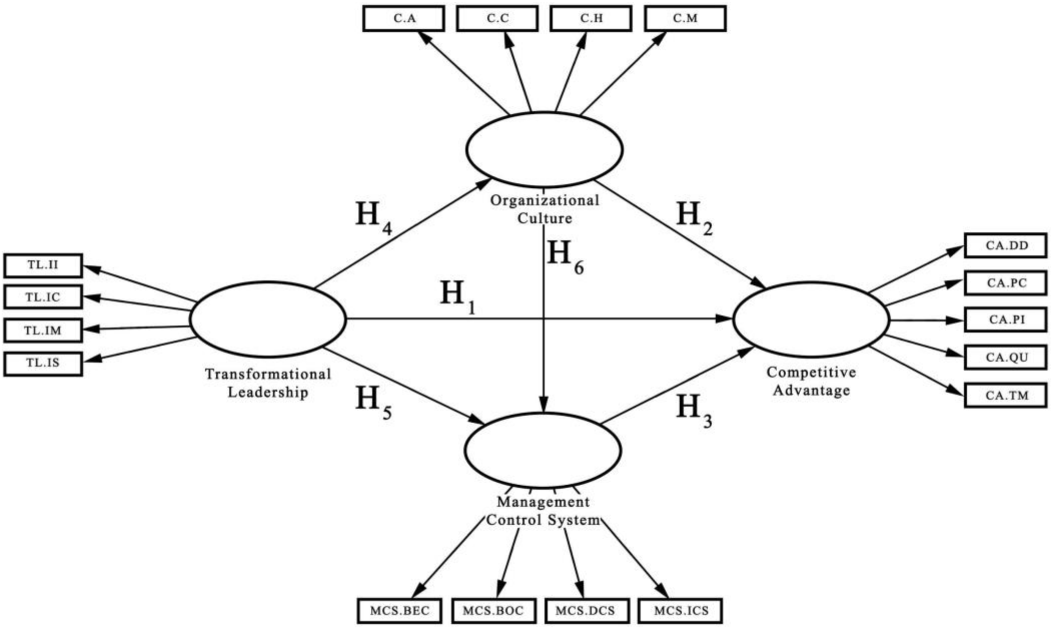

Figure 1. Research Model Design

3. Methods

3.1 Participants and Data Collection

The participants in our study were public accounting firms and accounting service firms that are located in Surabaya. To select the participants, the researchers first obtained the information of accounting firms from the Directory of Public Accounting Firms 2018 edition, and the Directory of Accounting Service Firms 2017 edition, provided by IAPI (*Institut Akuntan Publik Indonesia)* and IAI (*Institut Akuntan Indonesia)* respectively. Second, the researchers selected accounting firms using purposive sampling. Since the main concern of this research is the phenomenon of AEC and its effect towards the domination of foreign or foreign-affiliated public accounting firms and accounting service firms, this research investigated specifically on public accounting firms and accounting service firms that are free from foreign influence. More importantly, to assure the availability of the respondents, the firms that were used as respondents should still be operating when this research was being held. In short, the criteria used in purposive sampling are as follow 1. accounting firms that do not have any relation with foreign affiliations; 2. accounting firms that are still operating in the duration of this research.

The researchers gathered a total population of 62 accounting firms, consisting of 41 public accounting firms and 21 accounting service firms. The sample was then reduced to 45 accounting firms, consisting of 27 public accounting firms and 18 accounting service firms. 14 public accounting firms were not included because they have **an** affiliation with foreign companies, while 3 accounting service firms had been discontinued.

The researchers invited each of the chosen accounting firms to participate by sending a permission letter that was sent directly to their addresses, along with an e-mail containing the link of a web-based questionnaire, and conventional paper-based questionnaire. Out of 45 accounting firms, 8 public accounting firms and 4 accounting service firms refused to participate. Ultimately, 33 out of 45 samples of accounting firms completed the questionnaire.

3.2 Variable Measurement

To reassure the reliability and validity of this research, the entire variables were measured by questionnaires that have been employed before. The researchers adopted and modified the questionnaire for Transformational Leadership from Avolio, Bass, and Jung (1999), Organizational Culture from Duréndez et al. (2011), Management Control System from Widener (2007), and Competitive Advantage from Li et al. (2006). Each question is further modified to fit accounting firms' characteristics and scored using the 5-Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree).

4. Results

4.1 Descriptive Statistics

The descriptive statistics for sample demographics are presented in **Table 1.**

Age	Male	Female	Total	Work Year	Male	Female	Total
20-29	32(28.83%)	36(32.43%)	68(61.26%)	0-2	31(27.93%)	23(22.52%)	56(50.45%)
30-39	19(17.12%)	6 (5.41%)	25(22.52%)	3-4	14(17.12%)	8 (7.21%)	22(22.52%)
40-49	6 (5.41%)	6 (5.41%)	12(10.81%)	5-6	11(9.91%)	7 (6.31%)	18(16.22%)
50+	6 (5.41%)	0 (0.00%)	6 (5.41%)	7+	7 (3.60%)	8 (0.90%)	15(4.50%)
Total	63(56.76%)	48(43.24%)	111(100.00%)	Total	63(56.76%)	48(43.24%)	111(100.00%)

Table 1. Sample Characteristics

A total of 111 questionnaires were submitted by the respondents. Respondents' data were stratified according to age, gender, and year of experience. Respondents had an average of 4.2-years experience, ranging from 2 months to 20 years of experience. The majority of the respondents are male, with a percentage of 56.76%, whereas female had a percentage of 43.24%. The respondents were aged from 20 to 65 years old with the majority belonging to the 20-29 year old age group with a percentage of 61.26%. Respondents held various positions such as Junior Auditor, Senior Auditor, Tax Accountant, Supervisor, Manager, and others, depending on each firm's hierarchical structure.

4.2 Measurement Model

This research was conducted using SmartPLS 3.0 with partial least squares (PLS) approach. The statistics from the PLS measurement model was used to test the measurement properties of the variables. Furthermore, this research categorized Transformational Leadership, Management Control System, Organizational Culture and Competitive Advantage as reflective variables.

In order to check the convergent validity of the reflective variables, the researchers used Factor Loading and Average Variance Extracted (AVE), while Cross Loading was used to check the discriminant validity. Additionally, Cronbach's Alpha and Composite Reliability were tested so that the reflective data processed in the research are free from error (Reliable).

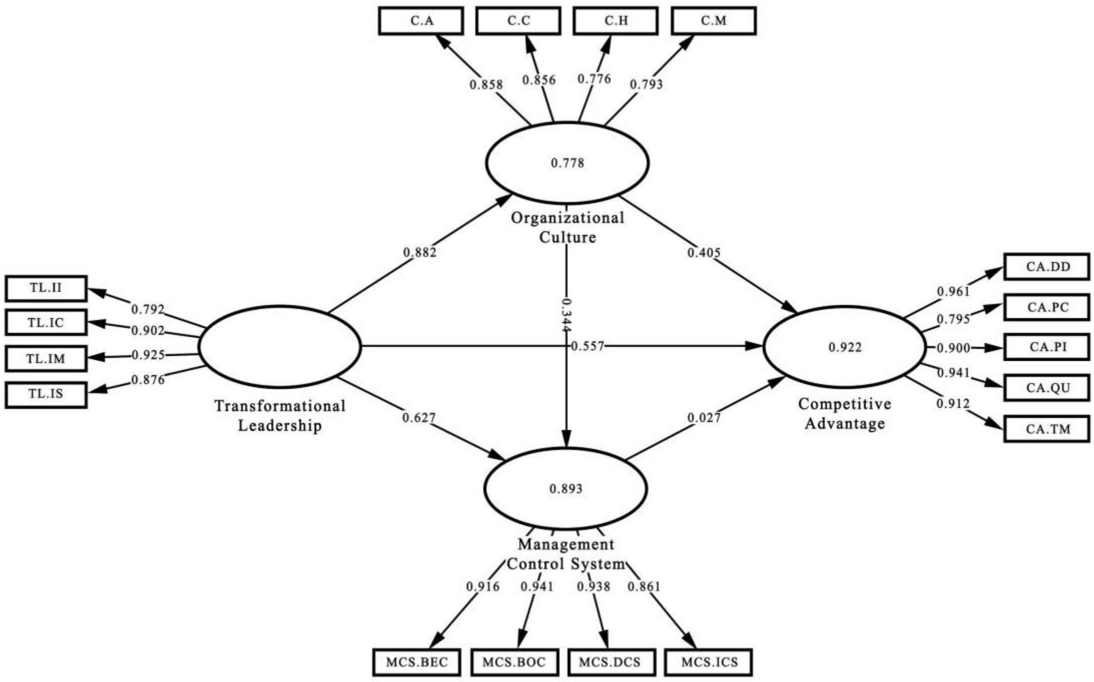

Figure 2. Path Coefficient of the Structural Model

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
CA	0.943	0.957	0.816
MCS	0.934	0.953	0.836
OC	0.839	0.892	0.675
TL	0.897	0.929	0.766

Table 2. PLS Results for Cronbach's Alpha, Composite Reliability, and Average Variance Extracted (AVE)

Both the AVE and the Factor Loading for each scale should score above or equal to 0.500. **Table 2** and **Figure 2** illustrate that the AVE for Competitive Advantage (CA) is 0.816 with factor loading of 0.961 (for Dependable Delivery), 0.795 (for Price/Cost), 0.900 (for Product Innovation), 0.941 (for Quality) and 0.912 (for Time-to-Market). The AVE for Management Control System (MCS) is 0.836 with factor loading of 0.916 (for Belief Control), 0.941 (for Boundary Control), 0.938 (for Diagnostic Control System) and 0.861 (for Interactive Control System). Finally, the AVE for Organizational Culture (OC) is 0.675 with a loading factor of 0.858 (for Adhocratic Culture), 0.856 (for Clan Culture), 0.776 (for Hierarchical Culture), and 0.793 (for Market Culture). Finally, The AVE for Transformational Leadership is 0.766 with factor loading of 0.792 (for Individualized Consideration), 0.902 (for Idealized Influence), 0.925 (for Inspiring Motivation), and 0.876 (for Intellectual Stimulation).

	CA	MCS	OC	TL
OC.A	0.757	0.821	**0.858**	0.770
OC.C	0.802	0.769	**0.856**	0.739
OC.H	0.722	0.643	**0.776**	0.720
OC.M	0.747	0.708	**0.793**	0.672
MCS.BEC	0.812	**0.916**	0.844	0.849
MCS.BOC	0.850	**0.941**	0.785	0.892
MCS.DCS	0.895	**0.938**	0.909	0.888
MCS.ICS	0.765	**0.861**	0.736	0.771
CA.DD	**0.961**	0.846	0.884	0.886
CA.PC	**0.795**	0.777	0.786	0.761
CA.PI	**0.900**	0.831	0.834	0.823
CA.QU	**0.941**	0.903	0.851	0.910
CA.TM	**0.912**	0.748	0.803	0.857
TL.IC	0.747	0.739	0.724	**0.792**
TL.II	0.832	0.858	0.807	**0.902**
TL.IM	0.855	0.887	0.777	**0.925**
TL.IS	0.852	0.767	0.778	**0.876**

Table 3. PLS Result for Cross Loadings

In checking the discriminant validity, the loading for each indicator to the latent variable should be higher compared to the cross loading to the other variables. **Table 3** illustrates that all the reflective variables passed this criterion. Thus, it can be said that the reflective data used in this research are valid. In checking the reliability of the reflective variables, both the Cronbach's Alpha and the Composite Reliability for each variable must be greater than or equal to 0.700. **Table 2** demonstrates that the Competitive Advantage variable has Cronbach's Alpha of 0.943 with Composite Reliability of 0.957, Management Control System has Cronbach's Alpha of 0.934 with Composite Reliability of 0.953, whereas Organizational Culture has Cronbach's Alpha of 0.839 with Composite Reliability of 0.892, and Transformational Leadership has Cronbach's Alpha of 0.897 with Composite Reliability of 0.929. Hence, it can be concluded that the reflective data acquired for this research is reliable.

4.3 Structural Model

The structural model was examined using SmartPLS Bootstrapping. It was conducted to first test the inner model of the research by looking at the R-Square value for each variable and then to test the significance for each correlation of the variables. R-Square is used to test how well do the independent variables explain the dependent variables. The closer R-Square is to 1.000, and the more information the independent variables are able to give regarding the dependent variables. **Table 4** depicts that Competitive Advantage scores the highest R-Square with 0.922 followed by Management Control System (0.893) and Organizational Culture (0.778).

	R-Square	R-Square Adjusted
CA	0.922	0.914
MCS	0.893	0.886
OC	0.778	0.770

Table 4. PLS Result for R-Square and R-Square Adjusted

After analyzing the inner model, the hypothesis for each variable was then tested. Since the hypotheses are two-tailed, the significance of each hypothesis is demonstrated with T-Statistics higher than 1.960 and P-values less than 0.050. The results demonstrated in **Table 5**, and **Figure 2** illustrates that there is a statistically significant and positive influence between the following variables:

	T-Statistics	P-Value
MCS->CA	0.161	0.872
OC->CA	2.766	0.006
OC->MCS	2.644	0.008
TL->CA	3.313	0.001
TL->MCS	5.135	0.000
TL->OC	19.555	0.000

Table 5. PLS Results for T-Statistics and P-Value

(a) Organizational Culture with Competitive Advantage (with original sample of 0.405, T-Statistics 2.766 of and P-Values of 0.006), (b) Organizational Culture with Management Control System (with original sample of 0.344, T-Statistics of 2.644 and P-Values of 0.008), (c) Transformational Leadership with Competitive Advantage (with original sample of 0.557, T-Statistics of 3.313 and P-Values of 0.001), (d) Transformational Leadership with Management Control System (with original sample of 0.627, T-Statistics of 5.135 and P-Values of 0.000) and (e) Transformational Leadership with Organizational Culture (with original sample of 0.882, T-Statistics of 19.555 and P-Values of 0.000). These results support H1, H2, H4, H5, and H6. Furthermore, **Table 5** and **Figure 2** also show that the influence of Management Control System to Competitive Advantage is insignificant with the original sample of 0.034, T-Statistics of 0.195 and P-Value of 0.845, thus rejecting H3.

Besides the nature of the relationship of each latent variables, **Figure 2** portrays how each latent variables reflects each dimension. Transformational Leadership is dominated by inspiring motivation with Factor Loading of 0.925. This shows that leaders in local accounting firms are perceived as motivators and inspiration to their followers. Organizational Culture is dominated by Adhocratic Culture (Factor Loading of 0.858), which explains that the culture in local accounting firms is mostly creative, unrestrictive cultures. This stimulates employees to perform their activities in different and new perspectives. Furthermore, Management Control System is dominated by Boundary Control System (Factor Loading of 0.941) that emphasizes on rules and codes of conduct. This can be explained by the nature of local accounting firms itself as conservative and risk-averse companies. Since auditing activities require risk management, it is not surprising that people in local Accounting Business tend to conduct their day-to-day business in this manner. In addition, Competitive Advantage is dominated by Dependable Delivery (Factor Loading of 0.961), that emphasizes timeliness and dependability. This result shows the nature of the accounting firm's business environment that is regulated to deliver a product with high time sensitivity, which can be seen in the financial statements and audit reports.

5. Discussion

The results showed that the transformational leadership style has a significant and positive influence on the creation of competitive advantage. This finding is in accordance with the result of the research that was conducted by Garcia-Morales et al. (2008) that implied transformational leadership has a role in boosting the company's absorptive capability, innovation, and organizational learning intensely, and thus, increasing competitive advantage. Transformational leadership helped the company shape the firm's innovative perspective by involving the firm's members through decision-making and critical thinking that promotes successful implementation of the company's strategy. Furthermore, Devie et al. (2015) emphasized that creativity and human development can be developed through the creation of new products and new systems, which implies the positive role of transformational leadership towards innovation. In addition, Samad (2012) explained that transformational leadership plays a key role in enhancing organizational performance.

Transformational leadership may enhance competitive advantage directly, but the mediating effect of the other factors cannot be overlooked. At the beginning of this research, the researchers hypothesized that organizational culture and MCS contribute to transformational leadership-competitive advantage relationship. Later, it was proven that only organizational culture has a mediating effect to transformational leadership-competitive advantage relationship. This is shown by the significant influence of transformational leadership on organizational culture and organizational culture to competitive advantage, while the influence of MCS to competitive advantage is rather insignificant.

Organizational culture has a positive and significant influence on the creation of competitive advantage. This finding is in line with the results of Barney (1986) that valuable, rare, and imperfectly imitable culture can further become their own competitive advantage. A company can develop competitive advantage through culture in the long run since a firm's organizational culture is an attribute that can distinguish it from other firms. Klein's (2011) findings also explained how different types of cultural approaches to business strategy might lead to different competitive advantages. In addition, Flamholtz and Randle's (2012) findings also matched with the researchers' result. Organizational culture might not play a direct role in boosting financial performance, but it is one of the inimitable, imperishable strategic assets that will further boost competitive advantage.

The employees in local accounting firms are becoming more aware of the importance of high quality and reliable auditing results, which can be shown by the high number of quality in competitive advantage. Inspirational leaders and creative culture help shape the quality of services that the accounting firms provide through continuous cultivation and development. This was proven from the influence of transformational leadership that is focused by inspirational motivation and organizational culture that is dominated by Adhocratic culture towards quality as a competitive advantage. In addition, transformational leadership also positively and significantly influence organizational culture. This result is backed up by the research of Bass and Avolio (1993); Ali et al. (2015); Jati, Hassan, Harman, Jabar, and Majid (2015). Bass and Avolio (1993) explained that there are distinctive organizational culture characteristics which resulted from the implementation of transformational leadership. Transformational leaders, or leaders in general, are said to have a constant reciprocal interaction with organizational culture. They can fabricate mechanisms for cultural development and revision of accepted norms and behaviors postulated within the cultural boundaries. In addition, transformational leaders have the power to rouse subordinates to exceed the expectations of the company. Thus, in terms of creating superior work culture, transformational leadership style plays an important role according to Ali et al. (2015).

However, Adhocratic culture must be followed with the intensive use of the interactive control system. The findings have shown that the interactive control system is the least dominating dimension of MCS. In order to further enhance the influence of Adhocratic culture in accounting, a control system must develop an interactive aspect and deploy broader communication. Moreover, local accounting firms heavily rely on boundary system and diagnostic control system which are categorized and perceived as "negative" control systems (Simons, 1995). This phenomenon results in the influence of MCS to competitive advantage to be insignificant, and thus nullifies the effect of the MCS as a mediating variable.

Fascinatingly, transformational leadership still has a significant positive influence on the application of the MCS. The result is also in line with the explanation of Nguyen et al. (2016) that emphasized how transformational leaders motivate and stimulate followers to rely on information from the MCS for managerial decision-making processes, reward purposes, and performance evaluation. Leaders would interactively utilize MCS as a tool to further develop the communication between followers (Abernethy et al., 2010).

In addition, organizational culture has a positive and significant influence on the MCS. This result is consistent with the findings of Duréndez et al. (2011); Reginato and Guerreiro (2013); Lee and Widener (2013); Jordao et al. (2014). Reginato and Guerriero's (2013) research was conducted in an area proven to have specific organizational culture attributes. MCS implementation was concluded as a manifestation of the companies' need to have control over their activities. Thus, MCS changes have led to profound cultural changes. These cultural changes will, in turn, affect the further needs of organizational control and will then generate a reciprocal relationship between organizational culture and MCS.

Understanding how competitive advantage is developed by implementing transformational leadership is beneficial to the leaders of local accounting firms. High inspirational motivation factor loading shows that leaders of local accounting firms are inclined to inspire their subordinates. This means that subordinates of local accounting firms already perceived their leaders as an exemplary. However, the factor loading of idealized influence shows that leaders are not able to project their vision to their subordinates effectively. Thus, there is still a possibility for leaders to improve their competitive advantage by enhancing their influence towards their subordinates' vision and mission.

In addition, knowing the mediating effect of organizational culture is also advantageous for leaders. Although the influence of organizational culture to competitive advantage is already significant, there is still room for improvement since the path coefficient of this relationship is the lowest compared to the other positive and significant influence. This can be explained by the weak reflection of hierarchical and market culture. By optimizing the already existing company structure and emphasizing on the importance of market demand, local accounting firms might further enhance the competitive advantage of their firm.

Moreover, stressing on market demand could also prepare local accounting firms to new challenges that are brought about by an ever-changing business environment. Gaining knowledge regarding the insignificant influence of MCS on competitive advantage also uncovers a new area of improvement. In order to harness the competitive advantage of local accounting firms, especially since local accounting firms have already adopted adhocratic culture to a great extent. Local accounting firms might as well improve the use of interactive control system as their MCS. By giving attention to the importance of the interactive control system, accounting firms could expedite their business conduct, particularly when faced with problems produced by clients' new business practices.

There is one limitation to our research. This research did not employ any control variable. Two control variables that were proven by previous research to be important are firm age and size. According to Anning-Dorson (2018), larger and older firms possess more than enough resources, capacity and prerequisite scale to spend on innovation which will, in turn, generate a competitive advantage. Thus, in order to ascertain the strength of the relationship of each variable, future research can add the size of the firm and age as its control variables.

Nevertheless, the result of this research can still be used by local accounting firms to face challenges due to the emergence of AEC. Since AEC, the business environment of accounting firms is dominated by foreign affiliates. By understanding the relationship between each variable brought upon this research, local accounting firms can then implement the results of this research by adjusting their ways to conduct their business.

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