

The Internal Control Effort in Improving

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The Internal Control Effort in Improving Company Performance

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ABSTRACT

The implementation of effective internal control contributes broadly to improving the implementation of corporate governance and performance. This study aims to confirm and describe how implementing effective internal control can improve company performance. Data were collected based on the respondents' perceptions, namely the internal control units of nine selected companies listed on the Indonesia Stock Exchange. A multiple regression approach processed the data. The test results proposed that the dimensions of internal control, namely monitoring activities, communication and information, control activities, risk assessment, and control environment, have a positive and significant influence on efforts to improve company performance. The board of commissioners must continue to direct and motivate management to implement effective internal control to improve company performance.

Keywords: Control, Supervision, Communication, Risk Assessment

INTRODUCTION

Internal control is a process and procedure that carried out to ensure that control objectives are met, namely securing assets, managing records, providing reliable information, improving efficiency, encouraging compliance, and complying with regulations to assist the company's strategic objectives (King, 2011).

The benefits of implementing effective internal control include improvements in the quality of financial reports (Ud Din et al., 2021), the implementation of green enterprise innovation becomes more effective (Wang et al., 2022), and improvement in project governance (Scoleze Ferrer et al., 2020). Internal control can also assist in more efficient capital allocation and corporate diversification strategies (Wang & Xia, 2022) and increase voluntary disclosure to reduce information asymmetry (Khelif et al., 2021). Subsequent research also proves that good quality internal control can increase information content in reports submitted in

social responsibility (Huang et al., 2022), as well as various other positive impacts.

The company's performance is the result of what the company has done. The company's performance is essential for forecasting the company's progress; stakeholders see the company's progress from its performance, and even often, the company's value is considered from its performance (Sihombing & Pangaribuan, 2016). Firm performance measurement is very important to evaluate and measure where the company's position is and future actions that must be taken to be able to compete in the industry. Performance has dimensions which include those related to quality, quantity, timeliness, cost-effectiveness, the need for supervision and interpersonal impact (Benardin & Russell, 2010).

Many companies experience low performance. In the UK, small and medium-sized enterprises face many problems with low performance (Mendy, 2021). It was also found that many public organizations have low performance (Almagtomea et al., 2019), performance problems in the mobile communication business (Yoon-Hwan et al., 2021), and performance in organizations in the field of education (Sunarsi,

2020). It was also found that poor operating performance resulted in low firm performance (Larmou & Vafeas, 2010), as well as many problems with the low performance of other organizations.

On the other hand, it is also necessary to understand that companies with efficient implementation of internal control have an impact on decreasing fraud risk and increasing quality and trust in financial reports (Din et al., 2021). At the same time, research has shown that increasing the effectiveness of internal control will improve enterprise risk management (Saeidi et al., 2021), impacting achievement and even firm performance (Otoo et al., 2021; Lerno, 2016).

This study aims to discover and describe how internal control can affect the company's performance improvement. In addition to academic contributions, the results of this study are expected to provide critical practical contributions to the company's top management to help achieve and improve company performance.

THEORETICAL AND HYPOTHESIS

Control is any administrative actions (positive or negative) that contributes to the achievement of an organization's goals, objectives, and mission. Controls should neither compel nor burden employees. Controls should be inherent to the company's operations and functions. Moreover, personnel who are impacted by or apply the controls must accept them (Vallabhaneni, 2014).

King (2011) stated that internal control is a method and technique used to guarantee that control objectives are satisfied, notably safeguarding assets, keeping records, delivering reliable information, enhancing efficiency, promoting compliance, and complying with legislation to support the company's strategic goals. To offer public accountability and meet operational objectives, it is vital to regularly analyze and enhance the implementation of the internal control structure, ensuring that internal controls are well-designed and work efficiently (Standards, 2001). Internal control can reduce business risk (Connie, 2017) and is a determinant of organizational success (Eniola, 2020).

Research conducted in the banking sector on the effect of internal control components on financial performance in the Iraqi banking sector shows that internal control has a significant positive effect on financial performance (Hanoon et al., 2021).

Research conducted on banking in Jordan shows that internal control can affect organizational performance through employee performance (Alhawamdeh & Alhawamdeh, 2019). Almagtomea et al. said that although many public institutions showed unsatisfactory performance, their research on Nairobi public institutions showed that city-county performance could be significantly affected by the application of adequate internal control (Almagtomea et al., 2019).

Research conducted at local government offices in Bali, using local culture as a moderating variable, shows that the application of effective internal control can improve the performance of government offices (Gde et al., 2018), while research conducted at the North Sumatra Inspectorate office uses a path approach. Analysis shows that internal control cannot significantly affect organizational performance (Wardhani, 2021). This research hypothesizes that:

H: Internal control (viewed from the dimensions of monitoring activities, communication and information, control activities, risk assessment, and control environment) has a significant effect on firm performance.

METHOD

This research is confirmatory quantitative research aimed at determining and describing how the implementation of internal control affects the company's performance. Internal control is measured using the dimensions of supervision activities, communication and information, control activities, risk assessment and control environment. Performance is measured from the dimensions of stakeholder satisfaction, strategies, processes, capabilities, and stakeholder contributions. The data processed in hypothesis testing is primary data in the form of respondents' perceptions of the variables studied.

Data was collected by distributing research questionnaires with a 10-point Likert scale to the internal control unit of nine manufacturing companies listed on the Indonesia Stock Exchange. Of the ninety-five sets of questionnaires distributed, 71 sets were collected again, and it was found that 67 sets of questionnaires were worthy of being processed in the study. From the 67 sets of questionnaires collected, it was found that 59

respondents were male, and eight respondents were female. Of the 67 respondents, 35 had worked between 0 and five years, 21 had worked between 5 and 10 years, and 11 had worked for more than ten years at the same company.

Likert data collected is adjusted/increased using the successive intervals approach; the successive intervals approach is predicated on the premise that item judgment distributions are normal on the derived scale. Hypotheses were developed and tested by linear regression on the dimensions that were built for the next, and the test results were interpreted to provide benefits both theoretically and practically.

RESULT and DISCUSSION

Interpretation

Internal control is carried out by the internal control unit department or a unit in another position designated to carry out the company's internal control function. This function oversees the work of all existing departments in carrying out their duties and responsibilities, following the procedures and targets set by the company.

This study uses the dimensions of supervision activities, communication and information, control activities, risk assessment and control environment in measuring internal control. Table 1 describes respondents' perceptions of the state of the implementation of internal control. Following are the results of the respondents, which describe the average perception and interpretation of the dimensions of internal control.

Table 1
Internal Control Recapitulation

Dimension	Average Perception	Interpretation*
Monitoring Activities	4.7	VS
Comm and Information	4.59	VS
Control Activities	4.15	S
Risk Assessment	4.57	VS
Control Environment	4.72	VS
Average	4.55	VS

*VS = very satisfactorily; S= satisfactorily;
Source: processed data

The average result of the questionnaire answers on internal control is 4.55; this indicates that the internal control carried out is very good, with the highest perceived value being in the control environment and the lowest perceived value being in control activities. This shows that the commitment of top management, management integrity, and the establishment of a reporting structure and mechanism in implementing internal control has been very well implemented. Top management realizes that the

implementation of internal control is one of the determining factors for the company's success in growth and in winning the market competition.

Company performance describes the company's work performance on the targets set previously. Stakeholders' contribution, capabilities, business processes, strategy, and stakeholder satisfaction are the dimensions used in measuring performance.

Table 2
Company Performance Recapitulation

Dimension	Average perception	Interpretation*
Stakeholders Contribution	4.07	S
Ability	4.53	VS
Bisniss Process	4.67	VS

Strategy	4.59	VS
Stakeholders satisfaction	4.77	VS
Average	4.53	VS

*VS = very satisfactorily; S= satisfactorily;
Source: processed data

The interpretation of the average company performance shows very satisfactory results, with the lowest dimension being the contribution of stakeholders and the highest dimension being stakeholder satisfaction. These results indicate that the respondents of this study realize that the priority as a determinant in measuring company performance is the satisfaction of stakeholders, especially customers, investors and creditors, followed by how well the company establishes relationships with the government and the surrounding community, as well as how the company treats or values employees.

The success of achieving targets so that performance becomes more determined by what the company does (through the efforts made by management) than what other stakeholders expect of the company. The table also shows that the dimension of stakeholder contribution is the lowest assessment dimension, with an

average value of 4.07. This means that the company should prioritize what can be done to stakeholders compared to expecting what can be obtained from stakeholders.

The Effect Testing Analysis

This study uses the dimensions of monitoring activities, communication and information, control activities, risk assessment and control environment in measuring the implementation of internal control. Multiple linear regression analysis is used to see how far each dimension of internal control can affect the company's performance. The results of the multiple linear regression calculation of internal control on company performance can be found in the table below.

Table 3. Multiple linear regression
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	7.24	3.569		11,265	0
1 Monitoring Activities	0.39	0.157	0.391	7.617	0.02
Comm & Information	0.45	0.172	0.451	8.277	0.01
Control Activities	0.44	0.187	0.439	8.092	0.01
Risk Assessment	0.51	0.197	0.519	9.667	0.02
Control Environment	0.69	0.211	0.699	8.61	0.01

a. Dependent Variable: Performance
Source: processed data

In table 3, the test results shown in the multiple linear regression table state that each dimension of internal control (monitoring activities, communication and information, control activities, risk assessment, and control environment) has a significance value of less

than 5%. This means that each dimension of internal control investigates a significant and positive direction on company performance.

he multiple linear regression table above shows the multiple linear regression equations formed are:

$$\text{PERFORMC} = 7.237 + 0.388 \text{ MA} + 0.447 \text{ CI} + 0.437 \text{ CA} + 0.513 \text{ RA} + 0.694 \text{ CE}$$

The multiple linear regression equation above concludes that every internal control activity carried out, namely monitoring, communication and information activities, control activities, risk assessment and control environment, contributes positively to efforts to increase company performance.

The ANOVA test results show that the model built is a fit model, with a significance

value of 0.000. The model shows that the implementation of effective internal control (which is characterized by monitoring activities, communication and information, control activities, risk assessment and control environment) can adequately contribute to the achievement of company performance.

Table 4
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.784 ^a	0.615	0.577	3.092

a. Predictors: (Constant), Monitoring Activities, Comm & Information, Control Activities, Risk Assessment, Control Environment

Source: processed data

The company's performance can be explained by monitoring activities, communication and information, control activities, risk assessment, and control environment by 57.7% with a positive relationship direction. Internal control efforts from each dimension carried out by management positively contribute to the achievement of company performance (the research model built is a fit model). Management must still be motivated to carry out internal control as effectively as possible.

CONCLUSION AND LIMITATION

Various best efforts are made by management to carry out its function as an agent of the owners in achieving and improving the company's performance. However, Internal control is a process that is impacted by the organization's various goals-achieving resources. Internal control is a method for monitoring, directing, and evaluating an organization's or company's human resources.

The results of this study indicated that efforts to achieve and improve company performance could be increased through the implementation of effective internal control. Each dimension for the measurement of internal control used, namely monitoring activities, communication and information, control activities, risk assessment, and control

environment, provides a positive relationship direction and has a significant effect on improving the achievement of company performance.

The board of commissioners, as the company's highest supervisor, has the highest responsibility so that top management and management at each line implement effective internal control, namely by building a culture of control, monitoring, effective communication, control, and risk management so that company performance can be improved.

This study is limited by the condition that the number of respondents used is limited to the nine selected manufacturing companies, the cultural environment that only exists in Indonesia, and the data collected is only limited to research questionnaire data. Further studies in order to obtain generalizable results it is advisable to carry out in a broader environment with more comprehensive data collection and processing methods.

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