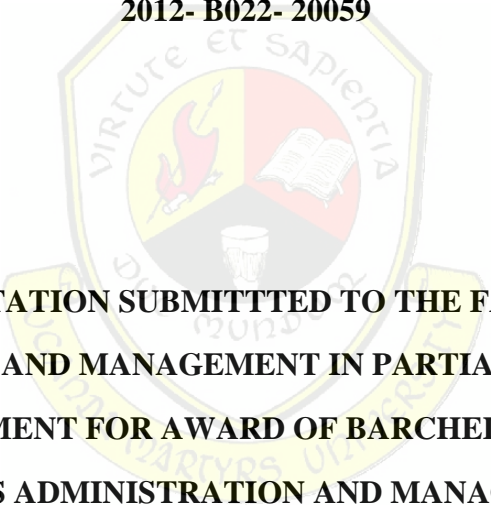


**THE EFFECT OF INTERNAL CONTROLS ON BUSINESS PERFORMANCE OF  
SMALL AND MEDIUM SCALE ENTERPRISES**

**A CASE STUDY OF PETRO CITY ENTERPRISES UGANDA LIMITED, KYENGERA,  
MASAKA ROAD**

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IN BUSINESS ADMINISTRATION AND MANAGEMENT OF  
UGANDA MARTYRS UNIVERSITY**

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## **DEDICATION**

I dedicate this book to my children; Lucas & Lemuela, my sisters; Eileen, Emily, Erone, Evianne, Elsie & Evace Kagaba. I also dedicate it to my parents; Peter and Leticia Kagaba, my husband; Cornelius Kabagambe and my nieces and nephews; mark, Kayla, Kloe, Jayden & Jonathan.

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## **LIST OF ABBREVIATIONS**

ACCA : Association of Certified Chartered Accountants  
CAPM: Capital Assets Pricing Model  
CARAT: Chemical Accident Risk Assessment Thesaurus  
CEO : Chief Executive Officer  
ERM : Enterprise Risk Management  
EVA : Economic Value Added  
ICPAU: Institute of Certified Public Accounts of Uganda  
ICS : Internal control systems  
ICT : Information and Communication Technology  
IIA : Institute of Internal Auditors  
IRM : Institutional Risk Management  
LTD : Limited Company  
MFI : Microfinance Institutions  
OUL : Opportunity Uganda Limited  
SME : Small and Medium Scale Enterprises  
SPSS: Statistical Package for Social Scientists  
UK : United Kingdom  
COSO : committee of sponsoring organizations  
GRC : Government Risk Compliance  
CEDA : Committee for Economic Development of Australia  
WIDER: World Institute for Development Economics Research  
ACFE : Association of Certified Fraud Examiners  
SPPIA: Standards for the professional Practice of Auditing  
NADAC: Northern Albertine Development council  
BSC : Balanced Score Card  
ROA : Return on Assets  
EBITDA: Earnings before Interests, Taxes, Interest, Depreciation and Amortization

## **ABSTRACT**

The major objective of this study was to establish the effect of internal controls and business performance in small and medium scale enterprises, a case study of Petro City Enterprises Uganda limited. The independent variable was internal controls with risk assessment, internal auditing and information & communication monitoring as its dimensions. The dependent variable was business performance with profitability, sales growth and market share as its dimensions. The objectives of the study were; to assess the effect of risk assessment on business performance, to identify the effect of internal audit on business performance and to establish the role of communication and information monitoring on business performance.

The study adopted a case study design employing both qualitative and quantitative approaches on a study area of Petro city enterprises head office in kyengera, along Masaka road, Uganda. The study population was 60 employees and a sample size of 52 employees. Data collection sources were both primary and secondary sources the data collection tools used were questionnaires and interview guide.

The analysis of data was done using SPSS for quantitative data and content & theme analysis for qualitative data.

The findings showed that there was a positive and significant relationship of between risk assessment and performance, a positive but insignificant relationship between information and communication monitoring and performance and a positive and significant relationship between internal auditing and performance. The study therefore concluded that the internal control systems have a positive and significant effect on business performance.

The key recommendations made by the study included; to set up individual department for internal auditing, risk assessment and information & communication monitoring, to introduce advertising in the company's marketing strategies and to give human resource the power to the human resource to exercise communication monitoring towards employees.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Introduction**

This study intends to examine the effect of internal controls on business performance. Internal controls are simply good business practices. Business performance basically involves the growth and sustainability of business in terms of market share, trend of profits and sales growth. According to Duggan (2003), Successful companies spend a great deal of time and effort to create, distribute and manage company information. Through stringent business and ethical practices, company leaders ensure that internal controls govern and define responsibilities. These business systems define operating environment, risk management strategies and procedures, communication plans and performance monitoring. Without internal controls, a business operates inefficiently, in an unreliable manner and out of compliance with applicable laws and regulations.

Gabriel (1999) sights that even if the company faces difficult periods due to financial crisis or enjoys economic growth; one question arises constantly during business meetings: what has been done to ensure corporate performance?

The chapter explains the background of the study, problem statement, general and specific objectives of the study, research questions, hypothesis, study scope, significance and justification of the study, conceptual framework as well as definition of key concepts.

### **1.1 Background to the study**

Anita Campion (2000) is quoted that; company failures, collapse and widespread losses over the past decades have elevated the importance of effective risk management and internal controls within the business sector worldwide. In the United States, banks failures rose over 200% in the 1980's partly due to fraud and mismanagement. Internationally, the collapse of Enron, WorldCom, Barings bank and Yamaichi securities further focused business mangers attention on effective internal controls. The Basle committee analyzed the problems related to these losses

and concluded that they probably could have been avoided had the banks maintained effective internal control systems.

Straddling the formal and informal sectors, the petroleum industry also recognizes the importance of effective internal control. As the petroleum industry in Uganda grows, and more petroleum companies operate as regulated by the ministry of energy, internal control becomes essential to long term institutional viability. The number and types of stakeholders concerned with this sector's wellbeing: donors desire to support sustainable projects, board members want to protect their reputation and fulfill their obligations, and investors are interested in preserving capital, debtors in continued credit access. To remain competitive, companies are undertaking product and geographical expansion which introduces new risks and challenges imposed by rapid growth.

According to Anita, (2000); traditionally, in Africa internal controls were anciently used for security against their enemies. In kingdoms and chiefdoms, Close relatives and people with high degree of trust and loyalty were entrusted with confidential information and sensitive issues. The trend has changed as more and more people need to be employed in organizations/ firms. An effective internal control allows companies to assume additional risks in a calculated manner while minimizing financial surprises and protecting themselves from significant financial losses,

Business performance management is a set of management & analytical process that enables management of an organization's performance to achieve one or more pre-selected goals. According to Stone (2003), financial performance refers to the ability to operate efficiently, profitably, survive and grow and react to the environment opportunities and threats.

Soller & Anderson (1995) confirm that business performance is measured by how efficient the enterprise is in the use of its resources in achieving its objectives, Net profit is the most important aspect of a business since it is the culmination of all your business activities.

According to Soller & Anderson (1995), Knowing whether the ability to generate profits is improving or deteriorating allows you to measure your performance and adjust business plans and strategies. Net profit trends aid you in measuring this business performance. Understanding net profit trends will help you maximize operational efficiency.

According to Joseph Mpeera (1998), in order to effectively undertake marketing planning, it's important for a firm to know its competitors, (Fellow players in the market). Constant comparison of company prices, products, channels, and promotion method with those of its competitors is very critical because this way, the company, the company can know the causes of potential competitive advantage and disadvantage. The company is thus in position to launch accurate attacks on its competitors as well as prepare strong defense against attacks.

### **1.1.1 Back ground to the case study**

The case study of this research will be Petro city enterprises Uganda. According to the company website, ([www.petrocityafrica.com/uganda\\_php](http://www.petrocityafrica.com/uganda_php)), its logo is energy in motion. Petro city enterprises Uganda is a member of Petro city Africa which operates in six African states which include; Kenya, Uganda, south Sudan, democratic republic of Congo, Rwanda and Burundi. The vision of the company is to be a leading and most efficient energy solutions provider in East Africa.

Petro city Enterprises Uganda started operations in 2003 and has grown to 80 retail stations distributed throughout the country. It has 12% market share in the total fuel market volume in Uganda. The current volume of white refined product is over 8000m<sup>3</sup>.

Petro city enterprises Uganda has an oil terminal in Kyengera with storage capacity of 13million liters. It's owned and operated by the company. The company distributes to its network of retail stations in Uganda and supplies large consumer industrial clients as well as many independent petrol stations owners.

### **1.2 Problem Statement**

Effectiveness and efficiency of internal controls on business performance needs to be considered more importantly in every business/organization, because the major objective of internal control is to prevent & control fraud and mismanagement of organizations resources.

CEDA Uganda, (2009) argues that business performance in SME's (small and medium scale enterprises) is crawling at a low pace despite the measures to involve internal control in these businesses. SME's still report stagnated and or reduced profits, sales growth, market share which has made them less competitive on both local and international markets. WIDER (2003) state

that; despite the importance of SME's, one of their principle weaknesses in general is a weak productive capacity which manifests in low domestic and international market coverage.

With the introduction of technology in businesses, SMEs in Uganda are still not performing well, what could be the reason for this performance? Effective internal controls have lately been adopted by businesses; the study therefore seeks to address how the presence of effective and efficient internal control affects the performance of SME's in Uganda.

### **1.3. General objective of the study.**

The study is focused on the effect of internal controls on business performance in small and medium scale enterprises (SME's).

#### **1.3.1. Specific objectives**

- I. To assess the effect of risk assessment on business performance.
- ii. To identify the effect of internal audit on business performance.
- iii. To establish the role of communication and information monitoring on business performance.

### **1.4. Research Questions**

- I. What is the effect of risk assessment on business performance?
- ii. What is the effect of internal audit on business performance?
- iii. What is the role of communication and information monitoring on business performance.

### **1.5 Hypothesis**

Internal controls have a positive and significant effect on business performance.

### **1.6 scope of the study**

#### **1.6.1 Time scope**

The study covered the period between 2009 and 2013. This is because the period lies in the season in which effective and efficient internal controls started to be rapidly adopted by organization, all geared by the computerization of the same.

This period also gave current and up to date information.

### **1.6.2 Geographical scope**

The research was based on the information gathered from Petro City Enterprises Uganda ltd whose head office is in kyengera along masaka road.

### **1.6.3 Content scope**

The study entails two variables; internal controls and business performance. Internal control is the independent variable and will be measured using risk assessment, internal audit and communication & information monitoring. Business performance is the dependent variable and will be measured using; profitability, sales growth, and market share.

### **1.7 Significance of the study**

The study allows entities to identify the loopholes in their operations, challenges and solutions for as far as internal controls are concerned.

The research is useful to organization managers in SME's as it will throw more light on the subject of internal control and there effects.

It is expected to assist students pursuing business related courses by equipping them with more knowledge about variables of business performance.

The research may also be used by other researchers in future as a source of information on the basis of their research.

### **1.8 Justification of the study**

The study is unique and different from all others done before because of the unique variables that were to measure internal control; internal audit, risk assessment, and communication & information monitoring. These counter the variables which are commonly used; control environment, control activities, and compliance with applicable laws. Many SMEs are having operational and performance challenges, so the researcher was prompted to check whether efficient and effective internal controls would have an impact on organization performance.



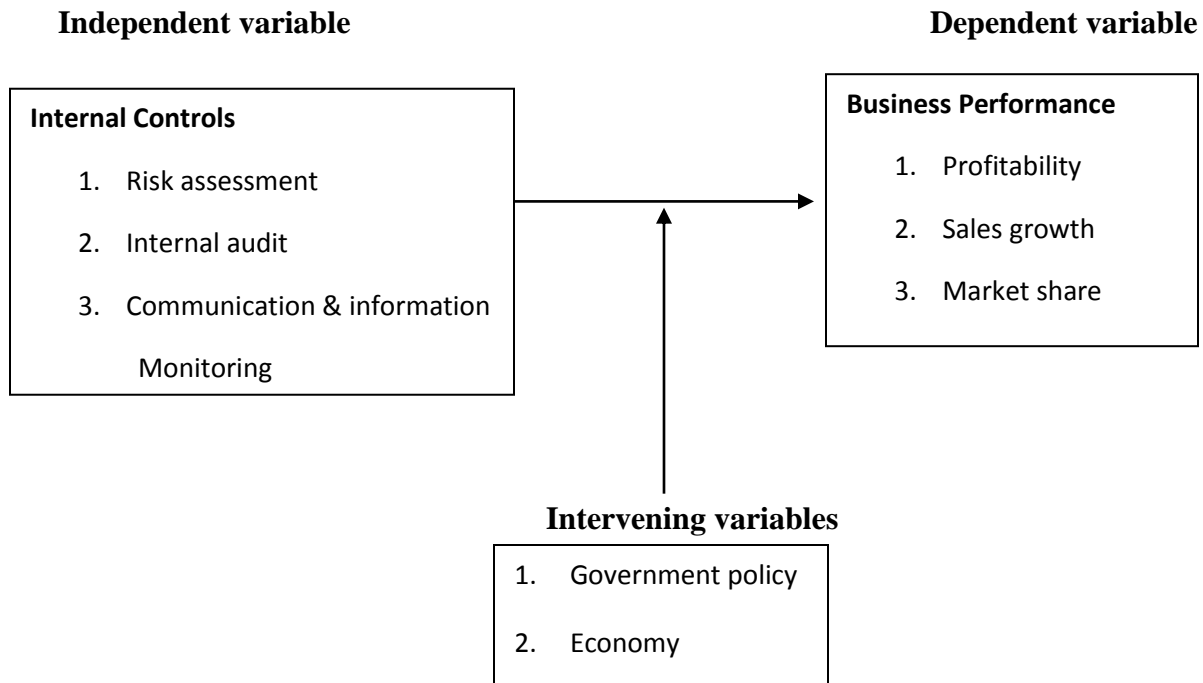
## **1.9 Conceptual frame work**

According to the International journal of social sciences & entrepreneurship, Vol.1 issue 11, in an article by Douglas N, Micah N & Tom T, Internal control systems significantly influence the financial performance of small and medium scale enterprises and this would be even better if proprietors of SMEs are well trained on the significances of internal controls

According to Anita (2000), an effective internal control system enables / allows companies to assume additional risk in a calculated manner while minimizing financial surprises and protecting itself from significant financial loss. According to Brown (1992), internal controls are now an integral part of organization governance. An auditor must have a look at any type of internal control that could have a bearing on his expression of opinion on financial statements.

ACFE, (2006) adds that; internal control principles suggest an internal control system is the primary accountability tool. An organization can establish and use to provide accountability to its stakeholders as well as to help deter, prevent and detect fraud.

**Fig 1: Conceptual Framework**



Source: Adopted from Vijaya (1999), Niiteiko (2011) & Internal control intergraded framework and modified by the researcher.

The independent variable was internal controls with risk assessment, internal audit, and communication & information monitoring. The dependent variable was business performance with profitability, sales growth & market share as the dimensions.

### **1.10 Definition of key terms**

#### **Internal control**

This is a process affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives. COSO 1992 Internal control can be described as any action taken by an organization to help enhance the likelihood that the objectives of that organization will be achieved. Niiteiko may 2011

**Internal audit**

This is an independent appraisal of activities within an organization. its carried out by an employee of the company. Audit theory (CPA. 10

**Risk management**

The process of identification, analysis, assessment, control and avoidance, minimization of un acceptable risks. [www.businessdirectory.com](http://www.businessdirectory.com).

It is also the process of identification, analysis, acceptance or mitigation of uncertainty in investment decision making. [www.investopedia.com](http://www.investopedia.com).

**Risk Assessment.**

This is the systematic process of evaluating potential risks that may be involved in a project activity/ undertaking.

**Communication**

Act/process of using words, sounds, signs, or behaviors to express or exchange information or to express your ideas, thoughts, feelings, etc to someone or other people. Webster dictionary

A two way process of reaching mutual understanding in which participants not only exchange information , news, ideas & feelings but also create and share meaning. [www.Businessdiectory.com](http://www.Businessdiectory.com).

**Information monitoring**

Setting up ongoing procedures to collect, review and synthesize information needed to manage a function or work within a function. [www.core.org](http://www.core.org)..

**Sales growth**

This shows the rate of increase in a company's sales. [www.muhenkamp.com/glossary](http://www.muhenkamp.com/glossary).

The amount a company derives from sales compared to a previous corresponding period of time in which the late exceeds the former. [www.financialdictionary,thefreedictionary.com](http://www.financialdictionary,thefreedictionary.com).

**Market share**

Market share is the portion of a market controlled by a company or product.

It is also the fraction of the total purchase of customers for a product/service that goes to a given company. [www.economictimes.indiatimes.com](http://www.economictimes.indiatimes.com).

The percentage of the market accounted for by a specific entity. [en.wikipedia.org](http://en.wikipedia.org).

**Profitability**

Education portal, an academic website defines profitability as the ability of a business to earn a profit. A profit is what is left of the revenues of that a business generates after it pays all its expenses directly related to the generation of the revenue (such as production expenses, and other expenses related to the conduct of business activities).

**1.11 Conclusion**

The chapter introduced the topic gave the background of the study & case study, problem statement, objectives of the study, research questions, hypothesis, scope of the study, significance of the study, justification of the study' conceptual framework and definition of key terms.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0. Introduction**

The chapter reviews literature on the independent and dependent variables (internal controls and business performance respectively) dimension by dimension. Under internal controls; risk assessment, internal audit, and information monitoring will be analyzed while under business performance; profitability, sales growth, & market share will be analyzed.

The actual review will contain reviews of how other authors have mentioned on the relationship between internal controls and business performance focusing on each dimension of internal controls at a time.

#### **2.1. Theory of Agency**

The origin of the agency theory according to Mitnick (2013) arose from Stephen Ross & Barry Mitnick in 1973 who independently but concurrently proposed explicitly that the theory of agency be created and actually began its creation. Ross was responsible for the economic theory of Agency and Mitnick, the institutional theory of agency.

According to Martin (2006), the agency theory is developed around the concept of contractual relationship between two groups with conflicting objectives. The objective of the theory is to structure the contractual relationship between these groups and so that agents take action to maximize the welfare of the principals,

A web site commonly known as investopedia.com defines the agency theory as the relationship between two parties where one is a principal and the other the agent, who represents the principal in transactions with the third party.

According to Gunter.B,(2011) the agency theory dilemma occurs when one person or entity is able to make decisions at impact or on behalf of another person or entity; e.g. the principal. He continues that sometimes the agent is motivated to act in his own best interests rather than those

of the principal. The analysis is an analytical tool in political science and economics but can also apply elsewhere. In his opinion, the examples of the Agent principal relationship include; Corporate management (agent) and shareholders (principals), Politicians (agent) and voters (principal), & Dentist (agent) and patient (principal).

He further explained that the problem arises where; The two parties are of / have different interest and asymmetric information (agent having more information) such that the principal cannot directly ensure that the agent is always acting in his (the principal's) best interests, secondly, the activities that are useful to the principal are costly to the agent, & thirdly, the elements of what the agent does are costly for the principal to observe.

According to the website with the link; [En.wikipedia.org/wiki/principal-agent](http://En.wikipedia.org/wiki/principal-agent) says that the agency theory focuses to address the problems that can exist in agency relationships which include; first, The problem that arises when the desires or goals of the principal/agent are in conflict and the principal is unable to verify (because it is difficult or expensive to do so) what the agent is actually doing, secondly, the problem that arises when the principal and agent have different attitudes towards risk. Because of different risk tolerance, the principal and agent may each be inclined to take different actions.

In this research, the agency theory will be illustrated in the relationship between directors and managers where the managers are agents & directors as principals. The directors employ the managers to make profit on their behalf and grow the organization, with this task the managers put in place internal controls in order to best utilize the directors resources to achieve the given objectives.

## **2.2 Internal control**

According to the accounts website; [joeinvestoronline.com](http://joeinvestoronline.com), internal controls were first defined in 1948 by the American Institute of Accountants. However Hellenistic Egypt had a dual system of internal control controlling tax collection with one set of bureaucrats collecting taxes while another oversees them. Since 1997, all American public corporations are legally required to abide by a strictly defined and enforced set of internal control standards.

According to COSO (1992), internal control is a process affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding achievement of objectives. It defined internal controls in three categories; First, Efficiency and effectiveness of operations, secondly, Reliability of financial reporting & thirdly, Compliance with applicable laws and regulations.

The website; [En.wikipedia.org/wiki](http://En.wikipedia.org/wiki) defines internal controls as a process of achievement of an organization's objectives in operational effectiveness & efficiency, reliable financial reporting and compliance with existing laws and regulation& policy.

COSO (1992) and Tumbull (1999) say that internal control frameworks that define the goal of internal controls as broader than the reliability of financial reporting alone.

In terms of residue income model,; Weakness of financial reporting – only internal controls might simply affect the firm's cost of capital and measurement errors in reported earnings , While weaknesses in more than reporting internal controls might reduce the effectiveness and efficiency of business.

According to Chih-Tang (2007), firms with weak internal controls are identified as those that disclose material weakness in internal controls in periodic findings from august 2002 to march 2006 as required by COSO. The empirical results based on a sample of 708 firms with disclosure of material weakness show that firms with weak internal controls have a lower market value.

Wilbrod (2011) affirms that is a significant positive relationship between internal control system and management of public funds. There was a significant positive relationship between managerial competence and& management of public funds, and the relationship between managerial competence internal control systems was also significant and positive.

Jefferson (2009) gives the following as the types of internal controls: Detective internal controls; these are designed to detect errors or irregularities that may have occurred. Examples include; physical inventories, audits, reviews of performance, reconciliations, review of payroll reports, among others.

Corrective internal controls; they are designed to correct errors that may have been detected. Examples include; data backups, storage in protected environments and many more.

Preventive internal controls; these are designed to keep errors or irregularities from occurring in the first place. Examples include; training on applicable policies, passwords to stop unauthorized access, audits, segregation of duties, security of assets etc.

Topeka chapter, institute of internal auditors includes; recovery, automated (IT access permissions, system password requirements & preset spending limits), directive (setting corporate policies, spending limits, & IT configuration standards), as the types of internal controls.

Joseph m. onumah in his research study on the effectiveness of internal control systems of listed firms in Ghana found out that; overall internal control system showed an average level of effectiveness. He also found out that of the 5 categories assessed under internal control, control environment showed a higher level of effectiveness.

Faudziah hanim (2003) examined internal audit and performance of internal audit department. She also suggests that risk assessment, control activities, control environment, information and communication and monitoring are important quality of internal control system from the perception of audit committee.

The Sarbanes oxyleys Act, and Jefferson (2009) include the following as the components of internal control; Control activities, Risk assessment, Control environment, Communication and information, Monitoring activities, & Internal audit.

According to the university website at Florida gulf coast university, the methods of internal control include the following: Organizational control, this establishes the framework within which the company conducts its various activities. The types under this method include; purpose, authority & responsibility, organization structure, Decision authority, job description & Segregation of duties.

Operational controls, this method dictates the manner in which the organization performs its various activities and conducts its affairs. Examples under it include: planning, budgeting, documentation, accounting and information software, authorization policies & procedure, orderliness among others.



Personal controls, such controls help to ensure suitable employee performance. The examples under it include; recruitment and selection of suitable personnel, orientation, training and development, & supervision.

Periodic review, they help organizations to assess the progress and performance of their employee, operations, and programs. The examples under it include; review of individual employees, internal review of operations and programs, and external review.

Facilities and equipment, suitable facilities help build effective and efficient operations while protecting the organization's assets. Unsuitable facilities and equipment jeopardize both operations and assets

Advantages of internal control: According to an article on ehow.com, Michael Brent gave the advantages of internal control include the following, Organizations are run more efficiently, Resources are utilized effectively and efficiently, Risk within the organization is minimized, Financial irregularities are prevented, It also prevents employees from being accused of irregularities and misappropriations, There is increased credibility of the organization with the lenders, there is also more timely and accurate financial data for decision makers.

Disadvantages of internal controls: Jayson (2010) adds that the presence of internal control creates a non efficient value added audit because the auditors become over dependent and take certain checks for granted hoping that internal controls took care of them. Also, employees get frustrated if the internal controls are too rigid, lastly, Adoption to internal controls within an organization may be very difficult

### **2.2.1 Risk assessment**

Farlex (2007) defines risk as a thing, factor, and element of course involving uncertain danger: hazard. Hillson (2002), in his quest to answer the question; "what is risk from a business perspective?" reveals definitions from several professional bodies and standards institutions. Surprisingly, he found out that the Institution of Risk management (IRM) has no official definition of risk despite the usage of phrases like "chance of bad consequence" or "exposure of mischance". In IRM documents, which clearly show that IRM until the date of this research has adopted the traditional view that a risk is wholly negative,

Amani Sulaim (2007) adds that there are 3 different perspectives towards the term “risk”: risk is all negative (threat), risk is defined neutrally (could be a threat or an opportunity), & that risk is explicitly (both negative and positive outcomes (threats and opportunities)).

Arben Mullai (2006), defines risk assessment as the process of risk analysis and risk evaluation, providing practically useful and logically structured inputs & perspectives about risks to the decision making process. Although risk assessment provides basic inputs for helping decision makers to make better, more logical & informed decisions, it may not necessarily provide answers to many questions especially questions regarding the levels of risk, tradeoffs in risk control, costs & benefits. CARAT 2001 asserts that risk assessment as the process in which analyzed risk is judged for its acceptability. (Where CARAT stands for; chemical accident risk assessment thesaurus).

Emslie (2001) said that risk assessment is identical to safety assessment and is an element of the system that consists of analysis and evaluation. According to the government of UK website; risk assessment is simply a careful examination of what in your workplace could harm people. Risk assessment is not about creating huge amounts of paperwork but rather identifying sensible measures to control the risks at workplace.

Bu-qammaz et al (2006) asserts that ; its projected that systematic risk assessment may facilitate the qualification of the level of risk , assist in building up effective response strategies to diminish its impacts and aid the determination of dependable risk markups while conducting construction projects. The Wikipedia website says risk assessment is the determination of qualitative or quantitative value of risk related to a concrete situation and a recognized threat. Quantitative risk requires calculation of some components; risk (the magnitude of the potential loss) and the probability that the loss will occur.

Acceptable risk is that risk that is understood and tolerated usually because of the cost or difficulty in implementing an effective counter measure for associated vulnerability exceeds the expectation of loss.

According to the website of Healthy working lives ltd; risk assessment as a systematic method of looking at work activities considering what could go wrong and deciding on suitable control

measures to prevent loss, damage or injury in the workplace. The assessment should include the controls required to eliminate, reduce or minimize risk.

Simangele (2014) gives three types of risk assessment which are; Baseline risk assessment (This type focuses on establishing the risk profile. It provides a benchmark for other types of risk assessment), Issue based risk assessment (It is used under certain circumstances that are a new environment to the organization, for instance the installation of a new machine at the site.) & Continuous risk assessment (This type is conducted on continuous basis in the work environment).

The methods of risk assessment may differ between/ among industries and whether it pertains to general financial decision or environmental, ecological & public health assessment.

According to Joana (2011), the advantages of risk assessment are: Hazards in the workplace are recognized and controlled, Awareness is created among employees and it is also used as a training tool, It causes organizations to set risk management standards based on acceptable safe practices and legal requirements, Risk assessment also reduces accidents at the workplace, Risk assessment also saves costs by being proactive instead of reactive, Risk assessment also enables management to understand risks and make better decisions, With risk assessment, better contracts are able to be negotiated and risk mitigation strategies are also created, Risk assessment encourages and improves teamwork in the workplace.

Simangele (2014) says risk assessment makes employees feel pressured and affects their performance; there is a high chance of error in the measures of risk assessment. Risk assessment consists of an objective evaluation of risks in which assumption and uncertainties are clearly considered and presented. Part of the difficulty in risk assessment is that the measurement of both quantities in which risk assessment is concerned (potential loss and probability of occurrence) are difficult to be measured.

Eschborn (2000), focused on improving internal controls in MFIs. He noted that internal controls and internal audit play important roles in the risk management feedback loop, in which the information generated in the internal control process is reported back to the board of directors and management. Internal control mechanisms work to improve decision making by ensuring

that information is accurate, complete and timely. So that the board and management can respond to control issues promptly as they arise.

According to Thomson Reuters Accelus in their book on “managing risks assessment”, a risk assessment should answer the following five questions: What can go wrong? , How can it go wrong?, What is the potential harm?, What can be done about it?,& How can we stop it from happening again?

### **2.2.2Internal audit**

According to IIA, (1999) internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Felios (1984), for auditing purposes, two persons were employed to check the accounts: one was the internal auditor and the other was the external auditors

Rezaee & Lander (1993), the usual technique utilized by the auditors was to listen to the oral reports given by the appointed officials responsible for financial matters. That is why the term “auditor” is thought to have been derived from this “hearing of accounts”. This practice continued until it was replaced by paper as the means to evidence financial transactions.

Internal auditing is an important element to management since it provides audit services for managers at all levels including the board of directors and audit committee.

Sawyer & Dittenhofer, (1981), over the years, internal auditing has had different emphasis and roles. Previously, the emphasis was more towards one-size-fits-all approach whereby audits were scheduled on a cyclical, methodological basis, and auditors’ role was reported against a checklist of existing company policies and procedures to ensure that the internal controls of the company were functioning well. Ever since, the role of internal auditor is only to reduce or to eliminate risk. This practice may have been appropriate in times of slower development and not-so-rapid technological evolution but they would not be applicable today since today’s businesses rely on sophisticated electronic technology in every aspect of their operations and they also require timely information to make decisions regarding global operations.

Faudzia (2003) the study results showed that the management of internal audit department, performance of audit work, audit program and audit reporting significantly influences the risk assessment of the quality of the internal control system. On the other hand, performance of audit work and audit reporting significantly influence the control activities of the quality of the internal control system. Information and communication and risk assessment of the quality of the internal control systems do significantly influence the performance of the internal audit department. The study also showed that risk assessment of the quality of the internal control system partially mediates the audit reporting of the internal auditing practices and the performance of the internal audit department.

According to SPPIA, (2000), the performance of an internal audit department must function in a manner that is in accordance with applicable professional standards such as Standards for the Professional Practice of Internal Auditing and the quality of the internal control systems.

Chambers, Selim & Vinten, (1987) the internal control system plays an important role in the internal auditing practices since the internal auditors might be considered as being specialists in management control. Internal auditing practices appraise the effectiveness of internal control systems, which is a definition of internal auditing and which also includes an appraisal of the actions by management to correct situations, which are at variance with planned outcomes.

Sawyer, (1993) Being independent and objective, internal auditing helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal audit activities are performed in diverse legal and cultural environments; within organizations that vary in purpose, size, and structures; and by persons within or outside the organization). These differences may affect the practice of internal auditing in each environment. However, compliance with the Standards is essential if the responsibilities of internal auditors are to be met.

Internal auditing dates from ancient times. The role of auditors during that period was limited to providing validation services for governmental and family units in order to prevent theft, fraud, and other malfeasance from the treasuries of the ruler (Carmichael & Willingham, 1979).

Faudzia (2013) confirms the accuracy and reliability of financial and operating information and the means used to identify, measure, classify and report such information

Internal Auditors, 2000 internal auditor's responsibilities are assuring the integrity of financial and operational information and reports, organization is complying with laws, statutes, policies, procedures and financial instruments and is operating efficiently and economically, the goals and objectives of the company have been accomplished and resources have been provided with; and also safeguarding the assets of the organization.

This means internal auditors' responsibilities are now broader and more demanding.

Based on these responsibilities, it is not difficult to observe how the internal auditing practices can improve the company's corporate governance structure. In fact the revised definition of internal auditing indicates that the scope of audit work includes evaluating and improving the effectiveness of a company's governance process since the new internal auditing concept expects the internal audit to function efficiently, effectively and economically the organizational activities and controls besides assisting management in high-level decision-making).

Brodie (1989) however commented that generally management has been rather slow to recognize the full value and potential of internal audit experience even though there has been a steady improvement in the professional standing of internal auditors.

Institute of Internal Auditors, (2000) Internal auditors play a vital role in ensuring that an organization is efficiently run, morally sound, technologically advanced, cognizant of the environment and other areas of concern, and safe from unnecessary risk.

Lastly, the internal auditors review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

In the revised Statement of responsibilities of Internal Auditing issued by the Institute of Internal Auditors (1990) p.3 as part of the Standards framework, the section on objectives states:

“The objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations and pertinent comments concerning the activities reviewed. The internal auditor is concerned with any phase of business activity where he can be of service to management. This involves going beyond accounting and financial records to obtain a full understanding of the operations under review”.

### **2.2.3 Communication and information monitoring**

An academic website traces the origin of communication to a Latin word “communicare” which means to share or to make common. It is defined as a process with process, understanding, and word sharing as the key words. It involves the receiver, channel, feedback, sender and environmental influence.

Communication is the process of exchanging information, thought, feelings & emotions through speech, signals, writing, or behavior. In the communication process, the sender encodes the message then using a medium/ channel sends it to the receiver who decodes the message & after processing the information sends back an appropriate feed back to the sender using a medium/ channel.

Communication is the sending and receiving of information between two or more people. The person sending the message is referred to as the sender while the person receiving is referred to as the receiver. The information conveyed can include facts, ideas, concepts, opinions, beliefs, attitudes, intuitions and even emotions.

Shawn (2014) on the communication portal website, communication is a two-way process of reaching mutual understanding in which participants not only exchange (encode-decode) information, news, ideas and feelings but also create and share meaning. In general, communication is a means of connecting people or places.

According to [businessdictionary.com](http://businessdictionary.com) says that in business, communication is a key function of management that an organization cannot operate without since it has to communicate between levels, departments and employees of the organization. According to Lame & Tan 2000, the information and communication component covers understanding of policies and procedures,

validation of information & evaluation of employee performance. In their view, monitoring, the practice of assessing the overall performance of an organization is perhaps the most prominent of all steps of internal control systems. The majority of the studies on monitoring and business performance have suggested that fostering it will lead to higher performance.

ACCA (2005) considers information flow as a process through which the right organizational members receive the right information at the right time. Here, formal and informal channels information flows are noted. Formal channels comprises of downward or top down, upward or bottom up and horizontal or lateral forms. The informal channels comprises majority grapevine. It is further noted that for information to achieve its intended purpose, it must be identified, captured, processed and communicated in an authentic, useful and timely manner. In addition, the information communicated must be reliable, accurate, complete, specific, understandable, directed to the right people and relevant to the intended users.

Semanda (2001) considers the bottom up channel as a carrier of feedback from subordinates to management and involving verbal and non verbal communication. According to Stahl (1987), verbal method constitute management subordinate consultations, face to face discussions, and negotiations while non verbal methods constitute written reports and suggestion boxes. Such interactions between management and subordinates are pivotal in motivating subordinates towards achievement of expected organizational performance given their democratic nature.

According to Suzanne & Naidoo (2005), the top down channel mostly occurs in an impersonal nature leading to information flow ambiguity, clear message delivery failure to subordinates contrary to what is intended by management. However, the bottom up channel supplements the top down to enable management attain desired organizational effectiveness. This was elaborated by Sudha (1999) who said that organizations using the top down channel tend to suffer information gaps, misunderstandings and consequently performance deficiencies.

Sudha (1999) also stated that lateral information flow is needed to coordinate tasks, share information, resolve conflicts and solve problems. In this case, lateral information flow is the communication between groups of people at the same level and thus, information flow between colleagues, departments or units. The author warned that poor lateral communication breeds malicious messages, rumors and confusion that in turn would hurt employees and the overall organizational performance. Byekwaso (2000) emphasized the need for a two way form of information flow to achieve the desired organizational performance because both information



flows facilitate the implementation of planned activities. However, he stressed the need for guidance of this information by internal control objectives.

According to Walker, Shenkir & Burton, 2003, internal controls also cover the aspects of information and communication systems or processes that support the identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities.

Chen (2004) said that information systems provide reports containing operational, financial and compliance related information that make it possible to run and control an organization. Wales, 2005 continues that; however, information and communication are essential to effecting control; information about an organization's plans, control environment, risks, control activities, and performance must be communicated up down and across an organization He emphasized that reliable and relevant information from both internal and external sources must be identified, captured, processed, and communicated to people who need it in a form and time frame that is useful.

The Institute of Internal Auditors (1995) considers monitoring to encompass activities such as periodical evaluations, Internal audits and management self assessments. COSO (1998), Dublin (1990), Magala (2001) and Lary (2009) view monitoring as needed to ensure that planned administrative, operational and financial tasks and activities are carried out in a timely and proper manner such that set internal control objectives and organizational performance are achieved. Monitoring aims at determining whether organizational members are carrying out or have carried out their tasks efficiently and effectively as required by the organization's policies (Spillane, & Reimer, 2000).

Walker, Shenkir & Buton (2003) said that monitoring processes are used to assess the quality of internal control performance over time. Monitoring is the assessment of internal control performance over time. It is accomplished by on-going monitoring activities and by separate evaluations of internal control such as self assessments, peer reviews, and internal audits. According to Anthony (2004), the purpose of monitoring is to determine whether internal control is adequately designed, properly executed, and effective. Internal control is adequately designed and properly executed if all the five control components (control environment, control

activities, risk assessment, information and communication and monitoring) are present and functioning as designed. Internal control is effective if management and interested stake holders have reasonable assurance that they understand the extent to which operational objectives are achieved, published financial statements are being prepared reliably, applicable laws and regulations are being compiled.

According to NADC (1996) monitoring is a continuous periodic surveillance of the implementation of a project. Not only should the physical progress of the project be monitored, but also the impact of the project. There should be one format for monitoring and reporting throughout the life of the project. This will help to provide a solid basis for analyzing trends and defining strategies, and will be particularly useful when there is a change of personnel, management, and policy makers. Changes in external factors which are relevant to the development of the project should also be registered in the progress report. The progress report provides major information input to the project review (NADC, 1996). Various scholars and websites give the following as the advantages of communication: Enables people create, manage & sustain relationships in organizations, Organizations get to be managed better, It saves time, Communication is informative, Communication increases productivity & efficiency, A lot of money is saved when communication is effective. Furthermore, there are three barriers of communication and they are; Conventions of meaning (Words mean different things depending on the setting of that society. In Alabama; the home of coke, all beverages are called coke yet in Uganda, coke is just one of the products of crown beverages.), difference in perception of reality, the different values attitudes and opinions.

The competency development planning guide (2003) defines information monitoring as setting up ongoing procedures to collect, review, and synthesize information needed to manage a function or the work within a function. According to Krakow (2006), monitoring is also gaining attention in the context of autonomic computing where it acts as a sensor in the controlling loop along with an effector as an executor of controlling operations. In the communication and information context, monitoring basically puts /acts as a watch dog on the above mentioned systems as the communication of information and its maintenance & storage are being executed.

According to Kyle Mc Donald (2004), our society & the way we communicate are changing rapidly. We are currently living in the age of information & communication often referred to as “information age”. This information age can be described as being fundamentally new because it

is fuelled by fundamentally new information and communication technologies. These technologies are described as being at the roots of new productivity sources of new organizational and of the formation of global economy. Maguire (2003) adds that, it seems change is the only thing that stays constant in the world of information and communications technologies. Just as the main frame & mainframe computers of the 1960's & 1970's gave way to the work stations & personal computers of the 1980's & 1990's, another revolution is upon us, "a mobile revolution".

### **2.3 Business performance**

Business performance is the extent to which assets & equity of a business increase or decrease. Positive performance considers the increase while negative performance considers a decrease in the assets & equity of a business.

In response to criticism, the American institute of certified public accountants 1994 and the American accounting association, financial standards committee 2002, have called for organizations to report more forward looking information, including non financial measures for key business processes.

Kaplan & Norton 2001a, 2001b & 2001c mention that the balanced score card has become popular in recent years as the system that combines the use of financial and non financial measures of business performance. A BSC is a one-page document with 18 – 25 key measures comparing the organization's performance to planned targets. The BSC document typically organizes measures into four categories and is the framework for organizing the firm's strategic objectives into these four perspectives or views; a) Financial – the strategy for growth, profitability, and risk viewed from the perspective of the shareholder, b) Customer – the strategy for creating value and differentiation from the perspective of the customer, c) Internal Business Processes – the strategic priorities for various business processes that create customer and shareholder satisfaction, d) Learning and Growth – the priorities to create a climate that supports organizational change, innovation, and growth.

Taylor and Francis (2013), Gary (1989) have the following as the variables of business performance. Organization factors (i.e. Structures, systems, size, history), Market share, Sales

growth, Environmental factors (i.e. sociological, political, economical, and technological), People factors (i.e. skills, personalities, age), profitability, Organization climate, Individual behavior, Liquidity, Accountability & reporting

Hansen and Wernerfelt (1989) integrated two sample models of firm performance, one which used economic factors and one which used organizational factors. The economic factor model is based primarily on economic tradition, emphasizing the importance of external market factors in determining firm success. The other model, organizational, is built on the behavioral and sociological paradigm and sees organizational factors and their fit with the environment as the major determinants of success. Their results confirm the importance and independence of both sets of factors in explaining performance, but they also find that organizational factors explain roughly twice as much variance in firm profit rates as economic factors.

Powell (1996) looks to answer the question: how much does industry matter in explaining firm performance? His findings support those reported in earlier studies (that industry membership explains roughly 20% of financial performance), but he addresses shortcomings in previous methodologies including the incorporation of personal interviews with CEOs, a sample composed of undiversified firms competing in a wide variety of industry sectors, and analyses of specific industry factors. Powell concludes that not all of the 80% of unexplained performance variance is attributable to firm-specific resources since some will also be attributable to shared generic strategies, strategic group membership, other shared resources, or chance.

According to Ittner and Larcker 1998, organizations have struggled for many years with the inadequacies of accounting performance measures. Using both financial and nonfinancial measures together is an attempt to solve the problems that arise from emphasizing traditional financial measures. There are three main reasons for the use of nonfinancial performance measures: (1) perceived limitations in the use of traditional financial measures, (2) increased competitive pressure, and (3) implementation of other programs like Total Quality Management which call for the use of nonfinancial measures.

Ittner and Larcker (1998) cite various limitations of traditional financial measures. Specifically, financial measures; are too historical and backward looking, lack predictive ability, reward short-term or incorrect behavior, are not actionable, do not capture key business changes until too late,

are too aggregated and summarized to guide management action, are too departmentalized instead of cross-functional, & do not effectively consider intangibles.

Silk (1998) add that because of these problems, some firms, in recent years, have made changes to their financial measures. The new measures focus more on cash flow and value creation. Measures like EVA<sup>®</sup> (Economic Value Added) and CFROI (Cash Flow Return on Investment) have become more popular. Other firms have emphasized “forward-looking” nonfinancial measures to counter the problems mentioned above. Examples of these “forward-looking” nonfinancial measures include measures of customer satisfaction, employee satisfaction, product and process innovation, community involvement, and defect rates. Many firms have utilized the Balanced Scorecard (BSC), another type of dashboard measurement system similar to the TdB, to incorporate nonfinancial measures into an overall set of measures. A survey conducted by Renaissance Worldwide, Inc. estimated 60% of Fortune 1000 companies have implemented or are experimenting with the BSC.

### **2.3.1. Profitability as a measure of business performance**

According to Strand .H on the IOWA state university website, profitability is the primary goal of all business ventures. Without profitability, the business will not survive in the long run. Measuring past & current profitability and projecting future profitability is very important. Profitability is measured with incomes and expenses. Education portal, an academic website defines profitability as the ability of a business to earn a profit. A profit is what is left of the revenues of that a business generates after it pays all its expenses directly related to the generation of the revenue (such as production expenses, and other expenses related to the conduct of business activities).

According to Strand .h on the IOWA state university website; there are basically to reasons for computing profitability. The reasons may be few but have a broad spectrum of other sub reasons, this makes the two reasons very important. They are; Profitability is a measure of success of a business & increasing profitability is one of the most important tasks of managers.

An academic website called education portal recommends the formulas below for the analysis/computation of profit: Net profit margin = (net income/net sales)\* 100, Gross profit margin = (gross profit/ net sales)\*100, Operating margin = (operating profit/net sales)\* 100, Return on assets = (net income/ total assets)\* 100.

According to Yasmine khater on his website, there are three levels of profitability; survival level, sustaining mode, and growth: Survival mode; at the start of any business, it's great to think and dream big. The main goal here is to get customers. Sustaining mode; at this level, there are steady clients, steady income and organizations look at optimizing processes in order to achieve more. It's about improving efficiency and working harder & not smarter. Growth mode; the organization starts to look at how to leverage the business to be consistently growing and reaching higher levels. The organization starts to use time and resources wisely to ensure they get the best results for their efforts.

Hirschey and Wichern (1984) analyze the consistency, determinants, and uses of accounting and market-value measures of profitability. They find that differences between accounting and market measures of profitability suggest the validity of cautioning remarks concerning the use of accounting data as it has a primarily historical interpretation unlike market-value measures of profitability which are expectation or forward looking. In addition, they find that there exists a significant explanatory role for R&D intensity, TV advertising, leverage, and industry growth as determinants of profitability.

Kessides (1990) estimated a specified model of oligopoly. Kessides finds that the existence of firm effects implies inter-firm differences in internal efficiency, and also that such firm-specific efficiency characteristics persist across industries (i.e. if a firm is relatively efficient in market *A*, it is also likely to be relatively efficient in a randomly selected market *B*). The author also finds that the presence of industry effects signifies cross-industry differences in the height of effective entry barriers, the net advantage of size, and various elasticities. Overall, the study clarifies the relationship between market share and profitability.

Brush, Bromiley, and Hendrickx (1999) find that both corporation and industry influence business unit profitability but corporation has the larger influence. The authors use a continuous variable model, as an alternative to the more conventional ANOVA or VCA. This approach estimates the coefficients of corporation and industry effects on business segment returns while

explicitly removing the simultaneous effects that might cause inconsistent estimates. In the end, they find a sizable corporate effect on business segment performance, one which appears to be greater than the industry effect. Brush and Bromiley's findings contradict Rumelt's (1991) widely cited paper, in which Rumelt finds that corporations explain almost none of the variability in business unit profitability.

Lenz (1981) provided an interdisciplinary review and evaluation of empirical studies on the performance of whole enterprises. Lenz summarizes and comments on identifying factors that influence organizational performance and also reviews environmental factors affecting firm profitability. Importantly, organizational factors are influenced entirely by human decision making which varies substantially. Also most substantial environmental changes (ex: consumer demand, inflation) will not likely have a uniform impact across companies.

Levy (1997) conducts an investment experiment, in which a real monetary profit or loss can occur, to test the Capital Asset Pricing Model (CAPM). He finds that risk and return are strongly associated. While in most cases the Generalized CAPM (alternative risk return model developed by Levy (1978), Merton (1987) and Markowitz (1990)) beta provides the best results, the CAPM beta reveals a strong positive association with mean returns. Levy's results along with the risk-return equilibrium model provide grounds enough to incorporate beta as a variable associated with company profitability.

Roquebert et al (1996) addresses the issue of the relative degree of variance in ROA accounted for by industry, corporate, and strategic business unit (SBU) effects while controlling for the business cycle and the interaction between the business cycle and industry. Their findings provide evidence that strategic management theory has an important role to play in SBU profitability.

In Campbell's (1996) paper he uses an equilibrium multifactor model to interpret the cross-sectional pattern of postwar U.S. stock and bond returns. He uses revisions in forecasts of future labor income growth as proxies for the return on human capital. Campbell finds that aggregate stock market risk is the main factor determining excess returns; but in the presence of human capital, the coefficient of firm risk aversion relative to non-human capital intensive firms is much higher.

Thomadikis (1977) finds that current market structure appears to imply an ability of firms to

maintain and extend their current advantages into the future. Furthermore, the author finds support that industry concentration plays a role in the determination of both excess profits expected from currently held assets and those expected from the firm's investment options. Past literature in relation to firm profitability is extensive and over the course of time has addressed several missing components as well as crucial flaws and holes in previous models and methodology. Still today economists acknowledge that there is plenty of room for further research in this area. For instance, a more in depth look at the organizational factors referred to Lenz's (1981) study is still needed as there is no precise way to account for a company's management, core business practices, or strategic outlook within the world of modeling.

### **2.3.2. Sales growth as a measure of business performance**

Hubbard & Broomey (1995) notes that recent studies of managers found sales growth to be the most commonly identified measure of overall organization performance. Laurence G, Paul c & Sala j 1998, note that organization growth is inherently a dynamic measure of change overtime, which creates an opportunity for researchers to use several different formulas even when examining one concept such as sales growth. In order to measure the real growth of an organization, effects of time i.e. inflation must be considered. The above authors also acknowledge the anonymous reviewer of helpful suggestions that justify the use of sales growth as the most appropriate concept of growth.

Fergal (2014), in his article; "5 essential components of sales development process" grouped these components into 5 categories; A customer relations manager that supports organization work flows, A robust led communication system, A central content management portal, sales analysis and a means for collaboration & feedback.

The formula for sales growth is  $(\text{current year sales}/\text{previous year sales})-1*100$ .

According to Accenture strategy's "powering profitable sales growth" (2014), a new "agile selling" play book comprises 5 imperatives for achieving sales transformation and growth at S.P.E.E.D. where S – spend optimism, P- price & profit optimism, E- enablement of sales talent, E- execution & operations excellence, and finally D - digital selling & dynamic channels . Agile sellers use analytics to develop a customer central and contextual pricing approach to increase profits. They also provide sales teams the insights and tools to know when & how to negotiate.



Agile sellers use technology as a catalyst for business transformation while using a strategy-led methodology for technology delivery.

Yusulf (2014) continues that amid challenges associated with achieving growth and profitability, traditional approaches to sales are simply no longer adequate. In many cases they actually present a formidable barrier for companies looking to enhance repressive, dynamic & agile selling paradigm that customer expect and demand. What is needed is an entirely new approach to sales – an approach that optimizes sales spending at every turn, satisfies the expectation of the now stop customer & uses technical advances to accelerate change and crush the silo mentality that slows down sales. Jayson (2014) says that achieving such a transformation can be a complex understanding. High performance takes a holistic but incentive approach delivering value quickly and capturing substantial long term benefits in sales performance, customer engagement and profitability.

### **2.3.3. Market share as a measure of business performance**

According to wikipedia.org, market share is the percentage of a market (defined in terms of either units or revenue) accounted for by a specific entity." In a survey of nearly 200 senior marketing managers, 67% responded that they found the "dollar market share" metric very useful, while 61% found "unit market share" very useful.

"Marketers need to be able to translate and incorporate sales targets into market share because this will demonstrate whether forecasts are to be attained by growing with the market or by capturing share from competitors. The latter will almost always be more difficult to achieve. Market share is closely monitored for signs of change in the competitive landscape, and it frequently drives strategic or tactical action." Increasing market share is one of the most important objectives of business

The main advantage of using market share as a measure of business performance is that it is less dependent upon macro environmental variables such as the state of the economy or changes in tax policy. However, increasing market share may be dangerous for makers of fungible

hazardous products, particularly products sold into the United States market, where they may be subject to market share liability.

According to Ansoff (1985), markets need to be able to translate and incorporate sales targets into market share because this will demonstrate whether forecasts are to be attained by growing with the market or by capturing from competitors.

Market share is closely monitored for signs of change in the competitive landscape, and it frequently drives strategic or tactical action.

Farris (2012) wrote on an academic website; “investing answers”, states the formula for market share as follows; "Market share: The percentage of a market accounted for by a specific entity.", "Unit market share: The units sold by a particular company *as a percentage of total market sales, measured in the same units.*"  $Unit\ market\ share\ (\%) = 100 * Unit\ sales / Total\ Market\ Unit\ Sales$ ". This formula, of course, can be rearranged to derive either unit sales or total market unit sales from the other two variables, as illustrated in the following: "  $Unit\ sales = Unit\ market\ share\ (\%) * Total\ Market\ Unit\ Sales / 100$ .  $Total\ Market\ Unit\ Sales = 100 * Unit\ sales / Unit\ market\ share\ (\%)$ . "Revenue market share: Revenue market share differs from unit market share in that it reflects the prices at which goods are sold. In fact, a relatively simple way to calculate relative price is to divide revenue market share by unit market share."  $Revenue\ market\ share\ (\%) = 100 * Sales\ Revenue / Total\ Market\ Sales\ Revenue$ .

According to Wikipedia.org, market share matters in the following ways as the market grows; many analysts view the maintenance/ increase in market share as a sign of a company's competitiveness. Increase in market share might come from innovation, broadening, demographic appeal, lower prices, or simply advertising. Sometimes a company garners too much market share and becomes an oligopoly or even becomes a monopoly. If this is the case, it could violate anti-trust laws and be ordered to divest assets or take some other action to increase competition.

Wikipedia.org (2014) adds; Market share is said to be a key indicator of market competitiveness—that is, how well a firm is doing against its competitors. "This metric, supplemented by changes in sales revenue, helps managers evaluate both primary and selective

demand in their market. That is, it enables them to judge not only total market growth or decline but also trends in customers' selections among competitors. Generally, sales growth resulting from primary demand (total market growth) is less costly and more profitable than that achieved by capturing share from; competitors. Conversely, losses in market share can signal serious long-term problems that require strategic adjustments. Firms with market shares below a certain level may not be viable. Similarly, within a firm's product line, market share trends for individual products are considered early indicators of future opportunities or problems.

Research has also shown that market share is a desired asset among competing firms. Experts, however, discourage making market share an objective and criterion upon which to base economic policies. The aforementioned usage of market share as a basis for gauging the performance of competing firms has fostered a system in which firms make decisions with regard to their operation with careful consideration of the impact of each decision on the market share of their competitors.

It is generally necessary to commission market research (generally desk/secondary research) to determine. Sometimes, though, one can use primary research to estimate the total market size and a company's market share.

## **2.4. Actual review**

### **2.4.1. Risk assessment and business performance**

According to Flavia & Anisor (2013) as written on [www.wseas.us](http://www.wseas.us) that as liberation, globalization and rapid development of computer technology creates new business opportunities, economic & financial bodies are exposed to risks more complex and adverse than in the past. The identification, measurement & control of risk have never been so important to organization and strategic management. In current global economic environment, identifying, managing and exploiting risk across organization has become increasing more important to success & longevity of any business, they add. Risk assessment gives an organization clear view of variables to which they may be exposed whether internal or external, retrospective or forward looking. A good

assessment is anchored in the organizations defined risk appetite & tolerance and provides a basis for determining risk responses.

According to ACCA (2004), risk assessment involves the analysis establishment of plans in order to prevent the risks associated with the attainment of company objectives especially good performance.

According to John (2011), a company's objectives, its internal organization and the environment in which it operates are continually evolving and, as a result, the risks it faces are continually changing. A sound system of internal control therefore depends on a thorough and regular evaluation of the nature and extent of the risks to which the company is exposed. Since profits are, in part, the reward for successful risk-taking in business, the purpose of internal control is to help manage and control risk appropriately rather than to eliminate it.

Beasley and Rclune (2004) asserted that Enterprise Risk Management (ERM) has emerged as a new paradigm for managing the portfolio of risks that face organizations and policy makers continue to focus on mechanisms to improve corporate governance and risk management.

According to Jonathan B 2013, Risk-taking is fundamental to economic reward – the challenge is to recognize which risks differentially impact business outcomes and transform how those risks are managed in order to best protect the business, enhance performance and drive value creation. This requires companies to find innovative and effective ways to: - Grow revenues - Optimize performance - Protect their organization

According to Thomson Reuters in their book on “mastering risk assessment”, as organizations explore ways to deal with the new environment of uncertainty related to regulatory risk, process risk, market risk and overall enterprise risks, many come to the conclusion that mastering the discipline of risk assessment is a fundamental requirement for steady business performance. Leading organizations are leveraging technology solutions to support their risk convergence efforts. By eliminating information silos, redundant data entry and taking a unique holistic approach to regulatory challenges, organizations are able to increase efficiency, improve collaboration and reduce the time and resource costs associated with governance, risk and compliance processes

According to Ernest and Young (2013) in a book; “turning risks into results” a survey was made regarding the maturity of risk management and financial performance, it was noted; “using a global, quantitative survey (based on 576 interviews with companies around the world and a review of more than 2,750 analyst and company reports), we assessed the maturity level of risk management practices and then determined a positive relationship between risk management maturity and financial performance. We identified the leading risk management practices that differentiated the various maturity levels and organized them into specific risk components. Our findings suggest that: The top-performing companies (from a risk maturity perspective) implemented on average twice as many of the key risk capabilities as those in the lowest-performing group. Companies in the top 20% of risk maturity generated three times the level of EBITDA as those in the bottom 20%. Financial performance is highly correlated with the level of integration and coordination across risk, control and compliance functions. Effectively harnessing technology to support risk management is the greatest weakness or opportunity for most organizations”.

#### **2.4.2. Internal audit and business performance.**

Kagaba (2011) assessed internal auditing and performance of MFIs in Uganda. She found out that OUL (opportunity Uganda ltd) internal audit had performed independent assessments of bank departments, efficiency, performance and system controls. “There is however no indicator of this in the bank’s performance”, she adds.

Whittington & Pany (2001) suggest that internal auditing is performed as part of the monitoring activity of an organization. It involves investigating and appraising internal controls and the efficiency with which the various units of the organization are performing their assigned functions. An Internal Auditor is normally interested in determining whether a department has a clear understanding of its assignment, is adequately staffed, maintains good records, properly safeguarding cash, inventory & other assets and cooperates harmoniously with other departments. The internal auditor normally reports to the top management.

Gupta (2001) on the other hand asserts that “Internal audit is an independent appraisal function established within an Organization to examine and evaluate its activities as a service to the organization”. The objective of internal audit is to assist members of the organization in the

effective discharge of their responsibilities. According to Gupta “the scope of internal audit is determined by management”. This may however, impair the internal auditor’s objectivity and hampers his independence, it is quite hard to report negatively on someone who determines the scope your work.

Although at a Seminar organized by the Institute of Certified Public Accountants of Uganda (ICPAU), Sebbowa, (2009) in his presentation “The role of Internal Audit function in Organizations”, states that “Independence is established by organizational and reporting structure” and that “Objectivity is achieved by an appropriate mindset”.

Sebbowa, (2009) also defines “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes”.

He further mentions the principles of internal audit to include; Integrity, Objectivity, Confidentiality and Competency. However, given that Internal Auditors are appointed by management, report to management, and are employees of an organizations, their objectivity is usually highly compromised.

In accordance to Institute of Internal Auditors (IIA-UK; 1997), independence is applicable to all categories of auditors. This means the opportunity granted to the auditors to report directly to the top authority. Woolf (1986), says, although an internal auditor is an employee of the enterprise and cannot therefore be independent of it, he should be able to plan and carryout his work as he wishes and have access to the highest level of management.

However, Millichamp (1993) says, effective internal audit should be carried out by an independent personnel though they are employees appointed by management, for them to work efficiently, they should have scope to arrange priorities and activities have un restricted access to records, assets and personnel.

Meigs et al (1988) holds that there must be a strong internal control system and the internal auditor must verify the operations of the system in much the same way, as the external auditor. It involves the investigation, recording, identification and review of compliance tests of control, they also argued that effective internal audit procedures provide sufficient relevant and reliable evidence in order to detect and prevent fraud.

Emasu (2010) notes that “The effectiveness of internal audit function partly depends on; legal and regulatory framework, placement of the function and its independence, existence of audit committees, resources allocated to the function and professionalism of internal audit staff”. It is however a bitter reality that internal audit departments are rarely adequately facilitated.

Regarding the size and facilitation of the Internal Audit Function, Gerrit and Mohammad (2010), found evidence in support of the monitoring role of the Internal Audit Function. They specifically, found evidence that management ownership is positively related to the relative size of the Internal Audit Function, which is inconsistent with traditional agency theory arguments that predict a negative relationship, but more in line with recent studies on earnings management. This finding suggests that increased management ownership may influence the board of directors to support larger Internal Audit Functions to allow them to closely monitor managers’ performance. It is also plausible that management with higher share ownership is motivated to invest in larger Internal Audit Function for better monitoring of earnings and for signaling to the board of directors that, despite their high stake in earnings, they are convinced that appropriate use of resources has to be assessed on a regular basis.

#### **2.4.3. Communication & information monitoring and business performance**

According to the federal emergency management agency, the average worker spends approximately 50% of his time communicating. The communication is more than simply conveying ideas & messages. Developing clear communication skills as well as employing various communication methods helps to strengthen a company and contributes to outworking of plans or goals within the organization.

According to Lame & Tan 2000, the information and communication component covers understanding of policies and procedures, validation of information & evaluation of employee performance. In their view, monitoring, the practice of assessing the overall performance of an organization is perhaps the most prominent of all steps of internal control systems. The majority of the studies on monitoring and business performance have suggested that fostering it will lead to higher performance.

Valencia H posted an article in the demand media where she said that poor communication can affect work production because employees might not receive adequate information to complete a task.

An article on Wikipedia .org posted in February 2014 indicates that the goal of business activity monitoring is to provide real time information about the status and results of various operations, processes & transactions. The main benefit is to enable an enterprise to make better informed business decisions, quickly address areas & reposition organization to take full advantage of emerging opportunities.

According to Bonnie (2010) in his article posted Houston chronical, whether you are running a small start up business or a worldwide enterprise, fostering effective communication is critical to success. No company can succeed long term if their workers do not communicate with each other and this lack of communication will quickly become evident in the form of missed appointments, disjointed meetings & wasted time. Fortunately companies have a number to technological tools at their disposal to create an arena where open and honest communication is valued and respected.

According to San-Jose, Ituralde, and Maseda, (2009), considering the dynamism in the drivers of economies across the globe, it is notable that the world has moved currently to a knowledge-based economy of which the ICT has become one of the principal driving forces. Brynjolfsson and Hitt, 1996 add that the effects of ICT are seen in the improvements in productivity and economic growth at the level of the firm and the economy overall.

Ernest & Young (2013) in their book entitled “turning risk into results” the declare that “Our research and study results show that top-performing companies have the following risk management practices in place: Two-way open communications about risk occur with external stakeholders. Communication is transparent and timely, providing stakeholders with the relevant information that conveys the decisions and values of the organization. The board or management committee plays a leading role in defining risk management objectives. A common risk framework has been adopted and implemented across the organization”.

Our research and study results show that top-performing companies have the following risk management practices in place: Issue tracking, monitoring and reporting are regularly performed



using GRC software. Risk dashboards are automated and include governance, risk and compliance indicators. Risk identification and assessment are regularly performing GRC software; they add.

## **2.5 Conclusion**

The literature review has been quite an interesting section where we have reviewed literature from many scholars and writers. Almost all the derivatives of internal control (risk assessment, internal audit and communication & information monitoring) were well defined aside from risk which dint has a definite definition. Several scholars also noted that information & communication monitoring are having an element of technology cropping in to the extent that their efficiency regarding business performance depends on the same. The derivatives of business performance (profitability, sales growth & market share) were well researched upon, only that they were said to affect business performance as a combination. Effective and efficient business performance needs all the three derivatives of business performance.

It has been proved that the concept of internal controls indeed affect business performance but the question is; by what degree does it affect business performance especially in Ugandan SMEs?

There is therefore a need to establish the relationship between the internal controls and business performance of small & medium Scale enterprises (SMEs) in Uganda. . The conclusions made by scholars in this chapter will however be confirmed or dispelled after empirical evidence has been obtained from the research.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter is concerned with how data was collected and analyzed. It consists of the methods that were used by the researcher in the process of obtaining/collecting, analysis and presentation of data.

#### **3.1 Research design**

The research design was a case study adopting both quantitative and qualitative approaches. This design is used so as to have an in depth study and will help the researcher get information on the intended objectives of the study.

The study needed both qualitative and quantitative approaches because it was able to get information from a wider scope without bias. Also information that could not be statistically measure was included in the findings thus increased reliability of the data.

#### **3.2 Study area**

The study was conducted in a private firm specifically. PETRO CITY ENTERPRISES Uganda ltd located in Kyengera, along masaka road in Kampala district.

#### **3.3 Study population**

The population consisted of personnel from various departments. According to the human resource manager, there were currently 60 employees at Petro City head office. The study population was 60 employees, all at the case study head office.

#### **3.4 Sample size**

Since the study population was 60 employees, the sample size was 52 employees according to Morgan table that was the basis for choosing the sample size for this study.

### **3.5 Sampling technique**

The researcher used stratified random sampling because the respondents were be classified into categories and purposive sampling because risk personnel and internal controls manager are directly involved in the internal controls implementation while user departments are involved in the performance of the business.

### **3.6 Data collection sources**

The data collection sources were both primary and secondary. Primary data was collected directly from the employees of the organization by use of questionnaires and interviews which included open-ended and closed-ended questions.

Secondary data was got from existing documents possessed by the company for example performance reports both monthly and annual internal control implementation reports, company journals, journals from newspapers and related literature.

### **3.7 Data collection tools**

In order to get accurate and useful information, questionnaires and interviews were used.

#### **3.7.1 Questionnaires.**

This tool used had both open and closed ended questions to allow respondents give their own views without being influenced by their fellow employees. A uniform questionnaire was formulated and sent to the respondents to be filled in. this is because the questionnaires are easy to manage as they require minimal or even no supervision.

The questionnaires were given to lower level and middle level employees because they are implementers of the internal controls yet they have limited information on their effects to the performance of the organization.

#### **3.7.2 Interview guide**

The interview tool was used so that well informed respondents do not get limited to the questions in the questionnaire. The interviewer was able to get information that the questionnaire may not necessarily ask about.

The employees interviewed were be departmental managers because they are part of the team that formulates these internal controls and are well informed regarding their effect o business performance.

### **3.8 Validity and reliability**

To make sure that the information got concerning the study is true and dependable; the researcher constructed the questionnaires and afterwards consulted the research supervisor for approval.

In addition, this research was carried out only on those employees who are considered to have knowledge and experience about internal controls in the organizations.

### **3.9 Data management and analysis**

On return of the filled questionnaires, the researcher edited them in order to find and correct errors. The researcher used quantitative techniques to analyze the data collected.

#### **3.9.1 Quantitative data analysis**

Data was analyzed according to the set objectives of the study. The researcher used SPSS to type and analyzes the data into meaningful information. The data was presented in tables, charts, pie charts and descriptive statistics generated using SPSS.

#### **3.9.2 Qualitative data analysis**

Data was analyzed using content analysis or the theme analysis where by responses were grouped into themes, interpreted and presented together with descriptive statistics of quantitative data.

### **3.10 Measurement of Variables**

The study comprise of two variables: the independent variable being internal controls and the dependent variable being business performance.

The study questions were set using a Likert scale with codes from 1 to 5. 1 represents strongly agree, 2 represents disagree, 3 represents neutral, 4 represents agree and 5 represents strongly agree.

### **3.11 Ethical Considerations**

According to Shamoo A and Resnick (2009), ethics in research involves; honesty, objectivity, integrity, carefulness, openness, respect for intellectual property, confidentiality, responsible publication, responsible monitoring, respect for colleagues, non-discrimination, legality, and human subject protection.

The researcher was well aware of the boundaries regarding approach to the different respondents to sample and interview.

The researcher was also well aware that an individual is not obliged to comply with the research demands; or to answer any questions against an individual's free will. Therefore the researcher is therefore not in any plan of coercing an individual to her advantage. This will help produce an impartial and balanced research work.

The research explained the likely consequences to the respondents such that they can either participate in the study or not.

The researcher also got a letter of consent from the administrator to carry the study in a specific area and request the respondents to have their names written in the proposal or not.

### **3.12 Limitations of the study**

Time: the researcher faced with limited time frame. The researcher had to balance time between research work, office work and class time/work.

Finances: the researcher was limited funds to facilitate transport, typing and printing. To overcome this problem, the researcher solicited funds or make savings from her small income.

Poor response: the researcher found a problem with the respondents' cooperation when filling the questionnaire. However, the researcher will tried to be patient with the respondents and encouraged them to fill in the questions.

The researcher also acquired an introduction letter from the dean of Business administration and management faculty to present to the case study in order to gain more trust and confidence from the respondents.

### **3.13 Conclusion**

This chapter started with an introduction that introduced its contents. The chapter looked at the research design, study area, study population, sample size, sampling techniques and data collection sources. The chapter further looked at data collection tools, validity & reliability of data, data management & analysis, how variables were measured, ethical considerations and finally the factors that limited the study.

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS**

#### **4.0 Introduction**

This chapter includes presentation, analysis, interpretation and discussion of findings collected from the field in an attempt to find out the relationship between internal controls and business performance. It is against this analysis that the researcher made conclusions and recommendations.

#### **4.1 Response rate**

Out of the 52 respondents, only 40 responded this gave rise to a response rate of 76.92% which was good enough to represent the expected number of views from respondents.

#### **4.2 Background information of respondents**

The biographical information of the participating respondents and employees at PETRO CITY ENTERPRISES was obtained including gender, age group, highest level of education and length of service in the corporation and the department in which they serve. The purpose of the background information was to enable the researcher to describe the characteristics of the target population and capture the relevant aspects considered useful for a later elaborate discussion of findings.

##### **4.2.1 Gender of the respondents**

Employees of Petro City Enterprises were asked about the state of their gender and below were the responses.

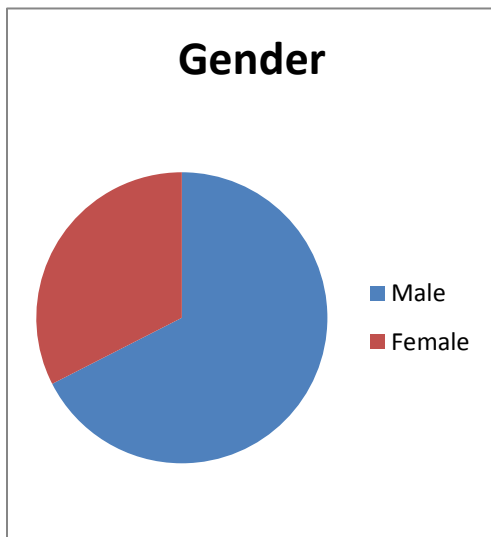
**Table 4.1: Gender of the respondents**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	27	67.5
Female	13	32.5
<b>Total</b>	<b>40</b>	<b>100.0</b>

**Source: Primary data (2015)**

Table 4.1 above indicates that 67.5 % ( 27) of the respondents were male and 32.5 % ( 13) were female. This implies that Petro City Enterprises employs both the male and the female persons. It also indicates that Petro City Enterprises is not biased in employing its employees since both sex are employed. This data is also represented graphically as shown in figure 2 below.

**Fig 2: Gender of the respondent**



#### **4.2.2 Department of the respondents**

The researcher availed the question of department to the respondents to know which one they belong to and the following results below were obtained:



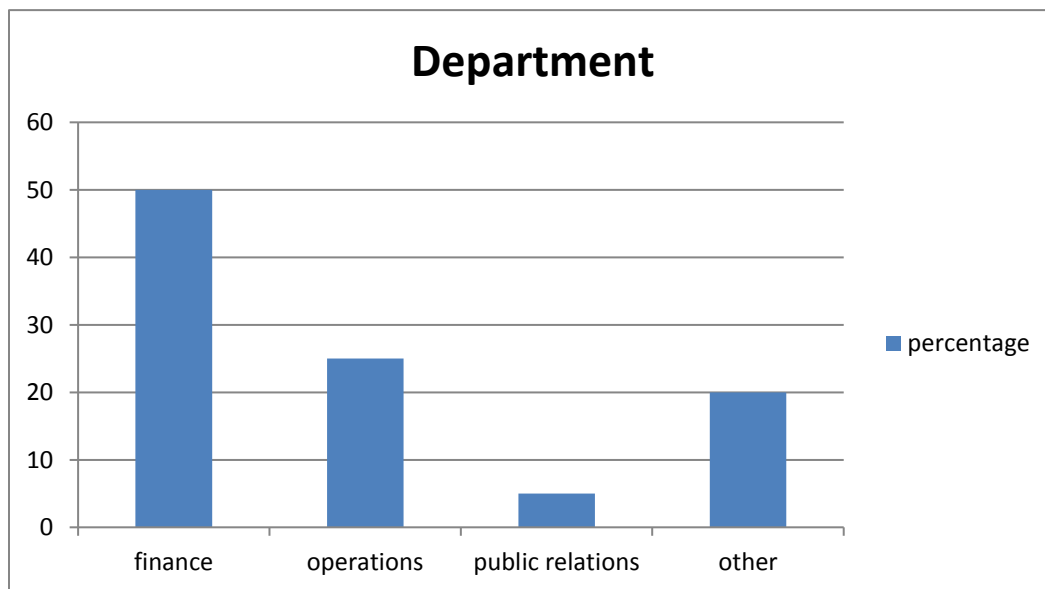
**Table 4.2: Department of the respondents**

Department	Frequency	Percentage
Finance	20	50
Operations	10	25
Public relations	2	5
Other	8	20
<b>Total</b>	<b>40</b>	<b>100.0</b>

**Source: Primary data (2015)**

Table 4.2 shows that, 50% (20) of the respondents were from the finance department, 25% (10) were from the Operations, 5%(2) were from the Public Relations Department, 20%(8) were from Other departments. Using the above results, it implies that Petro City Enterprises employees more persons in the finance department as compared to other departments. It also shows that the finance department is the most functioning department within the organization dictating bigger number of employees. Management should ensure that the finance department is well equipped with both skills and inputs so as to increase their efficiency at work.

**Fig 3: Department of the respondents**



### 4.2.3 Academic qualifications of the respondents

Employees of Petro City Enterprises were asked about their academic qualifications and they responded as below:

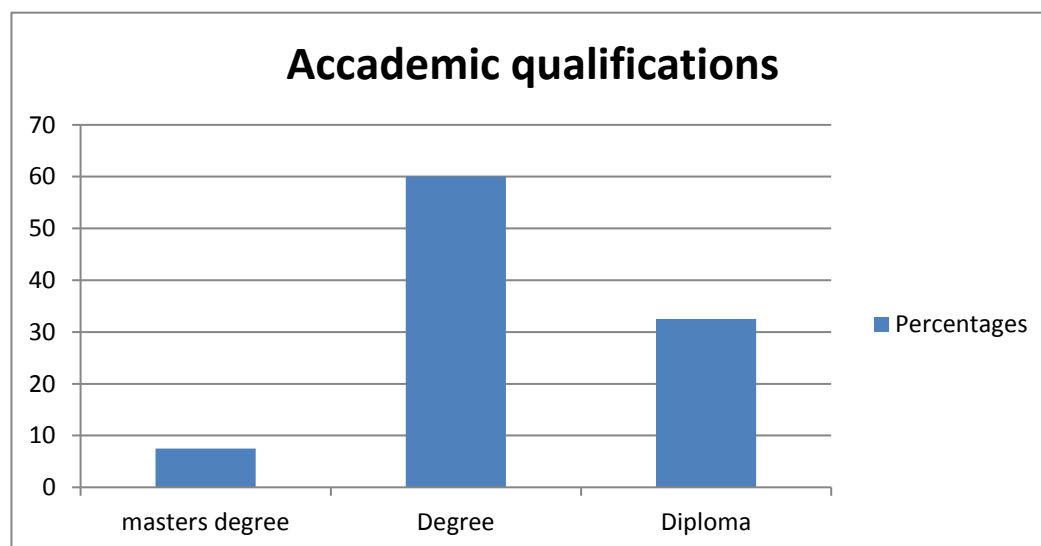
**Table 4.3: Academic qualifications of the respondents**

Academic Qualification	Frequency	Percentage
Masters level	13	32.5
Degree level	24	60
Diploma level	3	7.5
<b>Total</b>	<b>40</b>	<b>100.0</b>

**Source: Primary data (2015)**

Table 4.3 shows that, 7.5 % ( 3) of the respondents were master's degree holders, 60 % ( 24) were degree holders, 32.5% (13) were diploma holders. This implies that degree holders are the most employees employed by the corporation. It also further indicates that the success and progress of the corporation is mainly attributed to the professionals employed by the enterprise due to their expertise. Management should aim at recruiting fresh graduates in order to improve on the efficiency and effectiveness of activities dealt with in the enterprise.

**Fig 4: Academic qualification of the respondents**



#### 4.2.4 Length of service in the corporation

Employees of Petro City Enterprises were asked about the period they had worked with the corporation and they responded as below:

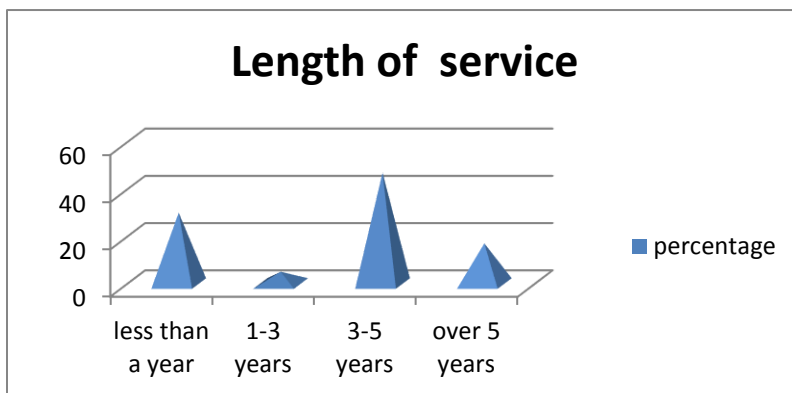
**Table 4.4: Length of service in the corporation**

Number of years	Frequency	Percentage
Over 5 years	7	17
3-5 years	19	47
1-3 years	2	5
Less than a year	12	30
<b>Total</b>	<b>40</b>	<b>100.0</b>

**Source: Primary data (2015)**

Table 4.4 indicates that, 17%(7) of the respondents had served the Enterprise for a period of more than 5 years, 47%(19) had served between 3-5 years, 5%(2) had served for a period between 1-3 years and 30%(12) had served for a period of less than one year. This implies that Petro City Enterprises is served by employees of 3-5 years. It indicates that employees of Petro City Enterprise are willing to offer their service to the Corporation and the information obtained during data collection was from a reliable source. Management should motivate its employees so as to avoid labor turnover within the organization.

**Fig 5: Length of service**



#### 4.2.5 Age bracket of the respondents

The employees of Petro City Enterprises were asked a question about their age and they responded as below:

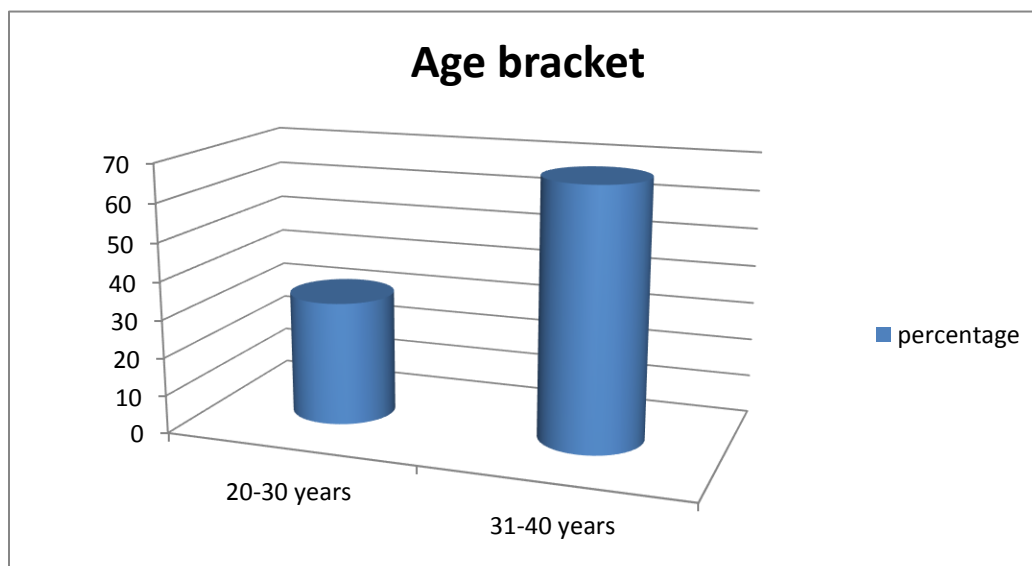
**Table 4.5: Age bracket of the respondents**

Age bracket	Frequency	Percentage
20-30 years	13	32.5
31-35 years	27	67.5
<b>Total</b>	<b>40</b>	<b>100.0</b>

**Source: Primary data (2015)**

Table 4.5 above indicates that 32.5% (13) of the respondents are in the age range of 20-30, 67.5% (27) of the respondents in the age range of 31-35. This indicates that the majority of the employees at Petro City Enterprises are considerably younger employees.

**Fig 6: Age bracket of the respondents**



#### 4.4 Descriptive statistics on risk assessment

The respondents of Petro City Enterprises were asked whether the enterprise applied risk assessment, the researcher was interested in finding out the risk assessment measures that were in put place by the enterprise and below were the findings.

**Table 4.6: Descriptive statistics on risk assessment**

##### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Petro city enterprises has a department in charge of risk assessment	40	1	5	2.47	1.301
Management has a risk assessment module.	40	1	5	2.72	1.176
Management usually forecasts risks and plans for them.	40	1	5	3.28	1.037
Management has criteria for prioritizing fraud related risks to the organization as the most critical risks.	40	1	5	2.65	1.001
Petro city enterprises carries out regular risk assessments on every activity they undertake.	40	1	5	2.65	.975
Management has in place controls to eliminate / minimize the various risks it faces.	40	2	5	3.95	.846
Valid N (list wise)	40				

**Source: Primary data (2015)**

In Table 4.6 above, respondents were asked if Petro City Enterprises had a department in charge of risk assessment. They disagreed to this with a mean of 2.47. The standard deviation was 1.301 which implied that respondents had varying views on this aspect. Joana (2011), mentions the advantages firms that take risk assessment serious enjoy as: Hazards in the workplace are recognized and controlled, Awareness is created among employees and it is also used as a training tool, It causes organizations to set risk management standards based on acceptable safe practices and legal requirements, Risk assessment also reduces accidents at the workplace, Risk assessment also saves costs by being proactive instead of reactive, Risk assessment also enables management to understand risks and make better decisions, With risk assessment, better contracts are able to be negotiated and risk mitigation strategies are also created, Risk assessment encourages and improves teamwork in the workplace. The management of Petro city enterprises needs to put up a risk assessment department so as to enjoy the above advantages.

The respondents were asked whether the organisation had a risk assessment module and the respondents disagreed with a mean of 2.72. The standard deviation was 1.176 which implied that respondents had varying views on this aspect.

Respondents were asked whether management of Petro City Enterprises forecasts risks and plans for them and the responses were neutral with a mean 3.90. The Standard deviation was 1.037 which was wide spread and it implied that the respondents had varying views on this aspect.

The respondents were asked whether Management has criteria for prioritizing fraud related risks to the organization as the most critical risks, and the respondents disagreed to this fact with a mean of 2.56 and Standard deviation of 1.001 which implied that the respondents had varying views on this aspect.

The respondents were asked a question on whether Petro city enterprises carried out regular risk assessments on every activity they undertake and they disagreed with a mean of 2.65 and standard deviation of 0.975 which implied that respondents had varying views on this aspect.

Respondents were asked by the researcher a question as to whether Management had in place controls to eliminate / minimize the various risks it faces and their responses were neutral with a mean 3.95 and Standard deviation of 0.846 which implied that the respondents had varying views. Arben Mullai (2006), mentioned that risk assessment provides basic inputs for helping

decision makers to make better, more logical & informed decisions, there for petro City decisions are up to date.

**4.5 Descriptive statistics on information and communication monitoring.**

The respondents of Petro City Enterprise were asked whether communication and information monitoring is practiced, the researcher was interested in finding out how communication and information monitoring influences business performance and their responses were as below

**Table 4.7: Descriptive statistics on communication and information monitoring**

**Descriptive Statistics**

	N	Minim um	Maxim um	Mea n	Std. Deviation
Management of petro city communicates and monitors all improvements and additions to the internal control system.	40	1	5	3.12	.911
All employees of petro city understand the concept and importance of internal controls including their various responsibilities.	40	1	5	2.68	1.047
Communication monitoring has helped in assessing the quality of performance of the organization overtime.	40	1	5	2.45	1.300
Communication at petro city has helped to improve working relations and efficiency and effectiveness of performance.	40	1	5	2.48	1.240
Petro city enterprises have a clear organization hierarchy, clearly showing who reports to whom.	40	1	5	2.20	1.265
Petro city enterprises have a department in charge of communicating information to employees and monitoring it.	40	1	5	2.38	1.275
Valid N (list wise)	40				

**Source: Primary data (2015)**

Table 4.7 above indicates responses to the question whether Management of Petro City communicates and monitors all improvements and additions to the internal control system, their views were neutral on the aspect with a mean 3.12 and Standard deviation 0.911 which is wide and this implied that the respondents had varying views on this aspect.

The respondents were asked whether all employees of Petro City understand the concept and importance of internal controls including their various responsibilities and their responses reflect a disagreement with a mean 2.68 and Standard deviation of 1.047 which implied that they had varying views on this aspect. The management of Petro City Enterprises needs to inform and educate its employees on internal controls.

Respondents were asked whether Communication monitoring has helped in assessing the quality of performance of the organization overtime and their responses showed disagreement with a mean of 2.45 and standard deviation of 1.3 which implied that they had varying views on this aspect. Finding agreed with Lane & Tan (2000), when they said that the information and communication component covers understanding of policies and procedures, validation of information & evaluation of employee performance.

The respondents were asked whether Communication at Petro City has helped to improve working relations and efficiency and effectiveness of performance and the respondent disagreed with a mean 2.48 and Standard deviation of 1.24 which was wide and it implied that this aspect had varying views from the respondents.

Respondents of Petro City Enterprises were asked whether the Petro City enterprises have a clear organization hierarchy, clearly showing who reports to whom and the respondents disagreed with a mean of 2.2 and standard deviation of 1.265 which was a wide variation and this implied that the respondent had varying views on this aspect. As supported by ACCA (2005), formal channels comprises of downward or top down, upward or bottom up and horizontal or lateral forms. It is further noted that for information to achieve its intended purpose, it must be identified, captured, processed and communicated in an authentic, useful and timely manner. The organization's hierarchy needs to be checked so as to communicate better in a timely manner.



The respondents were asked whether Petro city enterprises had a department in charge of communicating information to employees and monitoring it and they disagreed with a reflected with mean of 2.36 and Standard deviation 1.275 which implied that the respondents had varying views on this aspect.

#### 4.6 Descriptive statistics on Internal Auditing

The employees of Petro City Enterprises were asked a question of whether the enterprise carries out internal Auditing, the researcher was interested in finding out how internal Auditing influences business performance and the following below were the responses:

**Table 4.8: Descriptive statistics on internal audit**

#### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Petro city has a functioning internal audit department.	40	1	5	2.20	.966
petro city carries out regular internal audits	40	1	5	2.48	1.358
Petro city has an internal audit department.	40	1	5	2.57	1.107
corrective action is made when the internal auditor reports any irregularities	40	1	5	3.10	1.429
Employees in the internal auditing department are not liked by other staff since they are looked at as traitors or watch dogs.	40	1	5	3.10	1.429
The internal auditing department is given the autonomy and independence to do their work.	40	1	5	2.85	1.350
Valid N (list wise)	40				

**Source: Primary data (2015)**

Table 4.8 indicates that the responses on whether Petro city having a functioning internal audit department. The respondents disagreed with a mean of 2.2 and standard deviation of 0.96 which implied that the respondents had varying views on this aspect.

Respondents were asked whether petro city carries out regular internal audits and they disagreed with a mean of 2.48. The standard deviation is 1.32 which implied that the respondents had varying views on this aspect. The Institute of Internal Auditors, (2000) emphasizes Internal auditing plays a vital role in ensuring that an organization is efficiently run, morally sound, technologically advanced, cognizant of the environment and other areas of concern, and safe from unnecessary risk; thus it should be regular.

Respondents were asked whether Petro city has an internal audit department and they disagreed with a mean of 2.57. The standard deviation was 1.107 which implied that the respondents had varying views on this aspect. This was also emphasized in the interview guide by one of the managers in finance department that the organization relies much on external auditors, there are a few internal auditors but are absorbed in the operations department.

The respondents were asked whether corrective action is made when the internal auditor reports any irregularities and their response was neutral as reflected by a mean of 3.1. The standard deviation was 1.429 which a less variation that implied that the respondents had varying views on this aspect. As supported by Chambers, Selim & Vinten, (1987), the internal auditors might be considered as being specialists in management control, and then corrective action ought to be taken in response to their opinions.

Respondents were asked whether Employees in the internal auditing department are not liked by other staff since they are looked at as traitors or watch dogs. Their response was neutral with a mean of 3.10. The standard deviation was 1.4290 which implied that the respondents had varying views on this aspect. Respondents said this was so because the internal auditors un earth fictitious transactions that are usually in favor of some staff members.

The respondents were asked whether the internal auditing department is given the autonomy and independence to do their work, and they disagreed with a mean of 2.85. The standard deviation was 1.35 which implied that the respondents had varying views on this aspect. This is supported by the interview with one of the internal auditors who explained that they report to the General Manager who also determines the scope of their work.

#### **4.7 Descriptive statistics on Business performance**

The employees of Petro City Enterprise were asked on business performance and their responses were as follows;

**Table 4.9: Descriptive statistics on business performance**

**Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
profitability is an important measure in improvement in business performance at petro city	40	2	5	3.72	.905
profits of petro city are increasing over the years,	40	2	5	3.70	.911
Petro city allocates its resources efficiently to increase profitability.	40	1	5	3.22	1.209
Petro city measures the past, current and projects future profitability.	40	3	5	4.15	.736
Petro city enterprises innovatively come up with ways to better satisfy their clients.	40	2	5	3.97	.974
Petro city advertises its existence and its products in the media.	40	1	5	3.15	1.442
The volume of sales of the company has been increasing over time.	40	2	5	4.15	.893
Petro city enterprises are one of the major players in the petroleum industry.	40	1	5	3.80	1.244
The market share of the organization has been increasing over the years.	40	2	5	4.02	.920
petro city enterprises is coming up with measures and strategies in order to capture a larger proportion in the market	40	1	5	4.05	1.108
Valid N (list wise)	40				

**Source: Primary data (2015)**

Table 4.9 above indicates that the respondents were asked whether profitability is an important measure in improvement in business performance at petro city and the response was neutral

reflected with a mean of 3.72. The standard deviation was 0.905 which was sparingly spread and this implied that this aspect had varying responses. Some respondents indicated that the company uses other measures of business performance like; return on capital employed, asset utilization level, percentage growth in sales revenue and profitability inclusive.

Respondents were asked whether profits of Petro city are increasing over the years, and their response was neutral reflected with a mean of 3.70. The standard deviation was 0.911 which implied that this aspect had varying responses. Some respondents quoted that the company projects a 2% annual increase in profitability. So it indeed is true that the company's profitability has been increasing over the years.

The respondents were asked whether Petro city allocates its resources efficiently to increase profitability and their response was still neutral with a mean of 3.22. The standard deviation was 1.209 which implied that this aspect had varying views. According to some of the respondents, this is done by giving priority (in terms of resources) to functions which boost sales, for instance facilitating marketers and the operations team.

The respondents were asked whether Petro city measures the past, current and projects future profitability and they agreed with a mean of 4.15. The standard deviation was 0.736 which implied that this aspect had varying views. As per the various interviews conducted, the company requires monthly profitability assessments for each fuel station, which are later put together to assess the company's monthly profitability. Monthly profitability is used to compare with past performance and plan for the future.

Respondents were asked whether Petro city enterprises innovatively come up with ways to better satisfy their clients and their response was neutral with a mean of 3.97 which was further emphasized from the interview guide were respondents traced that the Petro City Enterprises is innovatively opening 2 new fuel stations in strategic locations annually to better reach and satisfy the customers. The standard deviation was 0.974 which was sparingly and this implied that the respondents had varying views on this aspect.

The respondents were asked whether Petro city advertises its existence and its products in the media and their responses were neutral with a mean of 3.15. The standard deviation was 1.442 which is a wide spread and it implied that the respondents had varying views on this aspect. This was evidenced in the interview guide whereby it was emphasized that the little advertising done is with calendars and business cards of key employees. There is limited or no advertising so as to minimize the operational costs.

Respondents were asked whether the volume of sales of the company has been increasing over time and they agreed with a mean of 4.15. The standard deviation was 0.893 which implied that the respondents had varying views on this aspect. According to the interview conducted, it was reported that the volume of sales has grown to 8,000,000 liters of product per month.

The respondents were asked whether Petro city enterprises are one of the major players in the petroleum industry and their response was neutral with a mean of 3.8. The standard deviation was 1.244 which implied that this aspect had varying views. According to a reliable source within the company, petro city enterprises ranks its self among the best 5 petroleum companies in Uganda yet very young at the age of only 12 years.

Respondents were asked whether the market share of the organization has been increasing over the years and they agreed with a mean of 4.02. The standard deviation was 0.920 which implied that this aspect had varying views. From the literature it was noted that increasing market share is one of the most important objectives of business so Petro City Enterprises is on the right track towards achieving its objectives. The company website indicates that for the 12 years of the enterprises' existence, the market share has grown to 12% in the total fuel market volume in Uganda.

The respondents were asked a question on whether petro city enterprises is coming up with measures and strategies in order to capture a larger proportion in the market and they agreed with a mean of 4.05 and standard deviation of 1.108 which implied that respondents had varying views on this aspect as supported by the data on the company website and maintenance of good quality products. The enterprise has evolved to 80 retail stations distributed throughout the

country and 12% market share in the total fuel market volume in Uganda. The current volume of white refined product is over 8000m<sup>3</sup> and the enterprise has set up an oil terminal in Kyengera with storage capacity of 13million liters.

#### 4.8 Correlation Analysis

In order to establish the relationship between dimensions of internal controls and business performance the study conducted correlation analysis for each of the specific objectives and the following were the findings.

##### 4.8.1 Correlation between risk assessment and business performance.

The correlation between risk assessment and performance of Petro City Enterprises was as follows;

**Table 4.10 Correlation on risk assessment and business performance**

#### Correlations

		Risk Assessment	Business Performance
Risk Assessment	Pearson Correlation	1	.546**
	Sig. (2-tailed)		.000
	N	40	40
Business Performance	Pearson Correlation	.546**	1
	Sig. (2-tailed)	.000	
	N	40	40

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 4.10 above indicates that the Pearson correlation coefficient is ( $r = 0.546^{**}$ ,  $p < 0.01$ ). The Pearson correlation coefficient obtained in the above table indicates that there is a positive and significant relationship of 54.6% between risk assessment and performance of Petro City Enterprises. Beasley and Rclune (2004) confirm these findings when they asserted that Enterprise Risk Management (ERM) has emerged as a new paradigm for managing the portfolio

of risks that face organizations and policy makers continue to focus on mechanisms to improve corporate governance and risk management. Thomson Reuters in their book on “mastering risk assessment”, add that as organizations explore ways to deal with the new environment of uncertainty related to regulatory risk, process risk, market risk and overall enterprise risks, many come to the conclusion that mastering the discipline of risk assessment is a fundamental requirement for steady business performance. Leading organizations are leveraging technology solutions to support their risk convergence efforts. From literature quoted above, it truly is confirmed that risk assessment has a positive relationship with business performance.

**4.9 Correlation between information and communication monitoring and business performance**

The correlation between information and communication monitoring and performance of Petro City Enterprises was as below;

**Table 4.11; Correlation between information and communication monitoring and performance**

**Correlations**

		Information & Communication Monitoring	Business Performance
Information and communication Monitoring	Pearson Correlation	1	.141
	Sig. (2-tailed)		.387
	N	40	40
Business Performance	Pearson Correlation	.141	1
	Sig. (2-tailed)	.387	
	N	40	40

**Source: Primary data (2015)**

Table 4.11 above indicates that the Pearson correlation coefficient is ( $r = 0.141^{**}$ ,  $p < 0.387$ ). The Pearson correlation coefficient obtained in the above table indicates that there is a positive but insignificant relationship of 38.7% between information and communication monitoring and performance of Petro City Enterprises. These findings contradict with what the reviewed literature zeroed on. An article on Wikipedia .org posted in February 2014 indicates that the goal



of business activity monitoring is to provide real time information about the status and results of various operations, processes & transactions. The main benefit is to enable an enterprise to make better informed business decisions, quickly address areas & reposition organization to take full advantage of emerging opportunities. Bonnie (2010) in his article posted Houston chronical, added that whether you are running a small start up business or a worldwide enterprise, fostering effective communication is critical to success. No company can succeed long term if their workers do not communicate with each other and this lack of communication will quickly become evident in the form of missed appointments, disjointed meetings & wasted time. Fortunately companies have a number to technological tools at their disposal to create an arena where open and honest communication is valued and respected.

The variance in literature and findings is because Petro City Enterprises has not put much consideration regarding information and communications monitoring. A lot needs to be done by the company up to the point when information and communications monitoring has a positive and significant effect on business performance.

#### 4.10 Correlation between internal auditing and business performance

The correlation between internal auditing and business performance of Petro City Enterprises was as follow

**Table 4.12 correlation between internal Auditing and performance**

##### Correlations

		Internal Audit	Business Performance
Internal Audit	Pearson Correlation	1	.322*
	Sig. (2-tailed)		.043
	N	40	40
Business Performance	Pearson Correlation	.322*	1
	Sig. (2-tailed)	.043	
	N	40	40

\*. Correlation is significant at the 0.05 level (2-tailed).

Table 4.12 above indicates that the Pearson correlation coefficient is ( $r= 0.322^{**}$ ,  $p< 0.05$ ). The Pearson correlation coefficient obtained in the above table indicates that there is a positive and

insignificant relationship between internal auditing and performance of Petro City Enterprises. Sebbowa, (2009) said internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes. The research findings on internal auditing and business performance don't agree with the reviewed literature.

#### **4.11 Conclusion**

In this chapter, the findings from the study were presented in form of tables, graphs and descriptive statistics. The results were interpreted and discussed with the literature that was reviewed in chapter two of the study.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter summarises the research findings in the previous chapter and makes a conclusion depending on the findings. At the close of this chapter, recommendations are also included.

#### **5.1 Summary of findings and conclusion**

The researcher analysed the data collected on internal controls and business performance and below is the summary of his findings; objective by objective..

##### **5.1.1 Risk assessment and business performance**

The correlation analysis showed that there is a positive and significant relationship of 54.6% between risk assessment and performance of Petro City Enterprises as indicated by a correlation coefficient of ( $r = 0.546^{**}$ ,  $p < 0.01$ ). This implies that an organization can boost its performance by ensuring that risk assessment and management is done.

##### **5.1.2 Information and communication monitoring and business performance.**

There is a positive and insignificant relationship of 38.7% between information and communication monitoring and performance of Petro City Enterprises as indicated by correlation coefficient of ( $r = 0.141^{**}$ ,  $p < 0.01$ ). This means that investing in the improvement of information and communication monitoring as an aspect of internal controls can influence organizational performance.

##### **5.1.3 Internal auditing and business performance**

There is a positive and significant relationship of 32.2% between internal auditing and performance of Petro City Enterprises as indicated by a correlation coefficient of ( $r = 0.322^{**}$ ,  $p <$

0.05). This means that a functioning internal Audit department as an aspect of internal controls influences business performance.

## **5.2 Conclusion**

Risk assessment positively affects business performance; organisations need to invest more resources in this so as to save on costs that may be incurred in the absence of risk assessment.

Information and communication monitoring positively affects business performance. According to the research findings, the effect is to a small extent.

Internal auditing influences business performance in a positive way. Organisations should make an endeavour to have in place a functioning internal auditing department.

There is therefore a positive relationship between internal controls and business performance. Organisations should invest highly in internal controls so as to see their performance grow.

## **5.3 Recommendations**

Petro city Enterprises should institute individual departments of risk assessment, internal auditing and communication & information monitoring and employ more professionals to work in them.

Petro City enterprises should improve on its resource allocation so that the various departments have the resources they require to achieve organisation objectives.

Advertising should be one of the marketing techniques at Petro City Enterprises.

Petro City Enterprises should give the Human Resource the power to exercise communication monitoring towards its employees.

The independence of the internal auditor needs to be improved so as to make their opinions reliably & dependable.

The internal control systems at Petro city enterprises need to be strengthened so as to better business performance.

An audit manual need to be introduced in the audit function & audit planning should be mandatory

#### **5.4 Areas of further research**

Other researchers should do further research on effect of computerised internal controls on organisation to its performance.

Further research should also be done on the effect of internal auditing practices on the performance of the internal audit.

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**APPENDIX ONE:**

**RESEARCH QUESTIONNAIRE**

Dear Respondent,

My name is **Nyangoma Edvine Kabagambe**, a student of Uganda Martyrs University Nkozi. I am pursuing a Bachelors’ degree in Business Administration and Management. Am conducting a research about, “**the relationship between internal controls and business performance**” and my case study is petro City Enterprises Uganda ltd.

The research is being carried as a partial fulfillment of the requirements for the award of a Bachelors’ Degree in Business Administration and Management.

Your participation in the research process will be highly appreciated and the information collected from you will be treated with utmost confidentiality and used for academic purposes.

**Thank you so much for your corporation.**

**SECTION A: BACKGROUND**

Please fill in the space provided or tick the answer you think is most appropriate for the given section.

**1. State your gender.**

a) Male

b) female

**2. In which age bracket do you belong?**

a) 20 - 30 years

b) 31-40 years

c) 51-50 years

d) 51- 60 years

**3. State your academic Qualification.**

a) Certificate

c) Diploma

b) Degree

d) Master’s degree

5) Others specify

.....

**4. How long you have been working for this company?**

a) 1-3 years

c) 3-5 years

b) Less than a year

d) over 5 years

**5. Which department do you belong to?**

a) Finance Department

b) Operations department

c) Internal auditing

d) Public relations

e) Depot

f) If other specify -----

**SECTION B: Risk assessment**

For the following Please tick in the space provided using ranks from 1 to 5.

**Key** 1 represents strongly disagree, 2 represents Disagree, 3 represents Not sure , 4 represents Agree and, 5 represents strongly agree.

		1	2	3	4	5
<b>RA1</b>	Petro city Enterprises has a department in charge of risk Assessment.					
<b>RA2</b>	Management has a risk Assessment module.					
<b>RA3</b>	Management usually forecasts risk and plans for them.					
<b>RA4</b>	Management has a criteria for prioritizing fraud-related risks to the organization as the most critical Risks.					
<b>RA5</b>	Petro city enterprises carries out regular risk assessment on every activity they undertake.					
<b>RA6</b>	Management has in place controls to eliminate / minimize the various risks it faces.					

RA7. What measures have been undertaken by Petro City enterprises to ensure that Risk Assessment is efficient and effective?  
-----

RA8. What challenges has Petro city faced in ensuring that Risk Assessment is efficient and effective? -----

RA 9. What do you recommend the organization to do so as better it performance through Risk Assessment? -----

**SECTION C Information and communication monitoring**

For the following Please tick in the space provided using ranks from 1 to 5.

**Key** 1 represents strongly disagree, 2 represents Disagree, 3 represents Not sure , 4 represents Agree and, 5 represents strongly agree.

		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>ICM1</b>	Management of Petro city communicates and monitors all improvements and additions to the internal control systems					
<b>ICM2</b>	All employees of Petro City understand the concept and importance of internal controls including their various responsibilities.					
<b>ICM3</b>	Communication Monitoring has helped in assessing the quality of performance of the organization over time					
<b>ICM4</b>	Communication at Petro city has helped to improve working relations and efficiency and effectiveness of performance.					
<b>ICM5</b>	Petro city enterprises have a clear organization hierarch, clearly showing who reports to who.					
<b>ICM6</b>	Perto city enterprises have a department in charge of communicating information to employees and monitoring it.					

ICM7. IA 7. What measures have been undertaken by Petro City enterprises to ensure that information and communication monitoring is efficient and effective?  
-----

ICM8. What challenges has Petro city faced in ensuring that information and communication monitoring is efficient and effective? -----

ICM9. What do you recommend the organization to do so as better it performance through information and communication monitoring? -----

**SECTION D Internal Auditing**

For the following Please tick in the space provided using ranks from 1 to 5.

**Key** 1 represents strongly disagree, 2 represents Disagree, 3 represents Not sure , 4 represents Agree and, 5 represents strongly agree.

		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>IA1</b>	Petro city has a functioning internal Audit department.					
<b>IA2</b>	Petro city carries out regular internal audits.					
<b>IA3</b>	Petro city has an internal audit manual.					
<b>IA4</b>	Corrective action is made when the internal Auditor reports any irregularities.					
<b>IA5</b>	Employees in the internal auditing department are not liked by other staff since they are looked at as traitors / watch dogs.					
<b>IA6</b>	The internal auditing department is given the autonomy and independence to do their work					

IA 7. What measures have been undertaken by Petro City enterprises to ensure that internal audits are efficient and effective?

-----

IA8. What challenges has Petro city faced in ensuring that internal Audits are efficient and effective? -----

IA 9. What do you recommend the organization to do so as better it performance through internal auditing? -----

-----

## SECTION E: Business performance

For the following Please tick in the space provided using ranks from 1 to 5.

**Key** 1 represents strongly disagree, 2 represents Disagree, 3 represents Not sure , 4 represents Agree and, 5 represents strongly agree.

		1	2	3	4	5
<b>BP1</b>	Profitability is an important measure in the improvement of business performance at Petro City					
<b>BP2</b>	Profits of Petro City are increasing over the years.					
<b>BP3</b>	Petro City allocates its resources efficiently to increase its profitability.					
<b>BP4</b>	Petro city measures the past, current and projects future profitability					
<b>BP5</b>	Petro City enterprises innovatively coming up with ways to better satisfy their clients.					
<b>BP6</b>	Petro city advertises its existence and its products in the media					
<b>BP7</b>	The volume of sales of the company has been increasing over time					
<b>BP8</b>	Petro City enterprises is one of the major players in the petroleum industry.					
<b>BP9</b>	The market share of the organization has been increasing over the years.					
<b>BP10</b>	Petro city enterprises is coming up with measures and strategies in order to capture a larger proportion of the market.					

11. What measures has petro city undertaken to increase its Profitability, sales growth and market share?

-----  
-----

12. What challenges is Petro city facing in implementing the measures mentioned in (11) above?

-----  
-----

13. What do you recommend the organization to do regarding the challenges mentioned in (12) above?

-----

**Thank you very much**

END



**APPENDIX II: INTERVIEW GUIDE**

**Please answer the following open ended questions:**

1. Are all employee levels in the organization represented in establishing the organization objectives?  
-----

2. How has risk assessment benefited Petro city Enterprises?  
-----

How do you communicate your organization’s standards and expectations to?

i) employees  
-----

investors  
-----

ii) clients  
-----

3. How often do you normally prepare reports and other returns to management?  
-----

4. Who is chiefly responsible for ensuring that internal control measures are adhered to?  
-----

5. How do you provide adequate physical security for cash and other assets subject to theft?  
-----  
-----

6. How often do you carry out internal audit, do internal auditors have the protection of management?  
-----

7. What measures is the organization undertaking to improve market share, sales growth and profitability?  
-----

Thank you!

**APPENDIX III:**

**INTRODUCTORY LETTER**