

Internal Control Functions and Small and Medium Enterprises Sustainability: Empirical Evidence from Selected SMEs in the South-West States of Nigeria.

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ABSTRACT

Good business operations contribute to enterprises achieving their long-term growth goals. Hence, governance, controls and compliance are foundational elements in the effective management and oversight of a company by management and boards. The value of the internal control system is enormous for all kinds of organizations small or big. This study evaluated the effect of internal control activities of control environment and control activities on small and medium enterprises sustainability in terms of alignment of operations with goals and operational efficiency. The study adopted cross sectional survey research design. The population of the study comprised all registered SMEs operating in South-West states, Nigeria, while the study adopted purposive sampling technique to select 350 SMEs operating across Lagos, Ogun, and Oyo states, South-West, Nigeria. This study used primary data gathered from selected SMEs through structured questionnaire designed on 5- point Likert scale. Data gathered were analysed using descriptive and inferential statistics, while the hypotheses were analysed using ordinary least square regression. Findings from statistical test of hypotheses reveal that control environment and control procedures jointly contribute positively and significantly to ability of SMEs to align operations with sustainability objectives, and promote operational efficiency. The study concluded that internal control system ensure that the behaviours and decisions of employees and managers are consistent with organization's sustainability objectives and strategies and effectively contribute to higher business performance and long-term growth. Therefore, this study recommended that SMEs managers should strengthen and monitor their internal control mechanism, and implement more effective accounting information systems, ensure compliance with regulatory requirement, be socially, economically and environmentally responsible.

Keywords: Internal control, Objective, Operational efficiency, SMEs, Sustainability,

INTRODUCTION

The business and sustainability landscape is highly dynamic, with competition increasingly coming from global and other non-traditional sources. The mainstreaming of sustainability sees businesses increasingly employing strategic responses to manage their impacts, identify risks and opportunities and support business resilience. In order to remain sustainable, businesses need a clear vision to re-evaluate and adapt their strategies and processes to create value for all stakeholders. Designing business structures that generate new value, as well as delivering it effectively to stakeholders is essential for achieving long-term sustainability. Sustainability in terms of business context, is a business strategy that drives long-term corporate growth and profitability by mandating the inclusion of environmental and social issues into organizational strategy (Amui et al, 2017). It is about capitalizing on the growth opportunities found in a rapidly changing environment. By integrating sustainability into core operations, businesses are not only addressing global challenges, but also unlocking avenues for value creation and long-term growth.

Sustainability presents more than a challenge; it offers transformative opportunities for businesses willing to innovate, collaborate and lead. By doing so, they are not just ensuring regulatory compliance or customers' goodwill, but, also shaping the future of business in a sustainable, intelligent economy. Extant literature provides

evidence that being sustainable causes a firm to increase its value (Abdi, Li & Camara-Turull, 2020; Alofaysan, Jarboui & Binsuwadan, 2024). This is also proved by companies with remarkable sustainable development strategies and reporting which are more often viewed by investors as being safe and stable for higher growth with a higher valuation in market pricing mechanism by financial markets. Corporate Sustainability adds the dimension of directionality to speed, converting it to the velocity required for long term success through efficient operational processes that minimize the negative impact of environmental and production processes.

Efficiency is crucial for the success and growth of any business, especially for small enterprises looking to optimize resources and maximize profitability. Every businesses either product or service provider seek to enhance operational efficiency. According to Funso and Kolapo (2006), a firm that is not operationally efficient would fail to achieve satisfactory return on owners' equity and find it difficult to survive adverse economic conditions. In order to survive and prosper, firms have to produce their output from input efficiently. Producing more output from unchanged input, consuming less input for unchanged output, reducing operating costs without damaging the corporation, reducing the days in the cash conversion cycle, improving operating cash flows, increasing total asset turnover, and effecting reductions in operating risk are all signs of relative operational efficiency (Amarjit, et al., 2014). While many factors contribute to operational efficiency, one area that often goes overlooked is the implementation of robust internal controls. Internal controls are systematic measures put in place to safeguard assets, ensure accuracy in financial reporting, and promote operational effectiveness. In this article, we will explore how small enterprises can establish and utilize internal controls to enhance their operational efficiency.

Good business operations contribute to enterprises achieving their long-term growth goals. Hence, governance, controls and compliance are foundational elements in the effective management and oversight of a company by management and boards. These concepts, when effectively applied, enhance reporting accuracy, reduce business risks, and promote both accountability and operational efficiency. Wagner and Dittmar (2006), argue that the standardization of processes and control structures required for SOX compliance reduces complexity, redundancy, and inefficiencies. Similarly, Harrington (2006), notes that SOX compliance has driven technological and procedural improvements, yielding cost savings through reduced errors and streamlined operations. Through control, organisations plan, monitor and account for strategic sustainability decisions daily. Sustainability control regards all devices and systems that managers develop and use to formally and informally ensure that the behaviours and decisions of their employees are consistent with the organization's sustainability objectives and strategies (Crutzen et al., 2016). Thus, embarking on sustainability journey requires companies to reconsider the role of their risk management and internal control functions to effectively address the opportunities and challenges that come with it. Internal controls are systematic procedures and practices implemented by an organization to safeguard assets, ensure accuracy in reporting, and enhance operational efficiency.

The goal of internal control is to achieve sustainable development of the enterprise (Gregory & Whittaker, 2013). The quality of internal control determines the enterprise's operating results and management performance. The COSO Internal Control - Integrated Framework has long provided a good foundation for delivering confidence in corporate practices. Effective internal control is the foundation for transitioning to a more sustainable business model and enhancing investor and stakeholder confidence in sustainability performance (International Federation of Accountants (IFAC), 2023). The efficacy and quality of the internal control system implemented by organization's management are key factors in an entity's ability to survive (Chalmers, Hay, & Khlif, 2019; Lawson, Muriel, & Sanders, 2017). Through an integrated internal control environment based on an integrated mindset, companies will achieve greater connectivity of functions, processes and systems leading to enhanced data quality to improve decision making on strategy, risk, opportunity management and governance-related matters. According to COSO, 2013 there are three objective of internal control which are operational, reporting and compliance objective (Kaya, 2017; Committee of Sponsoring Organizations (COSO), 2017). Extant literature provide evidence that the growth and survival of an entity is largely dependent on the quality and effectiveness of the internal control system in place (Adegboyegun et al., 2020; Chalmers et al., 2019; Tetteh et al., 2022; GamageLow & Keving, 2018; Tangirala, 2019; Vu & Nga, 2022).

The value of the internal control system is enormous for all kinds of organizations small or big, profit or non-profit organizations, but perhaps may be more important to small and medium-scale enterprises (SMEs)

worldwide (Ajala et al., 2023; Alfartoosi et al., 2021; Nqala, 2017; Tetteh et al., 2022), and in particular in many developing countries because of the importance of SMEs in these economies. SMEs constitute about 90% of private sector business in Nigeria and Africa as a whole, and are the major source of employment and economic growth in most African nations (Musah, 2017; Padi et al., 2022). This means that the SME sector is the engine of growth and job creation in, and hence the need to ensure that entities in that sector experience continuous growth. Akugri et al. (2015) postulated that the SME sector in Africa has the power and influence to transform economies and facilitate the bridging of the inequality gap between the rich and the poor (Abor & Quartey, 2010; Hatten, 2014; World Bank, 2013). However, SMEs in developing economies, Nigeria inclusive, face a myriad of challenges in their operations and these impact on the corporate sustainability of these enterprises (Navare & Handley-Schachler, 2018).

What constitutes an SME varies significantly across different markets. SMEs are also present across a broad range of sectors. Accordingly, the challenges and opportunities that SMEs are faced with may vary. SMEs in African continent are fraught with several challenges such as: poor keeping practices (Musah, 2017), weak governance framework (Abor & Biekpe, 2007; Asunka, 2017; Padi & Musah, 2022) and lack of access to credit (Domeher, 2012; Abor and Quartey, 2010). Furthermore, lack of resources, means that SMEs are not in a position to prioritise the design and implementation of the appropriate internal controls. As a result, SMEs, practitioners and policy makers do not fully comprehend the impact of the presence and/or absence of internal controls on business sustainability (Amroune et al., 2017). Thus, SMEs with ineffective internal control systems could suffer from irregularities such as fraud, theft, the misuse of assets and unreliable financial information reporting leading to premature shutdown of the business (Akani & Oladutire, 2013; Kakuru, 2016; Samadi, 2016). In literature, studies on internal control systems have focused on different perspectives of enterprise processes (Agyei-Mensah, 2016a; Guo & Eschenbrenner, 2018; Lawson et al., (2017); Peterson, 2018; Adegboyegun et al., 2020; Hoai et al., 2022; Tetteh et al., 2022; Vu & Nga, 2022; Chang et al., 2019),

Secondly, the few studies on the subject matter in Nigeria and other parts of Africa have focused on listed entities and public institutions (Agyei-Mensah, 2016b; Onumah et al., 2012; Tetteh et al., 2022) with less evidence on SMEs despite the important roles SMEs play in many economies including Nigeria. In this regard, Adegboyegun et al., (2020), argued that the need for an effective internal control system is more pronounced for SMEs than public entities due to the role of internal control system effectiveness on SMEs performance in strengthening their long term sustainability. Meanwhile, research has shown that there is an inseparable relationship between business long term sustainability and internal control systems (Hazzaa et al., 2022). The above evidence implies that there cannot be an appreciable level of SMEs sustainability without effective internal control system, as the pivot of good corporate governance. This study addresses these gaps in the literature by examining the effect of internal control systems on SMEs' sustainability South-West states of Nigeria.

To achieve the objective of this study, the following hypotheses were evaluated;

Ho₁: Internal control functions is not significantly effective in aligning SMEs operations with business sustainability goals in South-West states of Nigeria

Ho₂: Internal control functions does not significantly enhance operational efficiency of SMEs in South-West states of Nigeria.

Justification for the Study

SMEs in developing countries are critical to these economies as they play various roles such as creating employment. Furthermore, the 17 interconnected Sustainable Development Goals and their associated targets offer useful insights into the need for coordinated strategies which offer useful perspectives that the SME can use to implement sustainable business strategies through risk management and operational processes by integrating sustainability across governance and strategy. Because smaller firms experience a disproportionate amount of costs for implementing controls for managing risks and operational excellence, it is important to understand whether the benefit of effective internal control is also disproportionately larger for these firms. For this purpose, we investigated the effect of internal control effectiveness on SMEs sustainability using ability of the SMEs to align operations with sustainability goals and operational efficiency as measures of SMEs

sustainability. The study is aimed at helping SMEs prepare for action through reinforcing the relevance and importance of sustainability to their business and providing an understanding of possible approaches for action; how SMEs can align their businesses to sustainable development goals;

REVIEW OF LITERATURE

This section covers review of literature relevant to this research study. The literature review included facts pertaining to SMEs, internal controls and sustainability.

CONCEPTUAL REVIEW

Business Sustainability.

A sustainable business is one that is economically viable, socially responsible, and environmentally friendly (Beal et al., 2017; Daoood & Menghwar, 2017; Bocken et al., 2014; Clarke & Roome, 1999). In other words the business is financially sound and self-reliant; tries to improve the social impact of its actions on key stakeholders, and ensures that its activities do not adversely impact the environment. According to De Carvalho et al., (2019), corporate sustainability implies incorporating sustainable development objectives into the company's operational practices by designing goals that seek to achieve equity, social and economic efficiency and environmental performance. Therefore, it ensures that corporate sustainability makes companies' prosperity compatible with the standard of living of human beings. This study measured business sustainability with alignment of operations with objectives and profitability.

Alignment of Business Objective with goals

Business objectives are the goals that a company or organization wants to achieve. These can range from financial performance, market leadership, innovation, customer satisfaction, operational efficiency, to compliance with laws and regulations. Many business objectives revolve around operating within the confines of the law and industry regulations. More importantly, business objectives often include accurate financial reporting, as it helps in strategic decision-making. Internal control mechanisms ensure the reliability and accuracy of these reports. In conclusion, internal control systems are a vital tool that helps businesses stay on track with their objectives. They provide a structured approach to managing business operations, mitigating risks, and ensuring that the company or organization is moving steadily towards achieving its goals.

Operational efficiency

According to Business Dictionary, operation means work or tasks consisting of one or more constituent or subtasks performed typically in one direction. Operations transforms resources into preferred goals, services or results and creates and convey worth to customers related to any operational activity from a process. The concept of efficiency pertains to how well various business operations are carried out. It relates with selecting the best course of action. Efficiency is not only reducing cost, increasing profit, diversifying business and fulfilling other business objective, but it also includes maintaining quality, providing services and retaining customers. Operational efficiency is the tactical planning of an organization to maintain a safe balance between cost and productivity. It identifies the wasteful processes that contribute to loss of resources and organizational profits. It deals with minimizing waste and maximizing the benefits of resource to provide better services to the customers. Olarewaju and Obalade (2015) described operational efficiency as the ability of the firms to deliver their products and services effectively without sacrificing quality. Shawk (2008) defined operational efficiency as a situation in which right combination of people, process and technology come together to enhance the productivity and value of the business operation while driving down the cost of routine operations to a desired level. Operational efficiency is the efficient utilization of human and material resources or the efficient use of people, machine tools and materials funds (Obafemi, Ayodele & Ebong, 2013).

Internal Control

Internal control system was first conceptualized by the American Institute of Certified Public Accountants' in 1949 (Lakis & Giriunas 2012). It described internal control system as a plan and other coordinated means and

ways by the enterprise to keep safe its assets, check the coherency and reliability of data, to increase its effectiveness and to ensure the settled management politics. Regarding the definitions of the internal control variable, Robalino et al., (2018) stated that internal control is designed and led by its top executives, administrative in order to minimize the risks of the companies detected as a threat in the fulfillment of its objectives with this to achieve the credibility of financial information. Espinoza et al., (2018) mention that internal control is a support tool to manage and achieve the required quality in companies and organizations, as well as the responsibilities of all members of the institution. Internal controls are a system of rules and processes that initiated by a company to comply with regulations and laws, improve operational efficiency and effectiveness and achieve financial reporting reliability (Alfartoosi & Jusoh, 2021; Bett & Memba, 2017)

Similarly, Odunko (2022), postulates internal controls as measures established for the attainment of organizational objectives. Udu (2013), categorized internal control system as a detective, preventative, directive, corrective or compensatory controls. These functions are aimed to decrease substantial errors, omissions, wastes, purposeful acts and frauds which impacts negatively on a company's performance (Quasim, 2021; Singleton & Singleton, 2010). The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework (2013), adopted by many organizations complying with the Sarbanes-Oxley Act (SOX), defines internal control as a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations According to COSO (2013), internal controls are implemented to steer organizations toward profitability goals, minimize disruptions, promote efficiency, and reduce the risk of asset loss. These principles suggest that effective internal controls can significantly enhance operational efficiency. Vulley (2022), postulates that internal control systems are essential for an efficient and effective monitoring and evaluation of business performance.

Supported by the COSO (2013), they determine the five components as dimensions for this study: the first dimension is defined as the control environment which relates to actions, procedures, policies and attitudes within an organization, administrative management, owners where the objectives are set, allocate resources, according to the structure of the organization for the fulfilment of internal control (Camacho et al., 2017); The second dimension, risk assessment, is when management knows and addresses the risks faced both internally and externally, where the objectives are set, in all structures of the organization, to work in coordination (Quinaluisa et al., 2018); The third dimension is control activities, which are the policies, systems and procedures that the company has to carry out at all levels, which will help to minimize risks in order to fulfil the company's objectives and mission (Vega et al., 2017); The fourth dimension is information and communication, which is vital and important for the processing of reliable and timely information. It also establishes means of communication to know and become aware of their responsibilities to those who work in the company (Gaviria & Castellanos, 2018), while the fifth and final dimension is the monitoring component, which is the continuous and independent reviews and evaluations with which it is determined that the components are working properly.

Small and Medium Enterprises (SMEs)

Bonga and Nyoni (2018) note that the definition of SMEs varies greatly from country to country and it also varies depending on the reporting entity. That being the case, researchers tend to come up with specific definition of SMEs depending with the objectives of that specific research. In South Africa SMEs are defined according to number of employees, turnover and Gross assets (South Africa, 1996). In the Nigerian context, Small and Medium-sized Enterprises (SMEs) are generally defined by their number of employees and asset base, with definitions varying slightly between official bodies like the Small and Medium Development Agency of Nigeria (SMEDAN) and the Central Bank of Nigeria (CBN). SMEDAN defines SMEs based on employee count, with micro-enterprises having 1-9 employees, small businesses 10-49, and medium businesses 50-199 employees. The CBN, meanwhile, uses an asset-based criterion for SMEs, classifying firms with assets between N5 million and N500 million as SMEs, and this definition is often used in lending guidelines. This study adopted the SMEDAN classification of SMEs.

Theoretical Review

A variety of theoretical perspectives have been used independently and in combination in the literature to

investigate internal control systems effectiveness, and business sustainability practices. Among these theories, this study reviewed business sustainability theory, stakeholders' theory, system theory, and contingency theory. The theory of business sustainability provides enterprises with a comprehensive and long-term perspective, enabling more scientific and rational decision-making amidst complex and dynamic market environments. The crux of sustainability lies in whether a company can adapt to the ever-changing internal and external environments, maintaining their innovative capabilities and market competitiveness. Through the establishment of a flexible organizational structure and an efficient decision-making mechanism, companies are able to swiftly respond to market shifts. On the societal front, the company bolsters communication and trust with stakeholders through transparent reporting and information disclosure, fostering an exemplary corporate image.

Freeman (1984) propounded the stakeholder theory in an attempt to explain the complex relationships that exist in a firm. Stakeholder theory was a startling break from the normal understanding of business as a vehicle to maximize profits for the owners of capital (Freeman et al., 2010). The principle of stakeholders covers workers, service providers, local communities, creditors, and others affected by companies (Lin & Tom, 2018). It discusses morals and management principles such as social responsibility, the business economy, and social contracts. Stakeholders provide businesses with a "social license" to operate and shape decisions (Sarkis et al., 2010). According to Sodhi (2015) and Freeman et al. (2021), stakeholder theory is a truly unique method that emphasizes creating and maintaining sustainable stakeholder connections to boost company performance through resource-based considerations. The stakeholder viewpoint refers to the statement from various writers that sustainability achievement is not absolute but should be viewed in light of stakeholders and their ambitions (Carvalho, 2013; Silva et al., 2019).

von Bertalanffy developed systems theory in 1972, suggesting that any system is complex with different elements. Systems theory is a multidisciplinary approach that allows researchers to evaluate phenomena from a holistic perspective. Tops et al. (2014) suggests that systems do not exist in isolation, meaning interdependence exists between systems. Systems are interrelated components or tools for transforming policies into performance. In systems theory, the critical components, interdependency, relationships, and objectives comprise a system integral to the operation of the firm, which culminates in its overall objectives (Hughes et al., 2015). These components are inter-dependent, which means if one of the components is insufficient, it automatically causes the failure of the whole system. An organization requires a system of controls for its survival, effectiveness and efficiency. Building on the COSO framework, Knowledge about a system is built by understanding how the interconnected parts contribute to the whole system's functioning (Lämsiluoto et al., 2016). Under this vision, internal control is a system involving the interaction of a variety of components. Each component of the internal control system works to create value in its capacity, thereby leading to a more efficient internal control system (Tops et al., 2014).

On its part, the contingency theory emphasizes that the ideal approach to organize a business is determined by the sort of environment in which it works (Chenhall, 2003; Jokipii, 2009). The contingency theory assumes a no unanimously superior strategy (Richard, 2003; Bergeron, Raymond, & Rivard, 2001). Weak internal controls accounts for most business failures (Oladimeji, 2016; Otoo, 2019, Internal control is important for all organizations, but it is especially crucial for the SMEs whose business environment is prone to risks that must be mitigated for efficiency and sustainable development.

Empirical Review

Effective internal control is crucial in determining the sustainability of MSME enterprises. Several scholars have examined the relationships between internal control and various dimensions of business performance. IFAC (2012) showed that internal control created competitive advantages since a company that has a sound internal control system would have a higher capability to cope with business risks. Research from multiple studies supports the idea that internal control has been employed by business organizations to enhance their sustainability [21]. Nqala and Musikavanhu (2023), discovered that adequate knowledge to implement effective and efficient internal control by SME leaders and management could improve SMEs' performance and long term objectives. Some researchers, such as [22], found evidence that effective internal control significantly drives MSMEs towards sustainable growth. Yuan, Hu and Hu (2024), found that internal control quality significantly affects corporate governance information disclosure, while Borbe (2024), observed a significant relationship

between internal control system and quality of governance. The authors observed that monitoring, information and communication components significantly impacted the sustainability of quality governance. while Xinyan (2024), reported that lack of internal control reflected series of organizational governance deficiencies which result in significant financial penalties and reputational damage, reflecting the role of internal control failures in asserting financial fraud.

Similarly, researchers such as Fitria, Jatiningsih and Putri (2024), reported that internal control directly has a positive effect on business sustainability through its influence on the accounting information system. This findings was confirmed by results from 19, 20 that establishing and executing internal control ensures the efficacy and efficiency of business operations, accurate financial reporting, and adherence to applicable rules and regulations. Ajala et al., (2023), found a significant positive relationship between internal control and all proxies of business growth, survival and operational efficiency. Aligning with prior studies, Tukue (2024), demonstrated that improvements in internal control quality are positively associated with enhanced operational efficiency in manufacturing firms, Cheng, Goh, and Kim (2018), found that operational efficiency, derived from frontier analysis, is significantly lower among firms with material weaknesses in internal control relative to firms without such weaknesses, while remediation of material weaknesses leads to an improvement in operational efficiency. Also, Su et al., (2022), showed that internal control has, on the one hand, positive effects on enterprise sustainability by improving the quality of financial information, derived effects, and spillover effects. However, on the other hand, internal control can be detrimental to enterprise sustainability by increasing compliance costs and legal liabilities. Liu, Wu and Xu (2022), findings indicated that internal control significantly influences the sustainable development of enterprises regardless of their sizes.

Enofe and Uwaifo (2016), concluded that internal control greatly improves enterprise sustainable goals and objectives with a multiplier effect of improvement in corporate sustainability that will lead to economic growth. The implications of these findings is that corporate sustainability management are known to affect corporate value and sustainability indicators. Furthermore, Wang, Dai and Ding (2019), results showed that effective internal control not only helps firms improve investment and operational efficiency, but also enhances the governance role in SMEs' sustainable growth, while, Igbojiyibo (2024), revealed that internal control system significantly helps to protect assets of SMEs, in addition to significantly enhancing the accuracy of financial reporting among SMEs

MEHODOLOGY

This study evaluated the effect of internal control activities on business sustainability. Specifically, the study examined whether internal control activities of control environment and control activities have any significant influence on small and medium enterprises (SMEs) sustainability in terms of alignment of operations with goals and operational efficiency. The study adopted cross sectional survey research design. The population of the study comprised all registered SMEs operating in South-West states, Nigeria, while the study adopted purposive sampling technique to select 350 SMEs operating across Lagos, Ogun, and Oyo states, South-West, Nigeria. This study used primary data gathered from selected SMEs through structured questionnaire designed on 5- point Likert scale, which was administered to the selected SMEs owners/management team, through physical contact and online. The valid of the instrument was tested by face and content validity in order to ascertain that the designed instrument measures what it is purported to primarily assess from an analytical link between the questions and the objectives of the study. In addition, the reliability of the instrument was evaluated using Cronbach Alpha. Data gathered were analysed using descriptive and inferential statistics, and the study employed ordinary least square regression analysis for the test of hypotheses.

The models for the study are specified thus:

$$BUS = f(ICS).....equi. i.$$

$$AOO = f(\beta_0 + \beta_1 COE + \beta_2 COA + e).....equ.ii.$$

$$OPE = f(\beta_0 + \beta_1 COE + \beta_2 COA + e).....equ. iii.$$

Where:

AOO = Aligning Operations with Objectives.

OPE = Operational Efficiency.

COE = Control Environment.

COA = Control Activities.

β_0 = The Intercept $\beta_1\beta_2$ =Structural Coefficient

e = Stochastic Error Term

Data Analysis and Results

A total of copies of 338 copies of structured questionnaire were administered out of which 303 copies were returned, representing a response rate of 89.64%. This was considered adequate to draw conclusions on the study. Descriptive and inferential statistics were used for data analysis. Multiple regression analysis was used to statistically test the hypotheses. Table 1 presents that out of three hundred and three (303) respondents who returned the filled questionnaire, majority 60.07% were managers/owners. About 45.88 percent had first degree while majority, 66.99% had experience of over 5 years in the business. The result revealed that the respondents were well represented, with administrative and professional experience of business management, thus increasing the authenticity of the information supplied

Descriptive Statistics.

This section presents the pre-estimation results involving mean, standard deviation, minimum and maximum values, the results are presented as follows:

Table 1. Respondents General Information.

Respondent's Position	Frequency	Percent	Cumulative percent
Manager/Owners	182	60.07	60.07
Supervisor	121	39.93	100.0
Total	303	100.0	
Respondent's Educational Qualification			
First Degree	139	45.88	45.88
Post graduate	86	28.38	74.26
Professional Qualifications	49	16.17	90.43
Others	29	9.57	100.0
Total	303	100.0	
Respondent's experience in the business management (years)			
1 – 4	100	33.00	33.00
5 – 10	76	25.08	58.08
11 – 15	69	22.77	80.85
15 years and above	58	19.14	100.00
Total	303	100.0	

Source: Fieldwork, 2025

Test of Hypothesis

Research Hypothesis One

H₀₁: Internal control functions is not significantly effective in aligning SMEs operations with business sustainability goals in states in South-West, Nigeria.

Table 4.2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.471	0.431	0.411	0.3629
a. Predictors: (Constant), Internal Control Activities.				

Source: Authors' Compilation

Table 4.3: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	55.229	4	43.080	21.050	0.000 ^b
	Residual	41.399	94	0.411		
	Total	96.628	98			
a. Dependent: Alignment of SMEs operations with Sustainability Goals.						
b. Predictors: (Constant), Internal Control.						

Table 4.4 Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	4.811	1.829	0.334	.550	.443	0.563	3.193
control environment	0.506	0.387	0.638	5.257	.008	0.296	
control procedures1	3.387	0.936		4.007	.038		6.053

Table 4.4 highlights the coefficients results of the regression model designed to investigate the effect of internal control activities (control environment and control procedures) on the sampled SMEs ability to align operations with sustainability goals in the states in South-West, Nigeria. From the results, it is observed that both control environment and control procedures contribute significantly to sampled SMEs ability to align their operations with sustainability goals. The results show that unstandardized coefficients of control environment ($\beta = 0.506$, $p = 0.008$) is statistically significant. This implies that a unit improvement in effectiveness in the control environment activities will cause 0.506 increase in ability of the selected SMEs to align operations with sustainability goals. Similarly unstandardized coefficients of control procedures ($\beta = 3.387$, $p = 0.038$) is statistically significant. This implies that a unit improvement in effectiveness of control procedures activities will cause 3.387 increase in alignment of operations with sustainability goals by the selected SMEs.

The final regression model for thus becomes:

$$AOO = 4.811 + 0.506(CE) + 3.387(CP) \dots \dots \dots \text{equi. (1)}$$

Furthermore, table 4.5 shows that internal control activities (control environment and control procedures) individually and jointly exert positive and significant effect on ability of the selected SMEs to align operations with sustainability goals with a coefficient of multiple correlation, an adjusted $R^2 = 0.411$ at $p\text{-value} = 0.000 < 0.05$. The apriori expectation is that if $\beta_1 \neq 0$ and $p < 0.05$, H_{01} should be rejected, otherwise it should be accepted. Therefore, based on the result of the hypothesis, it was found that $p\text{-value} = 0.000 < 0.05$. We therefore conclude that joint influence of control environment and control procedures will significantly affect the ability of SMEs to align operations with sustainability goals in the states in South-west, Nigeria. Thus, we reject the null hypothesis, and uphold the alternate hypothesis.

Test of Hypothesis 2

H_{02} : Internal control functions does not significantly enhance operational efficiency of SMEs in the states in South-West, Nigeria.

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.600 ^a	0.561	0.428	.64407
a. Predictors: (Constant), Internal Control Activities.				

Source: Authors' Compilation.

Table 4.6: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	72.109	4	47.160	36.109	0.022 ^b
	Residual	44.803	94	0.689		
	Total	116.912	98			
a. Dependent Variable: Operational Efficiency.						
b. Predictors: (Constant): Internal Control Activities.						

Table 4.7 Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	2.312	1.205	0.155	9.132	0.009	0.295	2.530
1 Control Environment	0.321	0.094	0.731	5.948	0.029	0.200	2.836
Control Procedures	1.009	0.143		7.096	0.043		

Table 4.7 highlights the coefficients results of the regression model designed to investigate the effect of internal control activities (control environment and control procedures) on the sampled SMEs operational efficiency in the states in South-West, Nigeria. From the results, control environment and control procedures contribute significantly to sampled SMEs operational efficiency. The results showed that unstandardized coefficients of control environment ($\beta = 0.321$, $p = 0.029$) is statistically significant. This implies that a unit improvement in effectiveness in the control environment activities will cause 0.321 increase in operational efficiency of the selected SMEs. Similarly unstandardized coefficients of control procedures ($\beta = 1.009$, $p = 0.043$) is statistically significant. This implies that a unit improvement in effectiveness in the control procedures activities will cause 1.009 increase in operational efficiency of the selected SMEs.

The final regression model for thus becomes:

$$\text{OPE} = 2.312 + 0.321(\text{CE}) + 1.009 (\text{CP}). \quad (2)$$

Furthermore, table 4.5 showed that internal control activities (control environment and control procedures) individually and jointly exert positive and significant effect on operational efficiency of the selected SMEs with a coefficient of multiple correlation, an adjusted $R^2 = 0.428$ at $p\text{-value} = 0.022 < 0.05$. The apriori expectation is that if $\beta_1 \neq 0$ and $p < 0.05$, H_{02} should be rejected, otherwise it should be accepted. Therefore, based on the result of the hypothesis, it was found that $p\text{-value} = 0.022 < 0.05$. We therefore concluded that joint influence of control environment and control procedures will significantly affect the operational efficiency of SMEs in the states in South-West, Nigeria. Thus, we reject the null hypothesis, and uphold the alternate hypothesis.

DISCUSSION OF FINDINGS

This study examined the individual and joint effects of control environment and control procedures as components of internal control on the sustainability of SMEs South-West states of Nigeria. Sustainability was measured by aligning operations with sustainability goals and operational efficiency. The first hypothesis indicates that control environment and control procedures individually and jointly exert positive and significant effect on the ability of selected SMEs to align operations with sustainability goals. The effectiveness of control activities leads to better internal organizational efficiency and internal consistency in a manner that direct organization to conduct the core business of an entity in an orderly manner, and helps the organization to comply with laws and policies affecting their sector (GamageLow & Keving, 2018; Lawson et al., 2017; Vu & Nga, 2022). Sustainability control ensure that the behaviours and decisions of employees and managers are consistent with the organization's sustainability objectives and strategies (Crutzen et al., 2016). Through control, organisations plan, monitor and account for strategic sustainability decisions daily. It sets out the structure and systems for the effective and efficient conduct of the business operations and encapsulates the ethical values of the organization, their structural integrity and a framework that ensures accountability of employees and management (Chalmers et al., 2019; Francis & Imiete, 2018).

Similarly, result of hypothesis two suggests that control environment and control procedures individually and jointly contribute positively and significantly to the operational efficiency of selected SMEs. This findings align with evidence from extant literature that internal controls have positively enhance operational efficiency (Koutoupis & Malisiovas, 2023; Vu & Nga, 2022; Alfartoosi & Jusoh, 2021; Hoai et al., 2022; Cheng, Dhaliwal & Zhang 2013; Feng, Li, McVay & Skaife 2015)). With operational efficiency, businesses can produce and distribute their defined products and services with minimum cost possible without losing the quality and standard identity of the product, and in addition, the greater operational efficiency achieved through having effective internal control can help offset the costs of instituting and implementing a sound internal control systems. Several authors argue that internal control systems ensure the effective and efficient use of both current and noncurrent assets, acting as the lifeblood of organizations (Asiligwa, 2017; Crosman, 2018; Vulley, 2022). Taiwo (2016) and Nyakundi (2014) posited that internal control systems improve organizational performance by reducing fraud, mistakes and minimizing wastage.

SMEs have unique characteristics [e.g. structure, size and ownership, among others (Hillary, 2004; Stubblefield Loucks et al., 2010)], which may affect their approach to internal control system design (Kruis et al., 2016; Lavia

Lopez and Hiebl, 2014). Resilience is a key organizational capability for sustainability, therefore, making organizations such as SMEs, more sustainable and resilient requires aligning internal resources with strategic innovative responses to the marketplace through continuous reform and improvement (Astuty, Sudirman & Aryanto, 2024). A well-conceived organizational architecture not only elevates the efficiency of internal management but also lays a robust foundation for the enduring stability and development of business operations. Within an enterprise, the embodiment of internal control within the organizational structure should first manifests in the clear delineation of authority and responsibilities. Such a design not only enhances work efficiency but also ensures that each level contributes to the enterprise's overarching objectives. Notably, this flexible organizational design equips the enterprise with the agility to react to external environmental changes swiftly, without being hamstrung by excessive hierarchies.

CONCLUSION AND RECOMMENDATIONS

Findings from statistical test of hypotheses reveal that control environment and control procedures jointly contribute positively and significantly to SMEs ability to align operations with sustainability objectives, as well as contribute to operational efficiency. Therefore, this study concluded that internal control system ensure that the behaviours and decisions of employees and managers are consistent with organization's sustainability objectives and strategies and effectively contribute to higher business performance and long term growth. In line with the conclusion, the study recommended that SMEs management should strengthen and monitor their internal control mechanism, and implement more effective accounting information systems, ensure compliance with regulatory requirement, be socially, economically and environmentally responsible. This step is crucial to ensure business continuity and sustainability, focusing on operational optimization and better financial management.

Implications of Findings of the Study.

The hypotheses testing results confirm that internal control has a positive contribution to business sustainability. Effective internal control management supports companies in achieving higher performance and profit goals by coordinating company actions regularly. Internal control ensures smooth operational activities by controlling each task separately, although it does not provide an absolute guarantee. For SMEs, strong internal control is a primary focus for sustainable growth, consistent with the desire of SMEs stakeholders to achieve SME sustainability. Thus the study points out the opportunities and directions for improving enterprise internal control regulation.

Considering the importance of enterprise in managing limited global environmental and social resources and advancing sustainable development goals, more research on enterprise sustainability is critical. The analysis in this study provides insights for academics, practitioners, and policymakers to help enterprises engage in sustainability-related practices by adapting their internal control efforts. At the same time, this study has identified several limitations and opportunities for further research that could assist management studies.

LIMITATIONS AND FUTURE STUDY

Despite the significant contribution of this study theory and practice, the results should be evaluated in light of their limitations. First, because the study was cross-sectional, it is impossible to rule out the possibility of inferring a causal association or reverse causality from the findings. Longitudinal studies will be required in the future for these goals. Furthermore, stakeholders' subjective opinions were also considered in this investigation. Nonetheless, in future studies, it is advised that objective measures be used

Similarly, the current study used two components of internal control dimensions to explore the effects of internal control systems on business sustainability. However, to provide a comprehensive and clear analysis of the nexus between internal control systems and business sustainability, further empirical and theoretical research is needed. Since the current study concentrated on the SMEs with its distinct characteristics, the generalizability of the conclusions may be limited. It would be worthwhile to apply the model to other sectors or industries.

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