

THE IMPACT OF INTERNAL CONTROL ON CORPORATE SUSTAINABILITY AND ECONOMIC DEVELOPMENT

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Abstract

This study examined the impact of internal control on corporate sustainability as well as whether sustainability relate to economic development. The population of this study consist of practicing accountant in industry in Edo State, due to the difficulties associated with studying the entire population in Edo state, 100 people were randomly selected. For the purpose of this research work primary data was used and the data were collected with the help of well-structured questionnaire, the data collected were tested using gamma chi-square, the researchers choice of Gamma chi-square is as a result of the data being grouped and in ordinal form The findings from this research work show that there is a relationship between internal control and corporate sustainability and there is also a relationship between corporate sustainability and economic development. That is, we can use internal control to improve on our sustainable goals and objectives and the multiplier effect in improvement in corporate sustainability will lead to economic growth. This study recommend that companies should develop sound internal control management system to indentify, measure, monitor and control its internal control system, organization should ensure that they comply to regulatory requirement, be socially, economically and environmentally responsible.

Keywords: Internal control, corporate sustainability and economic development

Introduction

Climate changes, sustainability, clean technology “going green” are topics high on the agenda of boards and management of most, if not all major companies. Many are doing much more than talking about it. They are undertaking large-scale initiative to improve their business performance, manage cost, respond to stakeholder demand and prepare for regulatory requirement KPMG (2011). Going green is about adopting environmentally conscious way of living and working. The Brundland commission’s report (1987) define sustainable development as *development that meet the need of the present without compromising the ability of future generation to meet their own needs*. The institute of internal auditor (2010) defines sustainability as “adopting business strategies and activities that meet the need of the enterprise and its stakeholder today while protecting, sustaining, and enhancing the human and natural resources that will be needed in the future”. According to Wikipedia corporate sustainability is a business approach that create long-term consumer and employee value by creating a “green” strategy aimed toward the natural

environment and taking into consideration every dimension of how a business operate in the social, cultural and economic environment. It also formulates strategy to build a company that foster longevity through transparent and proper employee development.

Business sustainability is about ensuring that organizations implement strategies that contribute to long-term success. Organization that act in a sustainable manner not only help maintain the well-being of the planet and people, they also create business that will thrive in the long-run Krell (2010). In the past decades many people thought of sustainability primarily in environmental terms, but today the focus has shifted to the triple bottom line. Which looks at economy, environment and social equity Stenzel, (2010). For an organization to be sustainable it must be able to integrate its sustainability strategies with its business strategies KPMG (2011), and for an organization to achieve its business objective there must be a set of controls put in place by management, these set of controls is what is called internal control. Mihaela & Lulian, (2012), posited that internal control system represent all the approved policies and procedure used by the management in order to achieve an effective management of the business. According to the Institute of Internal Auditor (2009), internal control is a process design to provide reasonable assurance regarding the achievement of objectives in the following areas: effectiveness and efficiency of operation, reliability of financial reporting, compliance with applicable laws, and regulations and safeguarding of assets.

Internal control is a technique used by manager to help an organization achieve its sustainable development objective. Economic development through sustainable development policies help to improving the well-being of people, reducing poverty, bridge the inequality gap in the country and develop human capital Adegbite (2015). According to business dictionary economic development is the adoption of new technologies, transition from agricultural-base to industry base economy, and general improvement in living standards. Wikipedia defines economic development from a policy perspective as effort that seeks to improve the economic well-being and quality of life for a community by creating or growing incomes and tax base

Statement of the Research Problem

Sustainability has attracted a lot of debate and attention in recent time hence several studies have been carried out on corporate sustainability (Fuerst, 2015; Ikram, 2009; Eccles, Ioannou, & Serafein, 2014; Cheng, Ioannou, & Serafein, 2014) carried out studies on the impact of corporate social responsibility and sustainability on customer purchase intention, loyalty, access to finance, and firm performance. Also KPMG 2011; Furtune, Krupka, Hazzard-Robinson & Loch, 2011; Wayne, 2008; Mercer, 2014; Visser & Crane, 2014 carry out researches on drivers of corporate sustainability in each of these study, the impact of internal control on corporate sustainability were neglected, To the best of our knowledge there are scanty studies on the impact of internal control on corporate sustainability and economic development, against this backdrop the study will examine the impact of internal control on corporate sustainability. Following this objective, the following research questions are raised:

1. What is the relationship between internal control and corporate sustainability
2. How does corporate sustainability relate to economic development

Objective of the study

The broad objective of this study is to examine the impact of internal control on corporate sustainability. The specific objectives of this study are to:

1. Ascertain the impact of internal control on corporate sustainability

2. Examine if corporate sustainability relate to economic development

Research hypothesis

This study will test the following hypothesis in the null form.

HO1 Internal control has no significant impact on an corporate sustainability

HO2 Corporate sustainability does not relate to economic development

Literature review

Corporate sustainability

In recent years, the growing concerns for environmental and climate change, together with issues of poverty, increasing disparity between societies and the tensions brought by social inequalities, have placed sustainable development under the spotlight (Giovannoni & Fabietti, 2014), Corporate sustainability is an organizational commitment to achieving competitive advantage through the strategic adoption and development of ecologically and socially supportive production processes, products and services and innovative human resource management practices (Nemli, 2004 as cited in Yilmaz & Flouris, 2009).

Bartlett (2012) sees sustainable development as development that does not compromise the ability of future generations to meet their own needs, while DowJones (2009) posit that it is a business approach that creates long-term shareholder value by embracing opportunities and managing risks derived from economic, environmental and social developments, While corporate sustainability recognizes that corporate growth and profitability are important, it also requires the corporation to pursue societal goals, specifically those relating to sustainable development - environmental protection, social justice and equity, and economic development (Yilmaz & Flouris, 2009). Being seen as socially responsible and committed to sustainability, help a company to find new business opportunity, innovation (Eccles, Perkins & Serafeim, 2012), enhance brand value and reputation (Mercer, 2014), it can increase revenue reduce energy expenses, reduce waste expenses, increase employee productivity.

Drivers of Sustainability

Sustainability driver are things that motivate a company to be sustainable or what motivates sustainability managers to devote their time and energies to addressing social, environmental and ethical issues. According to (Mercer, 2014) Long-term profitable growth is the top reason for the strong focus on sustainability. This is enabled by a combination of other sustainability drivers, including: Demand for green products (particularly in the consumer goods, construction, automotive, logistics, and energy sectors), attraction of critical talent, employee engagement, employer brand with purpose, innovation, enhanced brand and reputation, Climate and environmental responsibility (especially in the aviation, automotive, and energy industries), Social responsibility, integrity, moral responsibility, and ethical behavior and cost savings, while KPMG (2014) posited that the drivers can be categorized as: regulations, access to capital, expanded consumer base, social license to operate, innovation, brand and reputation, operational efficiency. Similarly a study conducted by Fortuna, Hazzard-Robinson, Loch & Krupka (2011) on the multi-National corporation within information and communication industry shows that the drivers of corporate sustainability on US MNC are reputation, environmental, competition and, regulatory while that of EU MNC were reputation, environmental, regulatory and competition.

Internal Control and corporate sustainability

Many business fail because of lack of control affected by management of such business (Bayle & Desai 1991 as cited in Adegoke, Samson & Sunday, 2013). Good internal control over financial reporting is important to the success of every corporation, but senior management often neglects it (Gottesman, 2015). Internal control serves as the strength of every organization. The reason being that control system in any organization is the pillar for efficient accounting system (Ademola, Adedoyin & Alade 2015). The size and scope of internal control depends on the companies' dept of operations (Ademola, Adedoyin & Alade, 2015).

According to COSO 2013, internal control is a process affected by an entity's board of director, management and other personnel design to provide reasonable assurance regarding the achievement of objective relating to operations, reporting and compliance. Ademola, Adedoyin & Alade (2015) see internal control as action taken by management to help achieve the objective of the organization. From literature reviewed it is observed that internal control play a vital role in preventing fraud (Ademola, Adedoyin & Alade 2015; Adegoke, Samson & Sunday 2013), irregulareties (Ademola, Adedoyin & Alade 2015), increase profit (frazer 2012), reduce risk to acceptable level and support sound decision making (COSO, 2013)

According to COSO, 2013 there are three objective of internal control which are operational, reporting and compliance objective. Operational objective relate to efficient and effective conduct of the business operations, reporting objective is the ability to produce internal and external financial and non financial report that is reliable, timely, and transparent while compliance objective relate to adherence of laws and regulations these above mention objectives relate to the objective of sustainable development.

Internal Control and Improve Corporate Sustainability

Using the COSO frame work internal control can improve corporate sustainability in the following ways *Control environment*: The control environment sets the tone of an organization, influencing the control consciousness of its people (COSO, 1992). It is the foundation for all other components of internal control, providing *Information and Communication*: discipline and structure (Pickett, 2005). For an organization to be sustainable it must ensure that there is integrity, ethical values and competency of it staff especially top management, *Risk Assessment*: Every entity faces a variety of risks from external and internal sources that must be assessed. for an organization to improve it sustainability strategy it needs to assess those areas of the organization that are prone to risk and necessary measures need to be taken to curb such risk, *Control Activity*: Control activities are the policies and procedures that help ensure management directives are carried out and that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties, Pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Once an organization have come up with a sustainability strategy such strategy need to be communicated to the whole staff and management of the organization. The end product of every sustainability strategy is sustainability reports, which communicate the achievement of an entity sustainable goal to the public and *Monitory Activity*: Internal control systems need to be monitored, a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular

management and supervisory activities, and other actions personnel take in performing their duties COSO, 1992.

Economic development and Corporate Sustainability

Economic development is view by Salmom valley business and innovation center as the development of the economic wealth of countries, region or communities for the well-being of their inhabitant. Business dictionary sees it as the adoption of new technology, transition from agricultural-based economy and general improvement in living standard. From a policy perspective is an effort that seek to improve the quality of live and economic well-being of the people by generating jobs, growing income and increasing the tax base. From various definitions of economic development it is clear that it is directly concern with increasing the living standard of the poor which can be quantitatively measure in term of increase food, real income, education services, health-care, sanitation and water supply etc Barbier (1987). There have been conflicting view on the major indicator of economic development, Debasish sees technology as the primary source of economic development; to Ozturk (2001) Education is one of the essential factors of development

The major objective of development is the Satisfaction of human needs, sustainable development requires that societies meet needs both by increasing productivity potentials and by ensuring equitable opportunity for all. According to Afolabi (2015) there is a link between economics development and innovation and entrepreneurial development, which are subset of sustainable development. Innovation and entrepreneurial development foster economic development by creating employment and helping the growth of small and medium scale enterprises

Theoretical Frame Work

This study is anchored on stakeholders' theory, stakeholders are group that have effect on organization actions. In the view of freeman (1985) stakeholders is an individual or group who posses vested interest in an organization and can be effected or affect the organization operations. There are two types of stakeholder the primary stakeholder and the secondary stakeholder, the film relies upon the primary stakeholders for continued existence while the secondary stakeholders are persons with a stake in the organization but they are not critical to the organization survival.

The position of the shareholder capitalists is that the sole responsibility of a corporation is to generate profit for its owners. This has generated a calls for socially responsible behavior by the corporations, thus stakeholder theory is an attempt to combine traditional ethical theory with corporate management by focusing on the relationships between the parties that can affect, or are affected by the achievement of corporate goals, stakeholder theory attempts to present a management strategy that includes other stakeholders than just the owners. By having management focus on developing and (Adegoke, Samson, & Sunday, 2013) maintaining good relationships with people planet and the environment.

Methodology

The population of this study consist of practicing accountant in industry in Edo state, due to the difficulties associated with studying the entire population in Edo state, 100 people were randomly selected. For the purpose of this research work primary data was used and the data were collected with the help of well structured questionnaire, the data collected were tested using gamma chi-square, the researchers choice of Gamma chi- square is as a result of the data being grouped and in ordinal form

Analysis of Data

Table 1.0: Internal control and corporate sustainability cross tabulation

			SUSTAINABILITY				Total	
			4 - 6	7 - 9	10 – 12	13+		P value
INTERNAL CONTROL	7 – 9	Count	0	1	1	0	2	.006
		Expected Count	.0	.1	.8	1.0	2.0	
	10 – 12	Count	0	2	25	15	42	
		Expected Count	.4	2.9	17.2	21.4	42.0	
	13+	Count	1	4	15	36	56	
		Expected Count	.6	3.9	23.0	28.6	56.0	
Total		Count	1	7	41	51	100	
		Expected Count	1.0	7.0	41.0	51.0	100.0	

Table 1.1: Symmetric Measures

		Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
Ordinal by Ordinal	Gamma	.449	.146	2.754	.006
N of Valid Cases		100			

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

From Table 1.0 & 1.1 above given a gamma chi-square value of 0.449 and a p-value of 0.006 which is less than 0.05 we reject the null hypothesis and accept the alternative hypotheses which state that there is a relationship between internal control and corporate sustainability.

**Table 1.2: Economic development and corporate sustainability
Cross tabulation**

			SUSTAINABILITY				Total	P value
			4 - 6	7 - 9	10 - 12	13+		
ECONOMIC DEVELOPMENT	4 – 6	Count	0	0	1	0	1	.009
		Expected Count	.0	.1	.4	.5	1.0	
	7 - 9	Count	0	1	0	0	1	
		Expected Count	.0	.1	.4	.5	1.0	
	10 - 12	Count	1	4	23	20	48	
		Expected Count	.5	3.4	19.7	24.5	48.0	
	13+	Count	0	2	17	31	50	
		Expected Count	.5	3.5	20.5	25.5	50.0	
Total	Count	1	7	41	51	100	CG	
	Expected Count	1.0	7.0	41.0	51.0	100.0		

Table 1.3: Symmetric Measures

	Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
Ordinal by Gamma	.432	.150	2.601	.009
Ordinal				
N of Valid Cases	100			

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

From Table 1.2 & 1.3 above given a gamma chi-square value of 0.432 and a p-value of 0.009 which is less than 0.05 we reject the null hypothesis and accept the alternative hypotheses which at state that there is a relationship between corporate sustainability and economic development

Conclusion

The result obtained from the research clearly showed that effective internal control system impact to a greater extent on corporate sustainability. Therefore effective internal control should be put in place in organization since the success of any organization depends on its internal control system. Organizations should have a comprehensive internal control management system to identify, measure, monitor and control its internal control system. internal control, when properly put in place ensures integrity, ethical value and competency of staff especially top level management, it helps an organization to assess area that are prone to risk through risk assessment, ensure that management directive are carry out through its control activities and ensure that an organization comply to regulatory requirement that strengthen its sustainability goals. It was also observed from the study that there is a relationship between corporate sustainability and economic development when companies are seen as sustainable it enhances their brand value and reputation which in turn leads to patronage of their product and increases their revenue and the Gross Domestic Product of the nation (GDP). Sustainable companies are innovative, more productive, socially responsible and environmentally responsible all of these in the long-run translate to economic development.

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APPENDIX

Crosstabs Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
ECONOMIC DEVELOPMENT * SUSTAINABILITY	100	100.0%	0	0.0%	100	100.0%

Economic development: Sustainability cross tabulation

			SUSTAINABILITY				Total
			4 – 6	7 – 9	10 - 12	13+	
ECONOMIC DEVELOPMENT	4 - 6	Count	0	0	1	0	1
		Expected Count	.0	.1	.4	.5	1.0
	7 - 9	Count	0	1	0	0	1
		Expected Count	.0	.1	.4	.5	1.0
	10 - 12	Count	1	4	23	20	48
		Expected Count	.5	3.4	19.7	24.5	48.0
	13+	Count	0	2	17	31	50
		Expected Count	.5	3.5	20.5	25.5	50.0
Total	Count	1	7	41	51	100	
	Expected Count	1.0	7.0	41.0	51.0	100.0	

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	19.717 ^a	9	.020
Likelihood Ratio	12.556	9	.184
Linear-by-Linear Association	7.139	1	.008
N of Valid Cases	100		

a. 12 cells (75.0%) have expected count less than 5. The minimum expected count is .01.

Symmetric Measures

	Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
Ordinal by Ordinal Gamma N of Valid Cases	.432 100	.150	2.601	.009

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

**Internal Control: Sustainability
Crosstab**

			SUSTAINABILITY (Binned)				Total
			4 – 6	7 – 9	10 - 12	13+	
INTERNAL CONTROL	7 - 9	Count	0	1	1	0	2
		Expected Count	.0	.1	.8	1.0	2.0
	10 - 12	Count	0	2	25	15	42
		Expected Count	.4	2.9	17.2	21.4	42.0
	13+	Count	1	4	15	36	56
		Expected Count	.6	3.9	23.0	28.6	56.0
Total	Count	1	7	41	51	100	
	Expected Count	1.0	7.0	41.0	51.0	100.0	

Chi-Square Test

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	17.567 ^a	6	.007
Likelihood Ratio	15.959	6	.014
Linear-by-Linear Association	5.357	1	.021
N of Valid Cases	100		

a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .02.

Symmetric Measures

		Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
Ordinal by Ordinal	Gamma	.449	.146	2.754	.006
N of Valid Cases		100			

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.