

CONTROL ACTIVITIES AND PERFORMANCE OF ORGANIZATIONS (SPECIAL REFERENCE IN JAFFNA DISTRICT)

PIRIYA MURALEETHARAN

DEPARTMENT OF ACCOUNTING
UNIVERSITY OF JAFFNA

ABSTRACT

The face of change in the fast moving world becomes more complex. Evaluating and monitoring of all organizational operations are vital issues for survival and growth of the organization. This study was undertaken with the objective of finding out the relationship between control activities and performance of the organizations in Jaffna District, Sri Lanka. The study is based on hundred and twenty employees in the organizations. Control and performance measured by chi square and regression analysis. The study finds control activities and organizations performance are statistically significant in determining performance. Perhaps most importantly, the study finds positive relationship between control activities and performance. Adequate supervision with a clear and up to date supply of information should be there. There must be maintenance of adequate recording and duplicating systems and also must be an efficient staff control with written directions as to responsibilities and duties of both management and staff.

KEYWORDS: Control activities, performance and market performance.

INTRODUCTION

An adequate Internal Control system requires the implementation of effective and efficient Control Activities at all levels of the entity. They should be implemented by the management in line with the goals and strategies set up by the board of directors, and should involve all personnel. As an integrated part of daily business, these activities should be reviewed and recorded on an on-going basis.

Control activities are the policies and procedures that help ensure management directives are carried out. They help to ensure that necessary actions are taken to address risks to the 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, and reviews of operating performance, security of assets and segregation of duties (COSO 1994).

LITERATURE REVIEW

COSO (1994) illustrates control activities as top- level reviews, functional/activity management, information processing, physical controls, performance indicators, and segregation of duties. While the professional guidance continues to emphasize some traditional internal accounting

controls (e.g., physical controls, segregation of duties), no direct reference to authorization or cross-checking in COSO's illustration of control activities COSO (1994) which suggests these control activities are of diminished importance.

There are a number of explanations for the reduced emphasis on some traditional internal accounting controls. New management techniques necessitate employee empowerment that requires a change in control philosophy and process. It is inconsistent to empower staff to make decisions, and require them to obtain prior approval (authorization). Flatter organizational structures and technological innovation have resulted in fewer middle managers, the traditional 'gatekeepers' of control, who were previously responsible for the assembly and distribution of information, checking and authorizing transactions, and the supervision of employees. Also, it is not clear whether the bias to internal accounting controls that characterized the professional accounting literature actually gave organizations effective control (Merchant 1985).

The specific identification in COSO of top level reviews and direct functional or activity management as control activities underscores the new patterns of accountability associated with empowerment. COSO identifies the monitoring of actual performance to budgets, plans, etc. CoCo (1995) elaborated further in discussing the monitoring of internal and external environments, comparison of results against quantitative and qualitative performance targets, and the move away from the focus on accounting numbers towards both accounting and operational measures such as quality Wruck and Jensen (1994). Ezzamel et al. (1997) found a greater emphasis on mechanize of accountability in concert with 'environmental' control by means of self-discipline and self-monitoring.

The lack of specific regulations concerning internal controls and the relatively new concept of internal auditing in private companies imply that there is not always a common and clear understanding of internal control and of the use of framework guidance for the private sector. A brief review of the internal audit chapters of the annual reports of some companies indicates that the COSO framework is applicable in the private sector environment.

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Simons, 1995 found there are extensive explanations for the reduced emphasis on some traditional internal accounting controls. New management techniques necessitate employee empowerment that requires a change in control philosophy and process.

Hooks et al. (1994) and Simons ,(1995) found out Flatter organizational structures and technological innovation have resulted in fewer middle managers, the traditional “gatekeepers” of control, who were previously responsible for the assembly and distribution of information, checking and authorizing transactions, and the supervision of employees.

Sia et al. (1997) found this interpretation is consistent with research findings that after the implementation of re-engineering, traditional internal accounting controls were found to be less important.

Control activities involve also the controls over information systems, which are more precisely described in COBIT framework. Due to high-speed evaluation of computerized systems, the appropriate evaluation of the internal controls integrated in it becomes often more important than “traditional” internal controls. However, due to the broad concept and specific evaluation methodologies of IT systems,

Control activities must be evaluated in the context of management directives to address risks associated with established objectives for each significant activity. An evaluator therefore considers whether control activities relate to the risk-assessment process and whether they are appropriate to ensure that management’s directives are carried out. This will be done for each significant business activity.

As a consequence of the relatively unambiguous nature, the control activities might be easier to assess than other aspects of internal control system due to their clearness and verifiability, but they should always be assessed in relation to risks that the company faces.

Hans Mjoen; and Stephen Tallman (1997) indicated that performance is strongly and positively related to overall control. Those results suggest that specialized control provides both protection and exploitation of key resource inputs and is gained through increased bargaining power. Higher levels of specific control result in a perception of overall control and thereby satisfaction with perceived levels of performance among foreign parent company managers.

Marc Orlitzky, Frank L. Schmidt, Sara L. Rynes (1999) found out that most theorizing on the relationship between corporate social/environmental performance (CSP) and corporate financial performance (CFP) assumes that the current evidence is too fractured or too variable to draw any generalizable conclusions, a meta-analysis of 52 studies (which represent the population of prior quantitative inquiry) yielding a total sample size of 33,878 observations. The Meta analytic findings suggest that corporate virtue in the form of social responsibility and, to a lesser extent, environmental responsibility is likely to pay off, although the operationalizations of CSP and CFP also moderate the positive association.

RESEARCH PROBLEM

The following research question is formed based on the literature previously discussed, and research gap.

- Is there any relationship between the control activities and performance of the organizations?

OBJECTIVES OF THE STUDY

The researcher will attempt:

- 1) To examine the effectiveness of control activities on the performance of the organizations.
- 2) To find out any relationship between control activities and performance of the organizations.
- 3) To determine the impact of the control activities, on the overall management of the organizations.

METHOD

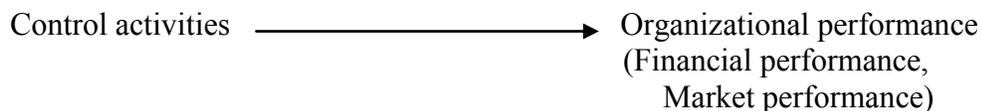
It explains the population of the study, data collection techniques and data analysis techniques. It is measured by using statistical and other techniques.

Method of Data Collection

Questionnaire was used to collect the data with 5 point Lickert scale. The questionnaire was divided into three sections; first section consists of personal details of the employees. In the second section 16 statements were given to measure the control activities and third section consists of 12 statements to measure the performance of the organizations the analysis was made with appropriate model and statistical tools.

Conceptual model was formulated to reveal the relationship between variables and hypothesis testing

CONCEPTUAL MODEL



For this purpose some of the statistical analysis techniques are used in this research. Mainly in this research Chi square test, Correlation and regression analysis were also used to test the hypothesis. Data analysis is done by the help of software package SPSS version 13.

The study attempts to test the following hypotheses.

H₁: Control activities and performance is positively correlated.

H₂: Control activities has a significant impact on performance

Table 1: No of Respondents by Organization

Type of Organization	Samples	Number of respondents	Response grant total
Private-Service	40	22	44%
Manufacturing	40	28	56%
Total	80	50	100%
Public- Service	80	52	74.2%
Manufacturing	40	18	25.8%
Total	120	70	100%
Total	200	120	60%

Table 1 indicates the number of organization and number of respondents. Accordingly 120 public and 80 private organizations were selected for the study. Totally 200 questionnaires were distributed among the respondents, and 120 constituting 60% and used for the study. Thus totally 120 questionnaires were used as an ultimate samples of the survey

DATA ANALYSIS

Data was collected through Questionnaires from government and private organizations in Jaffna district. Then the data was analyzed to test the hypotheses developed by the researcher .In a way correlations, multiple regression analysis were used to find out the relationship between control activities and performance and the impact of control activities on performance.

RELIABILITY ANALYSIS

Reliability test was used to test the reliability of the variables with the sample of 30. This purpose the cronbach's alpha value was computed. The result of Cronbach's alpha of control activities and performance are 0.929 and 0.901 respectively. According to this result, it shows that the questions issued to the respondent, are more reliable for this measurement of effective internal control and financial performance of the organizations. Reliability analysis on item scale was performed using SPSS. Cronbach's alpha as suggested by many experts (Page & Meyer .2000).

THE RELATIONSHIP BETWEEN CONTROL ACTIVITIES AND PERFORMANCE OF ORGANIZATIONS

The aim of the present study is to identify the relationship between control activities and performance. For this purpose the correlation analysis were used and the results are presented by the table 02.

Table 02: Correlation Control Activities and Organizations Performance

		Organizations performance
Control Activities	Pearson Correlation	.843(**)
	Sig. (2-tailed)	.000
	N	120

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

The table 2 shows the relationship between control activities and organizations performance. Accordingly the correlation value is 0.843 which is significant at 0.01 levels. It means when the control activities increases the organizations performance increases.

Impact of Control activities on Performance

In this analysis we tried to find out the impact of control activities on performance for this purpose multiple regression analysis was used and the results are tabulated by table 03.

Table 03: Predictors of Organizations Performance

Variables	Un standardized Coefficient - b	Standardized Coefficient - β	t value	P -value Significance
Constant	6.076		4.700	.000
Policies and procedures	2.869	.305	7.812	.000
- Policy	1.741	.193	4.489	.000
- personnel	2.869	.337	7.947	.000
- Separation of duty	2.421	.285	6.726	.000
R ² : .734		Adj R ² : .710		F: 149.987

Control activities

The above table indicates that 0.734 is denoted by R² value indicates that 73.4 % of the observed variability can be explained by the differences in control activities of the independent variable. The t value in the above table indicates that for the variables are statistically significant (Sig 0.05).

DISCUSSION AND CONCLUSION

To test the hypothesis one (H_1), correlation analysis was used and value of .843** indicate that control activities and organizations performance are positively correlated. Hence the hypothesis is accepted.

Adjusted R2 value of .734 revealed that control activities has an impact on performance, i.e. Control activities in the samples organizations is contributing to determine by 73.4 %. Thus the hypothesis two (H_2) is accepted.

The study was carried out to find out the impact of control activities and performance of the Jaffna district private and public organizations. Further this study is mainly tested by using correlation analysis and regression analysis. Through this present study's hypotheses are tested. From obtained from the study, it is apparent that the perceived control activities has a significant impact on performance.

There are also improved recommendations made by the control activities. The supervision of heads is necessary. Performance standards should be established and communicated to the employees. This will help employees to achieve the standards and perform well. Employees who are reaching standards and or above standard should be appreciated and rewarded. Good leadership styles as to fit for the organizational conditions may be satisfied the workers.

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