

THE INTERNAL CONTROL AFFECTS THE EVALUATION OF THE BALANCE SCORECARD ORGANIZATION OF SMALL AND MEDIUM-SIZE BUSINESSES IN THAILAND

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Abstract

The research aimed to study the internal control system and the evaluation on organization by using balance scorecard of SMEs in Thailand and investigate impact of internal control on organization evaluation by using balance scorecard of SMEs in Thailand. Three hundred and eighty-four SMEs were used as sample of this study. Mixed method was used by using questionnaire and interview form. Independent variables, 5 components of internal audit system, which were organization environment, risk evaluation of organization, control activities, information system and public relation in organization, and organization monitoring and evaluating. Dependent variable was organization evaluation by using Balance Scorecard which include finance, customer, internal operation process, and learning and development. Multiple Regression Analysis were used for statical analyzed. The results found that internal control system of SMEs, the average of organization environment, was the highest, 4.33 while an operation performance of SMEs by using organization evaluation indicator from Balance Scorecard indicated that the average of customer was in the highest, 4.17. Hypothesis testing found internal audit significant impact to organization evaluation by using Balance Scorecard of SMEs in Thailand at 0.05.

Keywords: internal control, organization evaluation, SMEs.

INTRODUCTION

Enacted in 2002 by the US Congress, Sarbanes Oxley or SOX has been the law applicable to US listed companies to protect shareholders or stakeholders from the company's practice of fraud and account decoration. It can increase the scope of company management's responsibilities in regards to internal control and assurance of financial reporting accuracy. This law focuses on the reliability of financial reporting, assigning management responsibility for internal control related to financial reporting (ICFR) (Azzali & Mazza, 2013).

Internal control according to the concept of COSO has divided the components of internal control into 5 aspects; 1) Control

Environment which is the environment or culture that is important to the control, 2) Risk Assessment which is determine policies and procedures for risk assessment, 3) Control Activities which are activities that will control operation in accordance with the set goals, 4) Information and Communication is the communication in the organization using information as a medium to achieve the objectives of financial reporting, and 5) Monitoring which is a measure to monitor the system. Internal controls are effective and updated over time (Hayes; et al, 2005).

The Balanced Scorecard is an organizational assessment that consists of financial perspective, customer perspective, internal process perspective, and learning and

growth perspective. In determining the details in the assessment framework table, the executives shall begin with the creation of objectives and measures. These must work together on two tasks, namely the formulation of the scorecard and the use of the assessment framework table. The correspondence is in all four perspectives (Kaplan & Norton, 1996) which the organization has used as the main tool for the maximum benefits of the organization.

Small & Medium Enterprises or SMEs is the core of the country's economic development. For small and medium-sized business entrepreneurs to help themselves and have the ability to conduct business at a more international level under the concept of operation, the focus is on the development of small and medium-sized businesses as a tool to create Competitive Growth. The aforementioned information leads to the research on the effect of internal control on the evaluation of the balanced scorecard organization of SMEs in Thailand.

Research objectives

1. To study the internal control and the evaluation of the balanced scorecard organization of SMEs in Thailand.
2. To study the impact of internal control and the evaluation of the balanced scorecard organization of SMEs in Thailand.

Related documents and researches

Every organization has an internal control system in place to enable the organization to operate efficiently and to evaluate the performance. Many organizations have implemented internal control systems in the organization and have an impact on operational efficiency. The Military Finance Department has an internal control system in 5 areas; the control environment, risk assessment, control activities, information and communication, monitoring and evaluation. The control environment has positive impact on

operational efficiency. If an agency has an examination, appointment, assignment of duties, responsibilities, performance assessment, consideration of merit and prevent civil servants and government employees from having conflicts of interest with their work, it will result in good operational performance. The internal controls which are accurate and reliable will enable the executives to use internal control information for decision-making which will increase the efficiency of the work unit. Controls within the risk assessment dimension have positive impact on operational efficiency. If an entity has internal control through a good risk assessment, risk management will enable it to operate under economic, social, political, and policy changes in finance, accounting and budgeting. They are able to analyze risks, correct and prevent those risks. However, improvements must be made in accordance with the recommendations of internal auditors and external auditors at all time. Controls within the control activity dimension have positive impact on operational efficiency. If the unit has surveys, improvement, development and correction by managing its internal control to be consistent with the unit's management policies, rules, regulations, and regularly reviewing its operations at regular intervals and internal control training, regular internal audits in all areas can increase operational efficiency in order to be able to manage resources satisfying and achieving the objectives of the agency. Controls within the information and communication dimension have positive impact on operational efficiency. If the agency has managed information technology skills, develop knowledge and competence in information technology, they will be able to increase the efficiency of the work of the unit, be able to manage resources, create satisfaction and achieve the objectives of the unit. Internal control in the monitoring and evaluation dimension has positive impact on operational efficiency. If the agency has follow-up operation, review and evaluate the suitability according to the set plan, follow up, discuss solutions to the problem of deficiencies that arise to be joined between superiors and subordinates, it will result in reduced risks in

the operating process as well as being able to increase operational efficiency and achieve the objectives of the agency (Khangrit & Sukwatanasinit, 2017; Kerdpitak et al, 2022).

The study on the relationship of internal control system to the performance of savings cooperatives in the country revealed that good internal control system had significant positive correlation with the performance of savings cooperatives in Thailand (Doungchan & Sincharunsuk, 2018). Using the internal control system, it was found that the internal control system had an impact on the performance of the local administrative organization as well. (Danthonglang, 2017; Kerdpitak, 2022). Based on the above information, it is interesting to study the

internal control system and corporate assessment for small and medium-sized businesses because it is a business with a large number of operations in Thailand. The results of the study will help developing an efficient internal control system.

Research conceptual framework

The concepts and related researches enable the conceptual framework for research, effect of internal control towards the Balanced Scorecard organizational evaluation of SMEs in Thailand as shown in Figure 1.

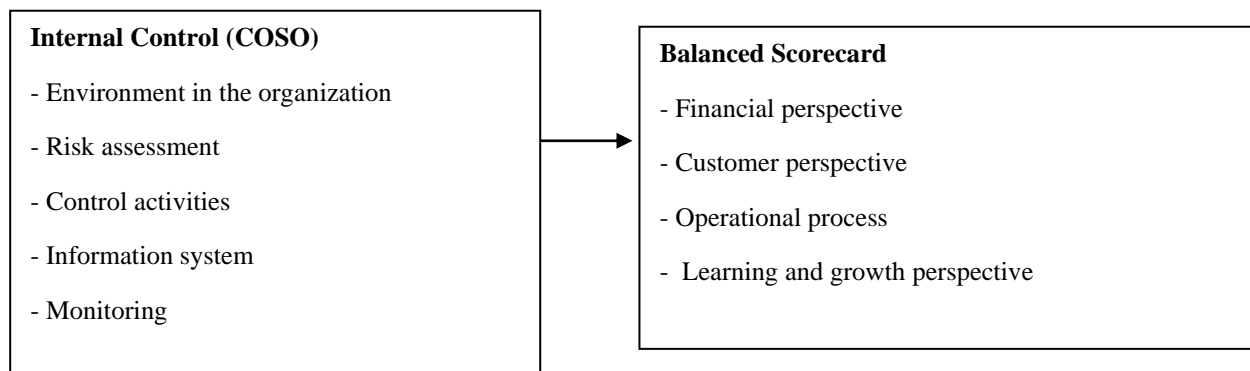


Figure 1 *Research conceptual framework*

Research methodology

This research is a mixed method research. The population used for data collection are SMEs excluding SMEs in the agricultural sector to remain 693,733 SMEs (Office of SMEs Promotion, 2019). The sample size was determined using the tables of Krejcie & Morgan (1970). Therefore, 384 samples were obtained. A simple sample was selected. The executives or operators of internal control or accounting were invited to respond to the survey.

The research tool was a questionnaire and was conducted to collect information from the executives and accountants from small and medium businesses by a closed-ended questionnaire. The general information was asked on the respondents' opinions on internal control and the Balanced Scorecard

organizational assessment data for the open-ended questionnaire asked about how other recommendations regarding internal control affect the Balanced Scorecard organization assessment of SMEs in Thailand. The interviews were used with entrepreneurs in small and medium-sized businesses to confirm the research results.

The researcher used descriptive statistics such as frequency distribution, percentage, mean and standard deviation. The inferential statistics were also used to test the hypothesis by using Multiple Regression Analysis.

Research results

1st Objective: The results of the internal control analysis and the Balanced

Scorecard organization assessment of SMEs in Thailand found that the internal control systems of SMEs with a mean of 4.21 was at a high level and opinions on the performance of small

and medium businesses. Using the Balanced Scorecard Organizational Assessment Indicator, the average of 4.16 was at a high level. It appears as shown in Tables 1 and 2.

Table 1 *The results of the analysis of the internal control system classified by aspects*

Internal quality control system	\bar{X}	S.D.	Interpretation of results
1. Environment in the organization	4.33	0.57	High
2. Risk assessment	4.15	0.69	High
3. Control activities	4.19	0.53	High
4. Information and communication	4.20	0.64	High
5. Monitoring	4.13	0.59	High
Total	4.21	0.54	High

Table 2 *The results of the analysis of the Balanced Scorecard organizational evaluation classified by perspectives*

Balanced Scorecard	\bar{X}	S.D.	Interpretation of results
1. Financial perspective	4.16	0.57	High
2. Customer perspective	4.17	0.56	High
3. Internal control perspective	4.16	0.57	High
4. Learning and growth perspective	4.15	0.58	High
Total	4.16	0.56	High

2nd Objective: To study the impact of internal control and the evaluation of the balanced scorecard organization of SMEs in Thailand

According to the study on the influence of the internal control system on the performance of SMEs by using the Balanced Scorecard method with the statistical multiple regression analysis, the results are as follows:

1. The internal control system was related to the performance of SMEs on the financial perspective by 86.4% and the change was explained by 74.7%. The internal control system in all 5 areas could explain the variation on the performance of SMEs in financial perspective with statistical significance ($F = 223.158^{**}$ with $P\text{-value} < 0.01$). The internal control system was classified according to the organizational environment, risk assessment, control activities, information and communication, and monitoring and evaluation affecting the performance of small and medium-sized businesses on the financial perspective with statistical significance at 0.05 level in the same direction with influence weights of .400, .102, .141, .156, and .154, respectively.

2. The internal control system was related to the performance of SMEs on the customer perspective by 82.9% and the change was explained by 68.7%. The internal control system in all 5 areas could explain the variation on the performance of SMEs in customer perspective with statistical significance ($F = 166.286^{**}$ with $P\text{-value} < 0.01$). The internal control system was classified according to the organizational environment, risk assessment, control activities, information and communication and monitoring and evaluation affecting the performance of small and medium-sized businesses on the customer perspective with statistical significance at 0.05 level in the same direction with influence weights of .378, .077, .125, .175, and .134, respectively.

3. The internal control system was related to the performance of SMEs on the internal process perspective by 86.6% and the change was explained by 75.0%. The internal control system in all 5 areas could explain the variation on the performance of SMEs in internal process perspective with statistical significance ($F = 226.840^{**}$ with $P\text{-value} < 0.01$). The internal control system was classified according to the organizational environment, risk assessment, control activities, information and

communication and monitoring and evaluation affecting the performance of small and medium-sized businesses on the internal process perspective (PR) with statistical significance at 0.05 level in the same direction with influence weights of .401, .111, .134, .159, and .152, respectively.

4. The internal control system was related to the performance of SMEs on the learning and growth perspective by 85.0% and the change was explained by 72.2%. The internal control system in all 5 areas could explain the variation on the performance of SMEs in internal process perspective (PR) with statistical significance ($F = 196.051^{**}$ with $P\text{-value} < 0.01$). The internal control system was classified according to the organizational environment, risk assessment, control activities, information and communication and monitoring and evaluation affecting the performance of small and medium-sized businesses on the learning and growth perspective (LL) with statistical significance at 0.05 level in the same direction with influence weights of .409, .092, .123, .152, and .170, respectively.

From the research results, the researcher used the data for qualitative research study by means of an in-depth interview about the internal control system in the organization in each aspect which can be summarized as follows:

Regarding the environment in the organization, businesses have operational policies set by management and will be published to supervisory level so that they can be used in the planning of operations in each department and to measure the performance of employees in the department having the system for monitoring and evaluating employees' performance.

Regarding the risk assessment, businesses have to assess the risks that may arise from their operation and find ways to eliminate them. The company will have meetings all the time. If an error occurs in operation, a solution must be found. The risk is assessed when a warning signal about that risk arises to bring the risks that will arise to come up with methods to

control the risks. For example, operational risks in the case of new employees, there will be the pre-existing employees to co-ordinate the work of the new employees. For uncontrollable risks, they are risks related to revenue from customers, for example.

Regarding the control activities, in some small and medium-sized businesses, a written operational manual is available. If new employees come to work, they will be able to learn how to work from this manual.

Regarding the information and communication, businesses have brought in information systems to help in their operation in order to make the operation faster more accurate. The Company's operational data is stored in the information system. For example, for the accounting of a business, there will be an accounting software package used in the preparation of accounts. This makes it accurate and easy to organize accounting.

Regarding the monitoring and evaluation, because it is a small and medium-sized business, this allows the management to monitor the performance and evaluate the performance of the employees at all time so that they can help solving problems that arise in a timely manner.

Discussion of research results

The internal controls are classified according to the organizational environment, risk assessment, control activities, information and communication, and monitoring and evaluation affecting the Balanced Scorecard assessment of the organization from financial perspective, customer perspective, internal process perspective, and learning and growth perspective of SMEs in Thailand. This is consistent with the research of Dantonglang (2017) on the effects of the internal control system on the performance of the local government organization in Nakhon Ratchasima Province. The results showed that every component of the internal control system had statistically significant effect on the performance of local administrative

organizations in Nakhon Ratchasima at 0.01 level. This agrees with Dounghan & Sincharunsuk (2018) studying the good internal control system and good governance towards the performance of savings cooperatives in Thailand. The results showed that good internal control system had significant positive correlation with the performance of savings cooperatives in Thailand. If analyzing the environment in the organization, it will be found that the implementation of the policy allocates budgets to develop work in various areas of the organization focusing on customers. The employees in the organization will also affect the organization's assessment in various fields. If analyzing the risk assessment aspects of that business and if the entity has periodic risk assessments, this will cause warning signs that may pose a risk to the business. Therefore, the entity must find a way to reduce or eliminate that risk. In terms of control activities, if the entity has a well-defined control system in each step of the work, it will make the operation goes step by step. There will be a check between each other and it will benefit the organization. If the business has brought the information system into use in the organization, it will help in the matter of coordination data storage to be faster and more accurate data processing. The performance monitoring and evaluation are needed to identify problems and to resolve operations in a timely manner. Therefore, the business should monitor and evaluate the performance of employees at all levels so that the overall performance is in the direction that the organization wants. Thus, all 5 activities of the internal control system affect the overall assessment of the organization.

Recommendations

1. Recommendations for implementing research results

This research study is useful because it helps to understand the internal control system that the entity should have in the internal control operation. When there is good internal control in all aspects, it will affect the assessment of

the organization in all aspects as well. Every organization can improve or apply the internal control system to the whole system and should make it effective because it will be able to help the organization's assessment results in all aspects good as well.

2. Recommendations for next researches

The next researches may study Small- and medium-sized businesses' opinions on internal control and corporate assessments on the Balanced Scorecard classified by type of business. This will result in more resolution and specificity. In addition, it may be divided into small and medium-sized businesses in each region.

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