Cape Peninsula University of Technology

THE RELATIONSHIP(S) BETWEEN THE MANAGERIAL CONDUCT AND THE INTERNAL CONTROL ACTIVITIES OF SOUTH AFRICAN FAST MOVING CONSUMER GOODS SMMES

by

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DECLARATION

I, Juan-Pierré Bruwer, declare that the content of this thesis represents my own unaided work, and that this thesis has not previously been submitted for academic examination towards any qualification, at any tertiary institution, either nationally or internationally. In addition, this thesis represents my own opinions and perceptions and not necessarily those of the Cape Peninsula University of Technology.

Signed: ______________ Date: ______________

ABSTRACT

Although South African Small, Medium and Micro Enterprises (SMMEs) play an imperative role in the stimulation of the national economy, previous research studies show that these business entities have severe sustainability problems as approximately 75% of these business entities fail after being in operation for only three years. The latter dispensation is pinned on the belief that South African SMMEs make use of inadequate and/or ineffective internal control systems. Taking into account that a system of internal control comprises five inter-related elements, as well as the fact that management is responsible for the internal control in their respective business entities, this research study placed focus on determining the relationship which exist between the managerial conduct of management and the internal control activities evident in South African fast-moving consumer goods (FMCGs) SMMEs. In order to achieve the latter, two literature reviews were conducted (see Chapter 2 and Chapter 3) and, in turn, quantitative data were collected through a questionnaire and analysed accordingly through both descriptive statistics and inferential statistics (see Chapter 5). Based on the analysed data, a very weak negative statistically significant relationship was identified between the managerial conduct of management and the internal control activities evident in South African FMCG SMMEs. Regardless of the very weak negative statistically significant identified relationship, the results vindicate the importance of appropriate managerial conduct, as well as adequate and effective internal control activities. Stemming from this, a new proposed framework (Control Legacy-K Framework) was developed which South African FMCG SMMEs can implement to help enhance their overall sustainability which, in turn, can help them fortify their continuation rate in the foreseeable future (see Chapter 6).

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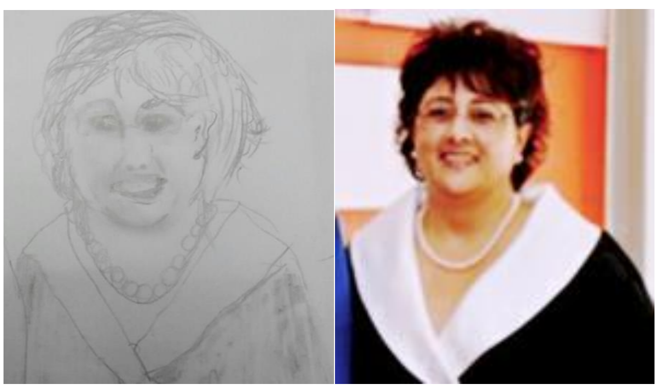

Prof Philna Coetzee

Dr Andre van den Berg

Cecilia Bruwer and Juan Bruwer

Illustrations by Karen Bosman (age 10)

DEDICATION

In loving memory of my grandmother, Babsie Kotzé, who laid a solid foundation in my life. Although you are no longer in the flesh, you will always exist in the spirit. You will always be in my heart.

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LIST OF ABBREVIATIONS

Abbreviation	Meaning
ADB	Asian Development Bank
CA(SA)	Chartered Accountant (South Africa)
CICA	Canadian Institute of Chartered Accountants
CLK	Control Legacy-K
COBIT	Control Objectives for Information and Related Technology
CoCo	Criteria of Control Framework
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DTI	Department of Trade and Industry
ERM	Enterprise Risk Management
FMCG	Fast Moving Consumer Goods
GASME	Global Alliance of SMEs
GEM	Global Entrepreneurship Monitor
GDP	Gross Domestic Product
HDI	Human Development Index
IIA	Institute of Internal Auditors
IoD	Institute of Directors
IoDSA	Institute of Directors in Southern Africa
ISACA	Information Systems Audit and Control Association
ISO	International Organization for Standardization
NCR	National Credit Regulator
NYSE	New York Stock Exchange
SAICA	South African Institute of Chartered Accountants
SMME	Small, Medium and Micro Enterprise
UNDP	United Nations Development Programme

LIST OF TERMINOLOGY

Term	Conceptualised definition/definition/explanation
Adequacy	In this thesis, the term relates to whether something is "good enough" (see Footnote 4 for further clarification).
Business entity	A type of entity that is established by a natural person for the main purpose of conducting business, in order to make profit, by means of trading products and/or rendering services (Merriam-Webster, 2015a; Business Dictionary, 2015a). In South Africa, a business entity can take the form of a sole trader, partnership, close corporation or company (or equivalent).
CLK Framework	The Control Legacy-K (CLK) Framework provides guidance to management of South African FMCG SMMEs on how to enhance the appropriateness of their overall managerial conduct, as well as the adequacy and effectiveness of their implemented internal control activities. This framework allows management of South African FMCG SMMEs to have better assurance surrounding the attainment of their relevant organisational objectives in the foreseeable future – positively influencing their overall existence (see Chapter 6).
Control activities	Those activities that are based on established policies, procedures, rules and guidelines – as effected by management – which help provide assurance surrounding management's approach(es) to mitigate risks, with the intent to achieve relevant organisational objectives in the foreseeable future. Control activities take place at all hierarchical positions within an organisation and at various intervals within all applicable business processes. These activities are also strongly relative to the forestalling of identified risks and the notification identified risks when they realise – which can take place manually and/or automatically – used for the purposes of permitting, confirming and checking accuracy, including the examination and evaluation of performance, in a holistic sense (conceptualised in Chapter 2).
Control environment	It is the foundation of a system of internal control, comprising a collection of expected norms, expected qualities and expected actions which pertain to a conduct that is professional and ethical. This conduct should both be implemented (through relevant policies and procedures) and practised by organisational stakeholders that are charged with governance. Essentially, the control environment of an organisation should create a certain atmosphere which portrays the importance of internal control in the respective organisation (conceptualised in Chapter 2).
Corporate governance	A concept which pertains to the balance which should be kept between: 1) an organisation's responsibilities (environmental responsibilities, economic responsibilities and social responsibilities), 2) an organisation's expectations (interests), and 3) the expectations (interests) of relevant organisational stakeholders (expanded on in Chapter 2).
Effectiveness	In this thesis, the term relates to whether something is "working as intended" (see Footnote 5 for further clarification).
Entity	Refer to the term "business entity".
Entrepreneurship	An activity which involves the dynamic and institutionally embedded interaction between entrepreneurial attitudes, abilities, and aspirations, by individuals, which drives the allocation of resources through the creation and operation of new business entities (Acs et al., 2014:477). These business entities, in turn, are generally profitable in nature and are expected to add socio-economic value to the economy(ies) in which they operate (see Chapter 3).
Internal control	It is a logical sequence which is realised by relevant organisational stakeholders that are charged with governance, which comprises inter-connected elements and activities that aid in the mitigation of risks. In core, internal control should provide a fair pledge of confidence regarding the achievement of an organisation's operational objectives, reporting objectives and compliance objectives, in the foreseeable future (conceptualised in Chapter 2).
Internal control activities	For the sake of this research study, the terms "control activities" and "internal control activities" refer to the same phenomenon and are used interchangeably throughout all chapters in this thesis.
Internal control system	It is a comprehensive system that comprises an array of elements, as established by management, in order to provide reasonable assurance surrounding the attainment of an organisation's operational objectives, reporting objectives and compliance objectives, in the foreseeable future (Spira & Page, 2003:647-649). The latter is done by placing emphasis on: 1) the effectiveness and efficiency of an organisation's operations, 2) an organisation's compliance with applicable legislation, rules, policies and procedures, 3) the safeguarding of an organisation's assets, and 4) the integrity of financial and non-financial information of an organisation (Adeniyi & Aramide, 2014:199).

King Reports	Reports that were issued by the King Committee, under the guidance of Professor (and Judge) Mervyn King, on corporate governance in a South African dispensation. The first *King Report* (King I) was published in 1994, the second *King Report* (King II) was published in 2002, and the third *King Report* (King 3) was published in 2009. The fourth *King Report* (King IV) is expected to be published between 2016 and 2017.
Management	A function within an organisation that pertains to planning activities, organising activities, leading activities, and controlling activities.
Managerial conduct	The manner in which management, of an organisation, behave while executing their respective responsibilities. Their behaviour is directly linked to their personal values and personal ethical standards, which, in turn, should be in line with the core characteristics of good corporate governance (conceptualised in Chapter 2).
Organisation	See "business entity".
Organisational sustainability	Organisational sustainability refers to a phenomenon where an organisation achieves its relevant objectives which are directly associated with: 1) environmental responsibilities, 2) economic responsibilities, and 3) social responsibilities – often referred to as the triple bottom line (see Chapter 2).
Risk management	A systematic process which entails the appropriate identification, analysis and adequate treatment of uncertain events in and around an organisation which may have a direct and adverse influence on the attainment of the respective organisation's objectives (see Chapter 2).
Small, Medium and Micro Enterprises (SMMEs)	SMMEs are business entities, regardless of their form, that are owned by one or more natural persons while operating within the borders of a particular country, adding value to the particular country in a socio-economic dispensation, specifically through means of employing between one and no more than a selected number of national citizens and/or generating a certain amount of revenue, all with the intent to stimulate the national economy through means of: 1) positively impacting on the national GDP, 2) alleviating national poverty levels, and/or 3) decreasing the national unemployment rate (conceptualised in Chapter 3).
Sound	In this thesis, the term is used to refer to describe a phenomenon that is both "adequate" and "effective" (see Footnote 10 for further clarification).

CHAPTER 1: INTRODUCTION TO THE RESEARCH STUDY

SYNOPSIS

Throughout this thesis a methodical process is followed whereby each chapter builds on the previous one. This methodical process is provided below while also placing this particular chapter in context with all other chapters.

Chapter 1: Introduction to the research study

1.1) Backgound to the research study.
1.2) Research problem, question, objective, design, methodology and methods.
1.3) Value of the research to stakeholders.
1.4) Conclusion and relevance of the study.

Chapter 2: Literature review - Internal control, the elements of an internal control system and the managerial conduct

Chapter 3: Literature review - South African fast-moving consumer goods in Small, Medium and Micro Enteprises

Chapter 4: Research design, methodology and methods

Chapter 5: Data analyses, results and discussion

Chapter 6: Conclusion

1.1 BACKGROUND TO THE RESEARCH STUDY

South African Small, Medium and Micro Enterprises (SMMEs) can be viewed as distinct business entities[1] that operate in various sectors of the national economy, and largely classified in terms of their size, based on the following three criteria: 1) the number of employees, 2) their total annual turnover, and/or, 3) their gross asset value (South Africa, 1996:2,15). In essence, South African SMMEs make up roughly 90% of all businesses operating on South African soil (Mouloungui, 2012:1). Despite South African SMMEs operating in various sectors of the national economy (Berry et al., 2002:13), these business entities make significant contributions to it (national economy) as they assist in alleviating unemployment and poverty and stimulate the national economy (Masutha & Rogerson, 2014:S47-S48; Koens & Thomas, 2015:326). However a large number of South African SMMEs are not regarded as going-concern entities,[2] as reports indicate that approximately 75% of these business entities fail within their first three years of existence (Fatoki, 2014a:1; Siwangaza et al., 2014:165). In a recent study (Siwangaza, 2013), the highlighted reason for the weak continuation rate of South African SMMEs[3] is pinned on the hypothesis that these business entities' implemented systems of internal control are deemed as inadequate[4] and/or ineffective[5] – their implemented systems of internal control do not adequately and/or effectively mitigate material risks, which results in limited assurance that relevant organisational objectives will be attained in the foreseeable future.

Since an adequate and effective system of internal control should prevent risks[6] from realising and allow for the provision of reasonable assurance regarding the attainment of organisational objectives, particularly to management, the question can be asked: <u>How</u>

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[1] In South Africa, a business entity can take the form of a sole proprietor, partnership, close corporation, private company or public company.

[2] A going-concern entity refers to a business entity that will continue to be in operation for the foreseeable future (Hodgdon et al., 2011:418).

[3] The research study that is referred to was predominantly focused on South African SMMEs operating in the fast-moving consumer goods (FMCG) industry in the Cape Metropole.

[4] The term "adequacy" can be defined as a type of state of being reasonable, fair or acceptable (Cambridge Dictionaries Online, 2015a). In layman's terms, it relates to whether something is "good enough".

[5] The term "effectiveness" can be defined as the ability of being successful or producing intended results (Cambridge Dictionaries Online, 2015b). In layman's terms, it relates to whether something is "working as intended".

[6] When risks cannot be prevented, they should be mitigated in order to: 1) minimise the likelihood(s) of risks occurring, and/or 2) minimise the potential adverse impact of loss events (realised risks) (Viswanadham & Gaonkar, 2008:203; Lavastre et al., 2012:836).

can management of South African SMMEs improve their respective business entities' implemented systems of internal control?

In the sections below, background information for the purpose of this research study is provided on SMMEs in South Africa, as well as the concepts of "management", "internal control system", "control environment", "control activities", and "managerial conduct".

1.1.1 SMMEs in South Africa

In the mid-1990s the South African government formally introduced the concept of SMMEs to the national economy through means of the *National Small Business Act No. 102 of 1996*. In this Act, two major socio-economic objectives are imposed on SMMEs, namely to aid in decreasing the unemployment rate, as well as alleviate poverty, all for the sake of boosting the national economy as a whole (South Africa, 1996:15-16). From an empirical perspective, the only manner in which these socio-economic objectives can be attained is through means of South African SMMEs experiencing some sort of prosperity on a broad-based level.

In a global sense, SMMEs are deemed the driving forces of many economies around the world (see Section 3.1.2.1 and Section 3.1.2.3), mainly because of the value they add in terms of assisting in the achievement of major socio-economic objectives such as stimulating the national economy they operate in, eliminating poverty and keeping national unemployment rates as low as possible (Hill, 2001:248; Park, 2001:846; Wren & Storey, 2002:336-337; Chepurenko, 2010:312; Chimucheka, 2014:783). In a South African dispensation the views surrounding the importance of SMMEs are also true as South African SMMEs are deemed major contributors to the national economy (Naidoo & Urban, 2010:234).

In terms of contributing to the national Gross Domestic Product[7] (GDP), prior research suggests that South African SMMEs' contribution ranges between 30% (±R1.23 trillion) and 57% (±R2.35 trillion) (Naidoo & Urban, 2010:236; Thabethe, 2013; Ngary et al.,

[7] The GDP is the total value of all final goods and services that are produced within the boundaries of a country, in a particular period of time, usually over a period of 12 months (South African Reserve Bank, 2014).

2014:909). Furthermore, based on research conducted by Fatoki and Odeyemi (2010:128) and Swart (2011:10), these business entities are believed to provide employment opportunities to between 61% and 80% of the total national workforce.

Although at first glance it appears that South African SMMEs are adding definitive socio-economic value to the national economy, it is important to place them in the correct context. These business entities have been widely supported by the South African government for most of the last two decades; this support stems from the national Department of Trade and Industry (DTI) and has taken the form of the establishment of, inter alia, the Centre for Small Business Promotion, the Ntsika Enterprises Promotion Agency and the Khula Enterprise Finance Ltd (South Africa.info, 2002; Swart, 2011:11; DTI, 2013). Despite the support received from the national government over the years, the poignant reality is that the socio-economic objectives these business entities should strive to achieve, as per the *National Small Business Act No. 102 of 1996*, are not being met to a large extent (Fatoki & Smit, 2011:1413-1414). This view is justified by the weak continuation rate of South African SMMEs.

During the early 2000s, research shows that between 70% and 80% of South African SMMEs closed down within their first three years of existence (Van Eeden et al., 2003:13). Although disconcerting, this trend continued accordingly, and by 2009 it was reported that approximately 75% of South African SMMEs had to close their doors after being in operation for a period of only 42 months (Fatoki & Odeyemi, 2010:128), translating to about 10 000 of these business entities failing on a monthly basis (Biyase, 2009). In more recent times, however, during the early 2010s, research shows that an estimated 63% of these business entities had to close their doors after being in operation for only two years, while 75% of South African SMMEs failed after being in operation for only three years (Cant & Wiid, 2013:707; Moloi, 2013:15). Hence, based on the aforementioned, it is not surprising that the continuation rate of South African SMMEs is believed to be among the worst in the world (Fatoki, 2014b:27).

Notwithstanding the above, and that business conduct is well researched (in a theoretical dispensation at least) and that managerial consultancy (through government support agencies) is readily available to South African SMMEs, these business entities are still expected to achieve both their legally imposed objectives and relevant business objectives in a harsh[8] economic environment[9] (Vawda et al., 2013:954). The latter sentiment is supported by research where it was found that the weak continuation rate of South African SMMEs – which adversely influences both national unemployment rates and poverty levels – can be pinned on the impact of economic factors (Van Eeden et al., 2003:14; Radas & Božić, 2009:439-440; SAICA, 2015b).

To all intents and purposes, economic factors (both macro-economic factors and micro-economic factors) are inevitable and have an immense impact on any organisation's ability to perform at an optimal level, be it financially or non-financially. Notwithstanding the aforementioned, economic factors (particularly macro-economic factors) also have a direct influence on the economic environment of any country (Bruwer et al., 2013:1004-1007); therefore the adequate management of economic factors often holds the key to the advancement of any organisation (Bruwer & Smit, 2015:38). In other words, the management of economic factors assists greatly in the fortification of any business entity's existence as it increases the likelihood of its attaining its respective objectives in the foreseeable future (Greenhalgh, 2000:414). Thus, it is necessary for management, especially in the case of South African SMMEs, to effectively manage economic factors in and around their respective organisations.

1.1.2 Management as part of a sound system of internal control

Before elaborating on management, in practice, as part of a sound[10] system of internal control, it is important to first underpin the term "management" in a theoretical dispensation. The term "management" (to manage) derives from the discipline of management, which, in turn, is regarded as a function which consists of four activities, namely: 1) planning activities, 2) organising activities, 3) leading activities, and 4) controlling activities (Griffin, 2013:7; Schermerhorn, 2013:16). These activities are briefly elaborated on below:

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[8] The harsh South African economic environment is elaborated on in depth in Section 3.2.1 and Section 3.2.2.

[9] The economic environment of a country refers to the overall economic condition of the particular country (Guilhoto et al., 2002).

[10] The term "sound" is when a phenomenon can be described as reliable, dependable, thorough and comprehensive (WordReference.com, 2015). In layman's terms, it pertains to something that is both "adequate" and "effective".

- Planning activities: Planning activities pertain to thinking ahead and preparing for the foreseeable future, especially in terms of how time and other organisational resources should be allocated and/or utilised across all the divisions within an organisation. In essence, this activity pertains to the setting of organisational goals and deciding on the best way that should be followed to achieve them.
- Organising activities: Organising activities pertain to the appropriate allocation of organisational resources, be they people or other assets, to all relevant divisions within an organisation, with the main intent to achieve applicable organisational objectives.
- Leading activities: Leading activities comprise certain processes used to get all relevant stakeholders of an organisation to work together in such a way that they achieve the objectives of the respective organisation. Essentially, leading activities have to do with the motivation and guiding (directing) of an organisation's stakeholders to perform optimally in the best interests of the particular organisation.
- Controlling activities: Controlling activities pertain to processes whereby the overall management process (inclusive of the previous three activities) is maintained, improved on, and monitored accordingly to provide reasonable assurance that relevant organisational objectives are being attained or will be attained in the foreseeable future.

In relation to the above, Teittinen et al. (2013:280) explicate that the best approach to follow when fulfilling managerial responsibilities is through designing and implementing a type of structure whereby one function of an organisation is in systemic interaction with all other functions that are evident in the particular organisation. This structure should, inter alia, ensure that all functions interact appropriately with one another, while also ensuring that relevant policies and procedures are adhered to – all with the intent to help with the attainment of relevant organisational objectives in the foreseeable future. The best recommended structure to aid in the latter, particularly in relation to management's controlling activities, is a system of internal control (COSO, 2013a:9-10).

The term "system of internal control" refers to a set of procedures that mitigate the actual impact or potential impact of risks[11] (which may adversely influence the attainment of organisational objectives) in order to provide reasonable assurance that organisational objectives[12] will be met in the foreseeable future, though placing emphasis on: 1) the

[11] Risks that realise can be viewed as "loss events" (Cameron & Raman, 2005:7).

[12] In most cases, the objectives of any organisation are relevant to the following: 1) operational objectives, 2) reporting objectives, and/or 3) compliance objectives (Moore, 2010:32).

effectiveness, efficiency and economy of operations, 2) the safeguarding of assets and resources, 3) the integrity of financial information and non-financial information, and 4) the adherence to relevant rules, policies, procedures and regulations (IIA, 2013; Business Dictionary, 2015b). The significance of a sound system of internal control in an organisation is schematically presented in Figure 1.1.

By making reference to Figure 1.1, a sound system of internal control should optimally mitigate risks by providing reasonable assurance that organisational objectives will be attained in the foreseeable future. In turn, a sound system of internal control should be properly supported by a sound control environment as its foundation (D'Aquila, 1998:472) which should be sequentially supported by management, inter alia through means of appropriate[13] managerial conduct (Adeniyi & Aramide, 2014:199). Hence, based on this, the analogy can be drawn that the managerial conduct will influence the soundness of the control environment of an organisation, while the soundness of the control environment will have an influence on the soundness of the implemented system of internal control in the relevant organisation, impacting on the reasonable assurance provided surrounding the attainment of the relevant organisation's objectives in the foreseeable future.

[13] Since the term "appropriate" is subjective in nature, for the sake of this research study this same term is viewed from an organisational stance since it is strongly dependent on (and strongly relative to) the universal nature of a business entity. Aspects which should be taken into account include, inter alia, the size of a business, the industry in which the business entity operates, and the geographical location of the business (see Section 2.6.3).

SUPPORTED BY SOUND CONTROL ENVIRONMENT →	SUPPORTED BY APPROPRIATE MANAGERIAL CONDUCT →	SUPPORTED BY MORAL VALUES OF MANAGEMENT →
SOUND INTERNAL CONTROL SYSTEM	**SOUND CONTROL ENVIRONMENT**	**APPROPRIATE MANAGERIAL CONDUCT**
Helps fortify and/or establish the overall internal control in an organisation to provide reasonable assurance regarding the attainment of relevant organisational objectives in the foreseeable future. The latter is done by means of placing emphasis on: 1) the effectiveness, efficiency and economy of operations, 2) the safeguarding of assets and other resources, 3) the integrity of financial information and non-financial information, and 4) the compliance with rules, regulations, policies and procedures.	Helps fortify a system of internal control while serving as the foundation thereof. It is influenced by and/or comprises: 1) the managerial philosophy(ies) of management, 2) the managerial operating style(s) of management, 3) the commitment of management towards integrity and ethical values, 4) management's exercising of oversight of the development and performance of internal control, 5) management's maintenance of appropriate lines of authority, 6) management's commitment to responsibility[14], 7) management's commitment to attract, develop and retain competent human resources, and 8) management's commitment to accountability.	Helps with the overall maintenance of internal control and is responsible for both implementing and maintaining proper internal control through means of adequate: 1) planning activities, 2) organising activities, 3) leading activities, and 4) control activities. The manner in which management performs their responsibilities are generally supported through their managerial philosophy(ies) and their operating style(s) – "managerial conduct" – which should accord with the core aspects of good corporate governance.
← INFLUENCES ASSURANCE OF ATTAINING ORGANISATIONAL OBJECTIVES	← INFLUENCES THE SOUNDNESS OF INTERNAL CONTROL SYSTEM	← INFLUENCES SOUNDNESS OF CONTROL ENVIRONMENT

Figure 1.1: The significance of an effective system of internal control in an organisation (**Adapted from**: Spira & Page, 2003:647-649; Boritz & Lim, 2008:8; Lalić et al., 2011:411; Protiviti, 2013; Adeniyi & Aramide, 2014:199)

[14] This may also include management's commitment to integrity.

1.1.3 The elements of a system of internal control

Fundamentally, a sound system of internal control comprises various elements. Before expanding on these elements, it is important to first briefly elaborate on the origin of a system of internal control.

The concept of a "system of internal control" was first introduced by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission through the publication of the COSO Internal Control – Integrated Framework of 1992 (COSO, 1992). In this framework, a sound system of internal control is described as a meticulous process that comprises five inter-related elements that should assist in the mitigation of risks, all with the intent to provide reasonable assurance surrounding the attainment of relevant organisational objectives in the foreseeable future.

As time elapsed, during the course of 2013, the 1992 version of the latter internal control framework was enhanced[15] to include, among others: 1) the codification of 17 principles pertaining to the five inter-related elements of the system of internal control, 2) clarification surrounding management's role in relation to objective setting, and 3) the increased relevance of technology in relation to internal control (COSO 2013a; McNally, 2013:1-2; Protiviti, 2013). However, the COSO Internal Control – Integrated Framework of 1992 remained very similar after its 2013 enhancements – the changes effected were merely evolutionary in nature and consistent with relevant changes in global economic environments and organisational operations since 1992 (KPMG, 2013).

Apart from the COSO Internal Control – Integrated Framework, numerous other frameworks have also been developed over the years (IIA, 2008), for example the Control Objectives for Information and Related Technology (COBIT) Framework, the Canadian Institute of Chartered Accountant's (CICA) Criteria of Control (CoCo) Framework and International Standards, for relevant stakeholders, by the International Organization for Standardization (ISO).

Notwithstanding the aforesaid, to date the COSO Internal Control – Integrated Framework is regarded across the globe as one of the best frameworks that should be used to establish a sound system of internal control in an organisation (Dickins et

[15] The enhancement of the COSO Integrated Internal Control Framework of 1992 is discussed in depth in Section 2.4.1.

al., 2011:2; Baker Tilly, 2014:1). The COSO Internal Control – Integrated Framework of 2013 is depicted in Figure 1.2 and briefly introduced thereafter.

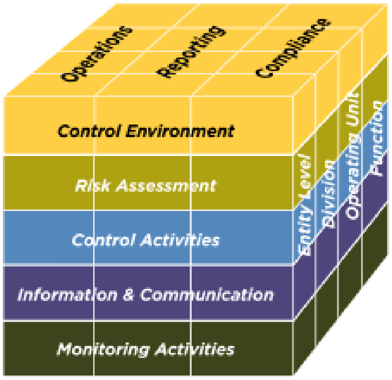

Figure 1.2: The 2013 version of the COSO Internal Control – Integrated Framework of 2013 (**Source**: COSO, 2013a:6)

The COSO Internal Control – Integrated Framework proposes that a sound system of internal control should consist of the following five inter-related elements: 1) control environment, 2) risk assessment, 3) control activities, 4) information and communication, and 5) monitoring (COSO, 2013a:4-5). All the aforementioned five inter-related elements are concisely elaborated on below (Rezaee et al., 2001:155; Coetzee, 2006:184; Abu-Musa, 2007:49-50; Dãnescu et al., 2011:340; COSO, 2012a:5,12-14; Smit, 2012:39; McNally, 2013:6; Martin et al., 2014:110):

- <u>Control environment</u>: This can be regarded as the foundation of the COSO Internal Control – Integrated Framework. More often than not, this element is characterised by the overall attitude of management regarding internal control, in a holistic sense. The control environment consists of, and is greatly influenced by: 1) the managerial philosophy of management, 2) the managerial operating style, 3) the commitment of management towards integrity and ethical values, 4) management's exercising of oversight of the development and performance of internal control, 5) management's maintenance of appropriate lines of authority, 6) management's commitment to responsibility, 7) management's commitment to attract, develop and retain competent human resources, and 8) management's commitment to accountability (see Figure 1.1).
- <u>Risk assessment</u>: Once applicable organisational objectives have been established, it is imperative that risks are properly identified across the whole organisation. This is especially necessary since risks, once realised, may adversely impact the achievement of relevant organisational objectives. Once risks are identified, they should be adequately assessed in terms of: 1) the probability of their realisation, and 2) their potential impact on the organisation, as a whole, once realised. Risks are generally assessed and labelled as

"avoidable"[16] (high probability of realising, high potential impact), "acceptable"[17] (low probability of realising, low potential impact), "transferable"[18] (low probability of realising, high potential impact) or "mitigatable"[19] (high probability of realising, low potential impact).

- Control activities: Actions, based on applicable policies and procedures are put in place by management to help mitigate assessed risks, with the main aim to provide optimal assurance that organisational objectives will be achieved in the foreseeable future. Control activities are generally preventive and detective in nature, and are largely relative to the following five categories of control: 1) segregation of duties, 2) proper authorisation activities, 3) adequate document usage and design, 4) safeguarding of assets, and 5) independent checks.
- Information and communication: Relevant information pertaining to an organisation's internal control, in a broad sense, should be properly communicated to relevant stakeholders in and around an organisation (mostly through means of policies, procedures and reports) in a transparent manner, both allowing and empowering relevant stakeholders to effectively execute their applicable responsibilities to help an organisation achieve its relevant objectives. Ultimately, information and communication should provide insight in terms of the overall functioning of the five inter-related elements of the COSO Internal Control – Integrated Framework and the adequacy and effectiveness of the implemented system of internal control within an organisation.
- Monitoring: The adequacy and effectiveness of a system of internal control should be assessed on an ongoing basis (or periodic basis – depending largely on the nature of an organisation) to ensure that all five inter-related elements of the COSO Internal Control – Integrated Framework are present, sound and functioning as intended. If deficiencies in internal control are detected through such assessments, these should be communicated to management timeously to ensure that applicable improvements are made to the applicable implemented system of internal control.

The five inter-related elements of the COSO Internal Control – Integrated Framework should be comprehensive in their coverage across all divisions within an organisation (i.e. at strategic levels, operational levels and functional levels), and should provide reasonable assurance that operational objectives, reporting objectives, and compliance objectives will be attained in the foreseeable future (McNally, 2013:5-8). Stemming from the above, while making reference to the context of this study and by taking into account the harsh economic environment in which South African SMMEs

[16] Risks should be completely eliminated and/or avoided at all costs.

[17] Risks should be accepted as inherent (inborn).

[18] Risks should be transferred to external parties (e.g. cover risks through insurance brokers).

[19] Risks should be prevented from occurring.

have to operate (Bruwer et al., 2013:1004-1007), the inference can be made that there is a need for South African SMMEs to have sound systems of internal control in order to: 1) ensure that risks are properly mitigated, which will 2) provide reasonable assurance surrounding the attainment of their relevant organisational objectives in the foreseeable future, which will, in turn, 3) allow these business entities to improve their relevant continuation rates.

Notwithstanding the above, according to a study conducted by Siwangaza (2013), it was found that most managers of South African SMMEs, particularly in the fast-moving consumer goods (FMCG) industry, who had implemented systems of internal control in their respective business entities, indicated that the assurance that these systems of internal control provided, in terms of achieving relevant organisational objectives in the foreseeable future, was very limited. As a result, the following questions can be asked: <u>What is the impact of inadequately implemented internal control systems on the continuation rate of South African FMCG SMMEs?</u> and <u>What is the impact of ineffectively implemented internal control systems on the continuation rate of South African FMCG SMMEs?</u>

Since all of the five inter-related elements in the COSO Internal Control – Integrated Framework are interwoven with one another (see Figure 1.2), it is impossible for one element to function without the existence of the other four elements. Although all of the five inter-related elements of the COSO Internal Control – Integrated Framework are of equal importance, for the sake of this research study, emphasis was placed on the elements of “control environment” and “control activities” as the soundness of a system of internal control is influenced by: 1) the element, “control environment”, as the foundation of any system of internal control, and 2) the element, “control activities”, as the main influencers of how risks will be mitigated in and around an organisation.

1.1.4 The elements of “control environment” and “control activities” and their interrelationship

As mentioned above (see Section 1.1.3), the element “control environment” serves as the foundation of any system of internal control. The control environment can be viewed as the overall attitude, awareness and actions of management towards the implementation and assessment of an organisation's internal control activities (COSO, 2013a:4-5; McNally, 2013:6). In essence, the control environment of an organisation influences the overall tone set at the top by management (individuals charged with governance), as well as the control consciousness of all relevant stakeholders in and around the particular organisation (Byington & Christensen, 2005:36). Hence, it is not surprising that the control environment of an organisation has a direct influence on both the adequacy and effectiveness of an established system of internal control within an organisation (Rae & Subramaniam, 2008:106) – a sound control environment is deemed a prerequisite for a sound system of internal control.

Although no definitions exist for what constitutes a sound control environment, prior research and guidance documents (COSO 2013a:4; Hurloiu et al., 2014:275) suggest that a sound control environment, in any organisation, is characterised by: 1) management's commitment to integrity, 2) management's commitment to ethical values, 3) management's exercising of oversight over the soundness of internal control in a broad sense, 4) an adequate organisational structure that reflects clear lines of authority, 5) management's commitment to responsibility, 6) management's commitment to competence, and 7) management's commitment to accountability. Stemming from the aforementioned, it appears that the soundness of an organisation's control environment will largely be influenced by the manner in which management executes their respective responsibilities (see Figure 1.1), that is, their managerial conduct (see Section 2.6.1). As such, the inference can be made that a sound control environment should be closely associated with the core characteristics of good corporate governance,[20] namely that of: 1) discipline, 2) transparency, 3) independence, 4) accountability, 5) responsibility, and 6) fairness (IoDSA, 2002:7-13; IoDSA, 2009:9) (see Section 2.5.1).

The element, "control activities", in turn, can be viewed as one of the five inter-related elements mandatory for an adequate and effective system of internal control, built on a sound control environment as foundation. In particular, control activities are responsible for the mitigation of risks, while simultaneously being adaptable to changes in applicable environments that may adversely influence the ability of an organisation to attain its relevant objectives (Agbejule & Jokipii, 2009:503).

[20] Governance is the professional relationship that exists among various organisational stakeholders, in and around an organisation, which influences and determines both the direction in which the organisation needs to go and the performance of the applicable organisation (Hermanson & Rittenberg, 2003:26).

Alternatively stated, control activities are those implemented and/or implementable actions[21] which predominantly assume the form of preventive and detective controls (COSO, 2013a:4-5; McNally, 2013:6) (see Section 2.5.2).

Since management is ultimately responsible for the internal control in their respective organisations, among other responsibilities, it is imperative that their organisations have sound systems of internal control in place. The soundness of any internal control systems, in turn, will be primarily influenced by: 1) the soundness of the control environments of an organisation (as foundation), and 2) the adequacy and effectiveness of the internal control activities evident in an organisation (IFAC, 2006:6; IoD, 2010:31; Heise et al., 2013:236). Therefore, based on this, and within the context of this research study, the following questions can be asked: How sound are the control environments of South African FMCG SMMEs? How adequate are the implemented internal control activities of South African FMCG SMMEs? and How effective are the implemented internal control activities of South African FMCG SMMEs?

Given that the element "control environment" (as foundation) has a substantial influence on both the tone set at the top and the soundness of implemented systems of internal control in an organisation, previous research studies (COSO 2013a:4; Hurloiu et al., 2014:275) point out that the control environment is predominantly associated with the manner in which management executes their respective responsibilities. Otherwise put, the control environment of an organisation is largely reflected by, inter alia: 1) the managerial philosophy of management, and 2) the operating style of management (Ghiselli & Ismail, 1999:295; Singh, 2005:74; Moreno, 2011:2; Olmedo-Cifuentes & Martínez-León, 2013:226), collectively regarded as the "managerial conduct" (see Section 2.6.1 and Section 2.6.2).

1.1.5 Managerial conduct

As previously mentioned (see Section 1.1.4), the managerial conduct can be viewed as a phenomenon which comprises two aspects, namely, 1) managerial philosophy,

[21] These actions strongly relate to the segregation of duties, proper authorisation activities, adequate document usage and design, safeguarding of assets, and independent checks (Protiviti, 2013).

and 2) operating style of management. For the sake of clarity, these two aspects are briefly described below (Kirkeby, 2000:4-5; Jamian et al., 2013:279):

- Managerial philosophy of management: It is the attitude of management, based on certain core values, while acting out their relevant managerial responsibilities.
- Operating style of management: The methodologies that management follow to make relevant decisions pertaining to the attainment of relevant organisational objectives in the foreseeable future.

According to Lee (2013:54-55), the managerial conduct will have a definitive and universal influence on their respective organisations, which includes, but is not limited to: 1) how business decisions are made, 2) the productivity of employees, 3) the morale of employees, 4) the efficiency of business operations, and 5) how optimally assets are utilised to attain organisational objectives. Hence, in a theoretical dispensation, the inference can be made that owing to the nature of managerial conduct (as a major part of the control environment of an organisation – see Section 1.1.4), it will have a major influence on the soundness of an organisation's control environment. The latter view is especially true for business entities where management is dominated by a minority of individuals (Huang et al., 2015:37), as in the case of many South African SMMEs.

Hence, within in the context of this study (while refining the control environment to managerial conduct) it is believed that the managerial conduct of management in South African FMCG SMMEs will have a direct influence on the soundness of these business entities' implemented internal control systems (all of the remaining four inter-related elements). Therefore, stemming from the above, the following two questions can be asked: How appropriate is the managerial conduct of management in South African FMCG SMMEs? and What relationship exists between the managerial conduct of management and the internal control activities implemented in South African FMCG SMMEs?

All of the eight (underlined) questions raised in Section 1.1 lead to this particular research study being conducted. Although not all of the questions raised were answered in depth by this research study, the main objective of this research study was to contribute significantly to the existing body of knowledge of the discipline of internal auditing. Relevant questions raised were used to help identify the research problem, the primary research question, the primary research objective, the investigative questions and secondary research objectives.

1.2 RESEARCH PROBLEM, RESEARCH QUESTIONS, RESEARCH OBJECTIVES, RESEARCH DESIGN, RESEARCH METHODOLOGY AND RESEARCH METHODS

Scholars suggest that a research study should consist of a research problem or problems, a primary research question, a primary research objective, a research design, and a research methodology, while simultaneously showcasing applicable research methods used to conduct the relevant research study (Collis & Hussey, 2009:71-87; Leedy & Ormrod, 2010:181-222). Below, the research problem, primary research question and primary objective, investigative questions and secondary objectives, the research design, the research methodology and research methods applicable to this research study, are expanded on.

1.2.1 Statement of the research problem

From the background provided above (see Section 1.1), it appears that South African SMMEs do not have good business continuation rates, believed to cost the national economy millions of rands[22] in lost opportunities on a continual basis (Manuel, 2007). Though the latter dispensation can be pinned on economic factors, a previous research study indicates that South African FMCG SMMEs have, according to their respective management, ill-developed systems of internal control based on the limited assurance they provide in relation to the achievement of organisational objectives, ultimately resulting in the failure of these entities in the long run. As any system of internal control consists of five inter-related elements, it is unclear where exactly the problem lies with regard to the implemented systems of internal control in South African FMCG SMMEs.

As previously discussed, however (see Sections 1.1.3 and 1.1.4), any system of internal control is directly influenced by the elements of, inter alia, control environment (serving as the foundation of a system of internal control) and control

[22] The rand (ZAR) is the official currency of South Africa.

activities (ensuring that risks are optimally mitigated). Furthermore, the adequacy and effectiveness of the element "control activities" are greatly impacted by the soundness of the element "control environment" and, in turn, the managerial conduct is believed to have a significant influence on the soundness of an organisation's control environment. Hence, for the sake of this research study, three possible unexplored areas were tested in relation to the above:

- The managerial conduct of management in South African FMCG SMMEs is inappropriate to support a sound system of internal control: In any organisation, the tone set at the top and the soundness of implemented internal control systems is largely influenced by the managerial conduct – particularly through the manner in which management execute their respective responsibilities. Hence, if either the operating style of management or the managerial philosophy of management is inappropriate, it is highly probable that the managerial conduct of management will be in direct contrast with one or more of the characteristics of a sound system of internal control (specifically a sound control environment) and/or the seven characteristics of good corporate governance (see Section 1.1.4). As a result, the latter will have an adverse influence on the soundness of the control environment of an organisation, which may result in the realisation of risks, which in turn may adversely influence on the reasonable assurance provided in relation to the attainment of relevant organisational objectives in the foreseeable future.
- Implemented internal control activities in South African FMCG SMMEs are inadequate and/or ineffective: Since internal control activities should mitigate risks, it may be the case that implemented preventive and detective controls are not as adequate and/or effective as they should be (as prescribed by theory). Such situations may arise if implemented internal control activities are not strongly relative to at least one of the five categories of internal control, namely: 1) segregation of duties, 2) proper authorisation activities, 3) adequate document usage and design, 4) safeguarding of assets, or 5) independent checks. Other possible reasons for inadequate and/or ineffective internal control activities, inter alia, may be that applicable preventive and detective controls are not robust enough (or absent) and/or not adaptable to changes in environments, which may adversely influence the attainment of organisational objectives as a whole. Even if an organisation has an implemented system of internal control that comprises all five inter-related elements, risks will not be effectively mitigated, nor will reasonable assurance be provided regarding the attainment of organisational objectives in the foreseeable future if internal control activities, within such an organisation, are inadequate and/or ineffective.

- The managerial conduct of management in South African FMCG SMMEs contributes to the inadequacy and/or ineffectiveness of implemented internal control activities: Since the managerial conduct has a large influence on the tone set at the top in an organisation, including on the soundness of the implemented internal control systems in an organisation, it is highly probable that the managerial conduct may have a direct and/or indirect adverse influence on the adequacy and/or effectiveness of implemented internal control activities. This is particularly the case since the overall attitude of management concerning internal control (the control environment) – of which managerial conduct forms a major part of – will directly influence the internal control activities that are evident in an organisation.

Against these three unexplored areas above, the research problem that was researched within the ambit of this thesis, reads as follows:

> South African SMMEs have a weak continuation rate owing to the implementation of ill-developed systems of internal control, resulting in limited assurance being provided surrounding the attainment of organisational objectives. As the managerial conduct is a core aspect of the control environment, which sets the tone at the top in an organisation and forms the foundation of an internal control system, it is unclear how the managerial conduct of management, in South African FMCG SMMEs, influences the adequacy and effectiveness of implemented internal control activities in these business entities.

1.2.2 Primary research question and primary objective

To address the identified research problem, the following primary research question was asked:

> To what extent does the managerial conduct of management, in South African FMCG SMMEs, as a major part of the control environment, influence the adequacy and effectiveness of implemented internal control activities in these business entities?

Furthermore, in relation to the primary research question stated above, the following primary research objective pertained to this research study:

To explore the relationship that exists between the managerial conduct of management (a major part of the control environment) in South African FMCG SMMEs and the implemented internal control activities in these business entities. This relationship should provide guidance, through means of a framework, as to how management of South African FMCG SMMEs can enhance the appropriateness of their managerial conduct and the adequacy and effectiveness of their internal control activities. By attaining the latter, it should enhance the internal control systems in South African FMCG SMMEs to provide more assurance surrounding the attainment of their organisational objectives in the foreseeable future and enhance their overall continuation rates.

1.2.3 Investigative research questions and secondary objectives

Four investigative research questions were asked and five related secondary objectives were developed to facilitate the answering of the primary research question and the attainment of the primary objective. This is discussed below:

- The first investigative research question reads: What constitutes a sound control environment in relation to the managerial conduct? The control environment can be viewed as the cornerstone of a system of internal control, in any organisation, as it relates to the attitude, awareness and actions of management towards the implementation and assessment of internal control in the respective organisation. In essence, this attitude is reflected by, inter alia, the core values that management uses to effectively execute their relevant managerial responsibilities, simultaneously taking into consideration relevant managerial methodologies in order to make management decisions pertaining to the attainment of organisational objectives – better known as the managerial conduct. In relation to the identified research problem, this investigative research question provided insight into the core features that constitute a sound control environment, especially by placing emphasis on the core characteristics representative of appropriate managerial conduct. The secondary objective, stemming from this question, was to develop a conceptual framework relating to the core characteristics that are representative of appropriate managerial conduct – a fundamental part of the control environment. This was answered by conducting a literature review (see Chapter 2).
- The second investigative research question reads: What constitute adequate and effective internal control activities? Internal control activities are responsible for the

mitigation of risks through means of preventive and detective controls, strongly relative to the five categories of control, namely: 1) segregation of duties, 2) proper authorisation of transactions, 3) adequate document usage and design, 4) safeguarding of assets, and 5) independent checks. In relation to the identified research problem, this investigative research question provided insight into the core aspects that constitute adequate and effective internal control activities. The secondary objective, stemming from this question, was to develop a conceptual framework relating to the core aspects which make up adequate and effective internal control activities, answered accordingly through a literature review (see Chapter 2).

- The third investigative research question reads: In a theoretical dispensation, what is the current status surrounding the managerial conduct of management in South African FMCG SMMEs and the implemented control activities in these business entities? South African SMMEs add significant socio-economic value to the national economy. For this reason, it is imperative that South African SMMEs become sustainable (at least in an economic sense)[23] despite having to operate in a harsh economic environment. Taking into account the previous two investigative research questions, as well as the identified research problem, this investigative research question provided insight into the current status, in a theoretical sense, surrounding the managerial conduct of management in South African FMCG SMMEs, as well as the adequacy and effectiveness of implemented internal control activities in these business entities. The secondary objective, stemming from this question, was to develop a conceptual framework surrounding the current status pertaining to both the managerial conduct of management in South African FMCG SMMEs, including the adequacy and effectiveness of implemented internal control activities in these business entities. This was done through a literature review (see Chapter 3).
- The fourth investigative research question reads: What relationship exists between the managerial conduct of management in South African FMCG SMMEs and the implemented internal control activities in these business entities? After answering the first three investigative research questions, it was possible to draw up a data-collection tool (see Annexure B) to obtain primary quantitative data to determine (empirically) whether any relationship existed between the managerial conduct of management in South African FMCG SMMEs and the implemented internal control activities in these business entities. The first secondary objective pertaining to this question was to determine (based on the perceptions of both management and employees in South African FMCG SMMEs) the relationship that exists between the managerial conduct and the internal control activities evident in these business entities (see Chapter 5). The second secondary

[23] In order for any business to remain in operation, it needs to attain its economic responsibilities, at least (Strydom et al., 2015:192-221).

objective was to test the similarities and/or differences between the perceptions of management and employees of South African FMCG SMMEs on the managerial conduct of management, internal control activities, and the relationships that they perceived to exist between the two latter aspects (see Chapter 5). This was conducted through means of empirical research to particularly test the perceptions of management of South African FMCG SMMEs (which could be biased) against the views of employees of South African FMCG SMMEs.

1.2.4 Research design, research methodology and research methods

This research study had a particular research design, which was supported by an appropriate research methodology and practical research methods. It should be noted that only a basic overview of the research design, research methodology and research methods deployed in this research study is provided below as they are explained in depth within the ambit of Chapter 4.

In relation to the research design, this research study was largely empirical in nature and entailed the collection of primary data, predominantly taking the form of numerical data (quantitative data) from relevant respondents through means of a questionnaire. Data were collected from respondents with the intent to answer the fourth investigative research question and to achieve the final two secondary research objectives which were associated with the testing of relationships which existed between: 1) the managerial conduct of management and the internal control activities evident in South African FMCG SMMEs, and 2) the views of management and employees of South African FMCG SMMEs in relation to the relationship they perceived to exist between the managerial conduct of management and the internal control activities evident in these business entities. To achieve this, survey research was used as a primary research design (see Section 4.5).

A lesser portion of this research study was non-empirical in nature as secondary data (in the form of literature) had to be extensively reviewed to answer the first three investigative research questions and achieve the first three secondary research objectives. Answering the first three investigative research questions assisted greatly in the description of various phenomena pertaining to the research study (e.g. appropriate managerial conduct, economic sustainability, adequate and effective internal control activities, etc.) which, in turn, were used to develop the questionnaire (see Annexure B) used to answer the fourth investigative research question. As a result, for this research study, literature reviews were used as a secondary research design (see Section 4.5) to answer the first three investigative research questions.

Stemming from the primary research design, this research study fell predominantly within the positivistic research paradigm.[24] Therefore, the research methodology deployed in this research study was quantitative research, a type of research study that involves the collection and analysis of quantitative (numerical) data from a tangible, observable social reality, through means of appropriate research methods and suitable statistical methods (Collis & Hussey, 2009:7) (see Section 4.6).

With the above in mind, it is also important to take note that relevant primary empirical data (quantitative in nature) pertaining to this research study were collected from two specific populations, namely: 1) management of South African FMCG SMMEs,[25] and 2) employees of South African FMCG SMMEs. The reasons for choosing these two distinct populations was to obtain the perceptions of management of South African FMCG SMMEs (those who are responsible for setting the tone at the top in their respective business entities) on phenomena pertaining to this research study, and correlate them with the perceptions of employees of South African FMCG SMMEs (those who get to experience the tone at the top set by management in their respective businesses) on the same phenomena. By doing so, it eliminated respondent bias.

The sizes of both populations were unknown to the researcher and, as such, representative samples were chosen through means of non-probability sampling methods (see Section 4.6). Moreover, due to the nature of the targeted populations, appropriate delineation criteria were developed for: 1) South African FMCG SMMEs, 2) management of South African FMCG SMMEs, and 3) employees of South African FMCG SMMEs.

Empirical quantitative data were collected with the assistance of a contracted data collection firm which disseminated copies of the developed questionnaire to a targeted 120 members of management of South African FMCG SMMEs and a targeted 120 employees of South African FMCG SMMEs on behalf of the researcher

[24] The positivistic research paradigm strongly relates to research studies that are conducted in a tangible, observable social reality (Remenyi et al., 1998:32-33).

[25] In the context of this research study, management of South African FMCG SMMEs refer to owners and/or managers of South African FMCG SMMEs.

(an additional measure to ensure objectivity), while being based in the same FMCG SMMEs as far as possible, for the purpose of data analyses (see Section 4.6). From the disseminated copies of the questionnaire, validated responses[26] were received from 119 members of management of South African FMCG SMMEs and 78 employees of South African FMCG SMMEs. In turn, the collected data were cleaned and analysed accordingly through making use of statistical software (see Chapter 5).

In addition to the above, relevant ethical considerations were taken into account. Since the two targeted populations of this research study were human beings, a total of four ethical considerations were taken into account in this research study, namely: 1) protection from harm, 2) informed consent, 3) right to privacy, and 4) voluntary participation (see Section 4.2).

All collected data were analysed through both descriptive and inferential statistics as the data were strongly relative to non-parametric statistics (Leedy & Ormrod, 2010:265) (see Section 4.6). Stemming from the descriptive and inferential statistics, there were relevant discussions on the results (see Chapter 5), and stemming from the results and discussions, relevant conclusions were drawn and feasible recommendations made (see Chapter 6).

From the research conducted, it was possible to develop a framework which depicts the relationship that exists between the managerial conduct of management in South African FMCG SMME and the internal control activities evident in these business entities (see Chapter 6), serving as guideline as to how to enhance the appropriateness of the managerial conduct of management, as well as the adequacy and effectiveness of established internal control systems in South African FMCG SMMEs, thereby improving the overall sustainability and fortifying the respective continuation rates of these business entities.

To place the research design, methodology and research methods in context, Figure 1.3 provides an entire depiction of the process that was followed (in this research study) to address the primary research problem, answer the primary research question, and achieve the primary research objective.

[26] Responses of respondents were only regarded as valid if respondents adhered to all relevant delineation criteria (see Section 4.6).

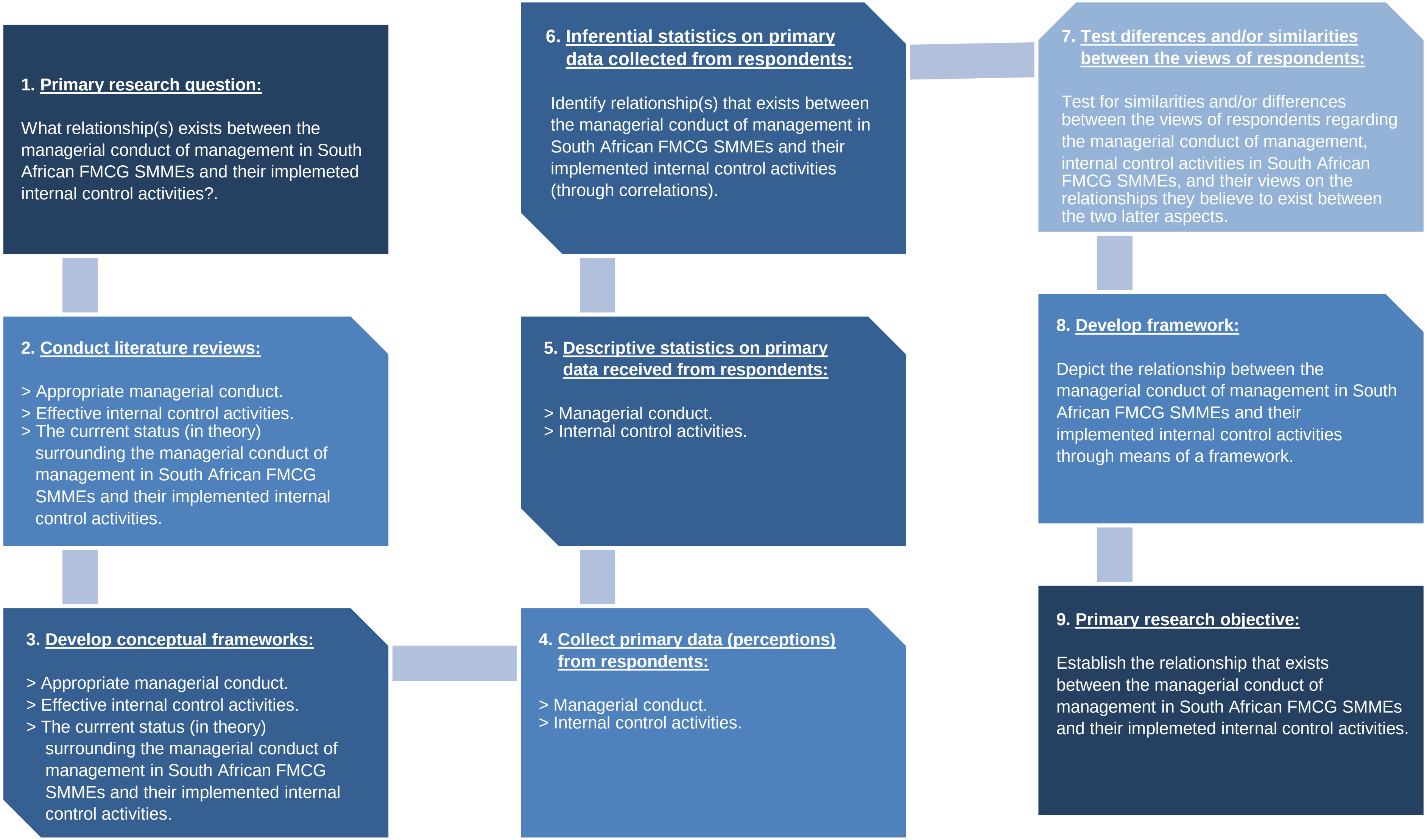

Figure 1.3: A schematic presentation of this research study

1.3 VALUE OF THE RESEARCH TO STAKEHOLDERS

Particularly for this research study, an emerging issue worthy of further investigation and explanation was identified, namely the relationship that exists between the managerial conduct of management in South African FMCG SMMEs and the internal control activities evident in these business entities. In essence, this research study also aimed to add value (Trafford & Leshem, 2008:3-4) to relevant stakeholders. In this thesis:

- Guidance is provided to management of South African FMCG SMMEs in terms of the relationship that exists between their managerial conduct and the internal control activities that are evident in their respective business entities. This is done through means of a chapter where recommendations and conclusions are made pertaining to the identified research problem, primary research question and primary research objective – providing insight in terms of how South African FMCG SMMEs can enhance their overall sustainability and fortify their relevant continuation rates (see Chapter 6). Moreover, a framework was designed to depict the relationships for management of South African FMCG SMMEs to enhance the adequacy and effectiveness of their respective business entities' established internal control systems, as well as the appropriateness of their managerial conduct, to in turn enhance their overall sustainability and respective continuation rates (see Chapter 6).
- Assurance is provided to employees of South African FMCG SMMEs about their job security by means of a chapter where recommendations are made and conclusions drawn pertaining to the identified research problem, primary research question and primary research objective, thereby providing insight into how South African FMCG SMMEs can enhance their overall sustainability and fortify their respective continuation rates, together with a framework that depicts how the latter can be attained empirically (see Chapter 6).
- New knowledge is created, both relative and relevant to the researched topic. In particular, a contribution was made to the body of knowledge in the field of accounting sciences (and related disciplines), as well as the scientific community through means of, inter alia: 1) developed conceptual frameworks for a variety of concepts (see Chapter 2 and Chapter 3), 2) a theoretical underpinning of the status of the managerial conduct of management in South African FMCG SMMEs and their internal control activities (see Chapter 3), 3) results and discussions that elaborate on the relationship that exists between the managerial conduct of management in South African FMCG SMMEs and the implemented internal control activities in these business entities (see Chapter 5), 4) relevant recommendations and conclusions pertaining to the identified research problem,

primary research question and primary research objective (see Chapter 6), and 5) a developed framework that depicts the relationship which exists between the managerial conduct of management in South African FMCG SMMEs and the internal control activities evident in these business entities (see Chapter 6).

- Insight is provided into South African policy makers in relation to additional support that can be offered to South African FMCG SMMEs through relevant recommendations and conclusions pertaining to the identified research problem, primary research question and primary research objective (see Chapter 6).

In order to add useful value,[27] core aspects in this thesis were shared (and will be shared) accordingly with the various stakeholders mentioned above, among others, by taking on the forms of: 1) a research report, 2) research articles, and 3) conference papers.

1.4 CONCLUSION AND RELEVANCE OF THE STUDY

In this chapter, an overview was first provided on the background pertaining to the research problem. Although South African SMMEs are often referred to as the driving force of the South African economy because of the socio-economic value they add, previous research studies indicate that more than 70% of South African SMMEs fail after being in existence for only three years. One possible reason for this, based on one previously conducted research study, is that these business entities have inadequate and/or ineffectively implemented (ill-developed) systems of internal control, particularly since their implemented internal control systems provide limited assurance regarding the attainment of organisational objectives in the foreseeable future (according to the views of management only). Based on this, a total of eight (underlined) questions were raised: 1) How can management of South African SMMEs improve their respective business entities' implemented systems of internal control? 2) What is the impact of inadequately implemented internal control systems on the continuation rate of South African FMCG SMMEs? 3) What is the impact of ineffectively implemented internal control systems on the continuation rate of South African FMCG SMMEs? 4) How sound are the control environments of South African FMCG SMMEs? 5) How adequate are the implemented internal control activities of South African FMCG SMMEs? 6) How effective are the implemented internal control

[27] "Value has a value only if its value is valued" – Bryan Dyson.

activities of South African FMCG SMMEs? 7) How appropriate is the managerial conduct of management in South African FMCG SMMEs? and 8) What relationship exists between the managerial conduct of management and the internal control activities implemented in South African FMCG SMMEs?

From the eight listed questions above, emphasis was placed on the last four, from where three unexplored areas of concern were highlighted, namely that: 1) the managerial conduct of management in South African FMCG SMMEs may be inappropriate to support a sound system of internal control, 2) implemented internal control activities in South African FMCG SMMEs may be inadequate and/or ineffective, and 3) the managerial conduct of management in South African FMCG SMMEs may contribute to the inadequacy and/or ineffectiveness of implemented internal control activities. The remaining four listed questions above were accordingly referred back as possible avenues for future research (see Chapter 6).

Stemming from the three unexplored areas of concern, a single research problem was identified and a primary research question was posed, along with the statement of a primary research objective. In turn, four investigative questions were asked which had a total of five secondary research objectives – their main intent being to answer the primary research question to, in turn, mitigate and/or solve the identified research problem and achieve the stated primary research objective.

In the context of this research study, the research design (a mixture of survey research and literature review) and the methodology (quantitative research) that were chosen for this research study were provided. Moreover the research methods that were deployed to execute this research study were discussed, and relevant ethical considerations pertaining to this research study were briefly expanded on. Lastly the value of this research study was explained and the means by which its findings were (and will be) shared were also provided.

For clarification, the chapters following Chapter 1 are briefly outlined below:

Chapter 2: In this chapter, emphasis is placed on answering the first two investigative research questions to achieve the first two secondary objectives (see Section 1.2.3). In order to attain the latter, a literature review was conducted. In this chapter, emphasis is placed on the historical overview of internal control, a broad overview of internal control, what constitutes a system of internal control, the elements that constitute a sound system on internal control (with focus placed on the element of “control environment” and the element of “internal control activities”), along with relevant discussions surrounding the managerial conduct of management.

Chapter 3: In this chapter, emphasis is placed on answering the third investigative research question (see Section 1.2.3), thereby attaining the third secondary objective. This was achieved by conducting a literature review. In this chapter, focus is placed on SMMEs in a historic and holistic sense, as well as the economic environment in which South African FMCG SMMEs have to operate, including the current status surrounding the managerial conduct of management in South African FMCG SMMES and the adequacy and/or effectiveness of implemented internal control activities in these business entities.

Chapter 4: In this chapter, a detailed explanation is provided on the chosen research design, the deployed research methodology and the research methods used in this research study. Moreover, a detailed explanation of the questionnaire used is provided, along with the relevant questions posed in the questionnaire.

Chapter 5: This chapter contains the primary quantitative data analyses relative to the primary quantitative data that were collected from respondents. Relevant descriptive statistics and inferential statistics appear in this chapter, built on non-parametric statistical methods. In this chapter, the data analyses and results are also extensively discussed in the context of the research study.

Chapter 6: In this chapter, conclusions are drawn and recommendations are made from the research study conducted. In essence, the identified research problem, primary research question, primary research objective, investigative research questions and secondary research objectives (see Section 1.2) are revisited and conclusions are reached by reference to the conducted literature reviews (see Chapter 2 and Chapter 3) and the analysed data, including extensive discussion (see Chapter 5). In essence, relevant recommendations are made to mitigate and/or solve the identified research problem. Stemming from this, a framework was developed which reflected the relationship that exists between the managerial conduct of management in South African FMCG SMMEs and the implemented internal control activities in these business entities – the Control Legacy-K (CLK) Framework.

CHAPTER 2: LITERATURE REVIEW – INTERNAL CONTROL, THE ELEMENTS OF AN INTERNAL CONTROL SYSTEM AND THE MANAGERIAL CONDUCT

SYNOPSIS

Throughout this thesis a methodical process is followed whereby each chapter builds on the previous one. This methodical process is provided below, while also placing this particular chapter in context with all other chapters:

Chapter 1: Introduction to the research study

Chapter 2: Literature review - Internal control, the elements of an internal control system and the managerial conduct

2.1) The evolution of internal control to a system of internal control.
2.2) Internal control as an alleviator of risks.
2.3) The historic development of internal control frameworks.
2.4) The COSO Integrated Internal Control Framework of 2013.
2.5) Conceptualising the control environment and control activities.
2.6) The managerial conduct of management.
2.7) Conclusion and relevance to the research study.

Chapter 3: Literature review - South African fast-moving consumer goods Small, Medium and Micro Enteprises

Chapter 4: Research design, methodology and methods

Chapter 5: Data analyses, results and discussion

Chapter 6: Conclusion

2.1 THE EVOLUTION OF INTERNAL CONTROL TOWARDS A SYSTEM OF INTERNAL CONTROL

The discussion that follows in this section pertains to the evolution of internal control towards a system of internal control. Since both external and internal auditing form part of the evolution of modern internal control, it is important to understand how these two disciplines contributed to the development of internal control systems. Hence, for this section, these are covered in depth under the following headings: 1) the evolution of auditing from ancient times to 1960, 2) the development of a system of internal control from 1960 to 1992, 3) scrutiny of the definition of internal control, and 4) the main objective of internal control and institutional theories underpinning the importance of internal control.

2.1.1 The evolution of auditing from ancient times to 1960

The profession of auditing, which is directly linked to the profession of accounting (Radcliffe, 1998:377; Mala & Chand, 2015:5), is believed to originate from ancient times, dating back to as early as 3 000 BC after the discovery that at least one early Mesopotamian civilisation made use of formal record-keeping systems (Macve, 2014:131). Based on historical records, Mesopotamian record-keeping systems[28] largely consisted of clay "tokens" with simple geometrical shapes,[29] and/or writings on stone tablets (Keister, 1963:372; Ezzamel & Hoskin, 2002:341) – predominantly used for the purposes of assessing and/or calculating taxation (Sharlach, 2002).

With the passing of time - between 3 000 BC and 2 500 BC - civilisations across the globe, particularly in China and Egypt, started to make use of more intricate record-keeping systems. These record-keeping systems were much more advanced than those used in Mesopotamia, significantly characterised by: 1) multifaceted clay "tokens" with complex shapes with holes and/or indentations inside them, 2) writings on shards of clay pottery, 3) writings on tombs and/or temples, and 4) writings on papyrus scrolls (Ezzamel, 2002:71-72; Ezzamel & Hoskin, 2002:341). Aside from assessing and/or calculating taxation, these record-keeping systems[30] were also

[28] Such record-keeping systems had two uses: 1) to keep records – relative to accounting, and 2) to evaluate the records kept – relative to auditing (Mattessich, 1987:79-81; Mattessich, 1989:76-78).

[29] These shapes included, inter alia, cones, spheres, triangles and squares.

[30] These record-keeping systems are believed to be the earliest form of auditing (Basu, 2010:1.1-1.3).

used to provide some sort of evidence surrounding the authorisation of transactions which took place, as well as the validation of captured records pertaining to authorised transactions (Basu, 2010:1.1-1.2). As time elapsed, record-keeping systems evolved further, and became even more complex,[31] from the start of 350 BC, in Rome (Lee & Azham, 2008:2; Farag, 2009:404-405).

Between 350 BC and 272 BC, there was no need for direct taxation to be levied on the citizens of Rome (Bartlett, 1994:291; Brown, 2006:29) since the majority of public officials performed their duties without any stipulated compensation (Pulliam, 1924:545). With the Roman Empire having no regular and/or direct expenditures, quaestors[32] were appointed to serve as the eyes and ears of the Roman Empire in an attempt to strictly monitor the liquidity matters of the state (Edwards, 2014:29). Despite this, money was misappropriated by dishonest officials (including quaestors) from time to time, which had an adverse influence on the liquidity of the Roman Empire (Brown, 1962:697; LaPalombara, 1994:327-328). As a result, the Roman Empire had no choice but to collect more money in the form of direct taxation (Pulliam, 1924:547; Monson, 2007:254). By the start of 272 BC, Roman lawmakers decided to make unconventional amendments to existing tax laws[33] with the empowerment of tax farmers[34] to collect tax money from Roman citizens on behalf of the Roman Empire (Bartlett, 1994:292; White, 2002).

Although tax farming was effective at first, it resulted in an array of widespread fraudulent activities[35] occurring on a frequent basis. These included embezzlement, theft and corruption (Lee & Azham, 2008:2). In essence, chaos erupted owing to limited control initiatives put in place by the Roman Empire prior to the empowerment of tax farmers (Ramamoorti, 2003:3), and with most fraudulent activities committed by public officials, an urgent need for control arose (McMickle, 1978:11-12).

[31] By the start of 350 BC, record-keeping systems made provision for the collection of revenue, the authorisation of expenditure, and the recording of financial transactions pertaining to revenue and expenses, in a segregated manner (Edwards, 2014:29).

[32] Quaestors were public officials, formally appointed to assume the responsibility(ies) of supervising and/or auditing and/or providing advice regarding the financial affairs of the state (Harries, 1988:148).

[33] Before this amendment to existing tax laws took place, taxation was mostly levied on residential property and commercial property owned by Roman citizens (Littleton & Yamey, 1956:48).

[34] Tax farmers were private contractors who had to bid in public auctions, every five years, to qualify to participate in the collection of revenue and/or to supply public services on behalf of the state (Balsdon, 1962:136; Monson, 2007:254).

[35] Tax farmers usually lent money to the state in advance before collecting taxation from citizens. More often than not the tax collected by tax farmers covered more than just the debt owed to them by the state. In an attempt to make a profit on their lending to the state, tax farmers levied additional charges (different from one tax farmer to another) on the taxation payable by citizens, with the intent to earn interest income (Bartlett, 1994:291; LaPalombara, 1994:327-328).

In an attempt to establish a basis of control to mitigate fraudulent activities and halt the chaos, Romans developed an innovative prototype record-keeping system, which later became known as the double-entry bookkeeping system[36] (Jacobson, 1964:221; Edwards, 2014:45-47). This new record-keeping system allowed for properly authorised transactions to be formally captured while simultaneously validating the occurrence of these captured transactions with sound proof, based on the principle of duality[37] (De Roover, 1938:144-146). In essence, the latter prototype record-keeping system, along with relevant enhancements made to it between AD 305 and 1840 can be deemed as "early auditing,"[38] with its main objective being to exclusively verify the honesty of an individual charged with fiscal responsibilities (Brown, 1962:696).

By the early 1840s the Industrial Revolution[39] was in full swing, which had a significant influence on economies around the world, especially in the United Kingdom (UK), as large-scale production was made possible through means of mechanical equipment (Basu, 2010:1.2). With an enormous increase in production quantities made possible through the technology of the Industrial Revolution, colossal capital investments were required to fund such business prospects (Deane, 2000:82-83; Lee & Azham, 2008:3). Since individuals did not have the financial resources to fund such initiatives solely, the concept of "companies" emerged in the UK for the first time as a type of business entity – a capitalist economic system with complex bureaucratic structures[40] (Fattah & Ganiyy, 2013:2).

Although companies were favourably received by the general public between 1840 and 1843, the lack of formal legislation governing UK companies resulted in society's regarding these organisations as perilous, since no reasonable assurance could be provided to investors by UK companies on the safety of their invested funds (Lee,

[36] This prototype record-keeping system was the first of its kind and based on historical evidence; it was developed long before the 15th century. In 1458 a manual was written by Luca Pacioli (who is regarded as the "father of accounting" by many accounting scholars) that contained great improvements to the prototype record-keeping system developed in Ancient Rome. This record-keeping system, as refined by Luca Pacioli, is still in use today (Jacobson, 1964:222; Hoskin & Macve, 1986:122-123).

[37] The principle of duality holds relevance to the two sides of an account: the left-hand side (debit) and the right-hand side (credit) – for every debit there should be an equal and opposite credit (Flynn & Koornhof, 2007:3-2-3.3).

[38] "Early auditing" was predominantly used between AD 305 and 1840 (Lee & Azham, 2008:3).

[39] The Industrial Revolution marks an era where less manual labour was required by organisations to perform their operational activities on a large scale (the precursor to mass production), owing to the increased use of mechanical equipment to perform operational tasks. The latter resulted in more profits generated for investors at a rapid pace; however it also lead to large-scale unemployment, adversely impacting economies around the globe (Trew, 2014:709).

[40] Railways, banks and joint stock companies were among the first companies to be established in the UK (Abdel-Qader, 2002:15).

1995:48-49; Deane, 2000:82-83; Lee & Azham, 2008:3). In an attempt to establish a basis of control, the *Joint Stock Companies Act of 1844* was signed into law, making it mandatory for UK companies to provide sound evidence to relevant stakeholders that: 1) accounting records were and would be kept up to date on a regular basis, 2) balance sheets were and would be prepared on a regular basis, and 3) auditors[41] were and would be appointed from external auditing service providers (Sikka et al., 1998:307; Abdel-Qader, 2002:15).

As time elapsed the UK *Companies Act of 1862* was officially signed into law, which, among other alterations to the original *Joint Stock Companies Act of 1844*, made the regular auditing of UK companies' balance sheets mandatory (Abdel-Qader, 2002:16-17). By the early 1900s, additional legislation in the UK compelled companies to have both their respective balance sheets and profit and loss statements (income statements) audited on an annual basis (Napier, 2010:243-274).

Also during the early 1900s, business people (known as merchants at this time) from the UK travelled to numerous developed countries for investment purposes[42] and relevant bookkeeping systems and auditing philosophies, as developed in the UK, were promptly introduced and implemented in many visited developed countries around the world (Watts & Zimmerman, 1983:614). One of these was the United States of America (USA) (Byrnes et al., 2012:2). As a result of British travel and investment, it was in the USA that the profession of auditing largely developed, especially between 1920 and 1960.

In the early 1920s, with the establishment of USA companies and their increased involvement in the New York Stock Exchange (NYSE), from an auditing perspective more emphasis was placed on the enhancement of mechanisms to detect fraud, including the financial accountability of relevant company stakeholders (Chandler et al., 1993:452; Byrnes et al., 2012:2). This was especially the case, since company stakeholders relied solely on financial statements, in most cases, to make relevant business decisions (Lowenstein, 1996:1339-1340).

[41] Between the early 1840s and the early1900s, the role of auditing was confined to the detection of fraudulent activities, technical errors, and errors of principle, while simultaneously providing assurance of the proper portrayal of the solvency of organisations (Humphry et al., 1993:40-41; Abdel-Qader, 2002:17; Lee & Azham, 2008:3).

[42] In most cases, merchants invested money to aid in the establishment of financial institutions, predominantly banks as international branches of the Bank of England (Chapman, 2010:173).

By the mid-1920s an estimated 90% of all listed companies on the NYSE had voluntary audits in place (Nicholas, 2008:1373), but regardless of efforts made by auditors to detect fraud and ensure financial accountability, disaster struck the economy of the USA with the crash of the NYSE in 1929,[43] resulting in the discipline of auditing changing from a voluntary process to a rigorous and obligatory process which all listed USA companies had to undergo (Abdel-Qader, 2002:18; Flesher et al., 2005:22).

After the 1929 stock market collapse, the economy of the USA gradually gained momentum with the establishment of new companies (Lee & Azham, 2008:3-4); however with the establishment of more companies, along with the growth of existing companies (those that survived the 1929 stock market crash), the separation between investors and management became more evident (Useem, 1980:44; Berle & Means, 2009:75-76). In essence, although investors were in a position to both manage their companies while earning profits, the majority of investors decided to employ managers to manage the operations of their companies while they (investors) still earned profits (Berle & Means, 2009:112). More often than not the interests of managers (operation focused) and the interests of investors (profit focused) were unaligned, which had a negative influence on the effective utilisation of many companies' resources, as well as the overall attainment of these companies' relevant objectives (Demsetz & Lehn, 1985:1173).

Stemming from the separation between investors and management, the need for proper assurance surrounding the honest and fair representation of financial statements in relation to companies' actual financial position and financial performance arose (Abdel-Qader, 2002:18; Sunder, 2010:104). This concern was thoroughly addressed by the USA Senate's Committee on Banking and Currency between 1933 and 1934 with the passing of legislation which made it mandatory for each listed company on the NYSE to provide audited financial statements to relevant stakeholders on an annual basis (Benston, 1973:133). All financial statements of each listed company had to reflect an honest and truthful representation of the relevant company's actual financial performance and actual financial position (Bryer, 2008:6-7; Niemeier, 2007). In the same vein, also in 1934, the function of auditing was thoroughly reviewed by USA lawmakers (Byrnes et al., 2012:2), from where

[43] The crash of the stock market (NYSE) in the USA signalled the beginning of the Great Depression in 1929 – its impact was experienced in most countries around the globe, with its aftershocks lasting until 1939 (Romer, 1993:22-23).

consensus was reached that auditing, in a USA context, primarily had to do with the assessment of the truthfulness and fairness of a company's financial statements as opposed to only being concerned with the prevention and detection of fraud and technical errors (Montgomery, 1934,[44] cited by Lee & Azham, 2008:4; Meigs, 1951:518).

With auditing mandated by USA legislation, the need for auditing expanded throughout the country during the remainder of 1934, especially after the establishment of more USA companies (Swinkels, 2012:28). Unfortunately most managers of USA companies were restricted in relation to effectively keeping their fingers on the pulse of their respective companies' operations, especially because of increased volumes of transactions that had to be accounted for during each financial year, which, in turn, had to be audited at the end of each financial year (Chandler et al., 1993:453). Consequently, some USA companies took the initiative to employ auditors[45] from external auditing service providers to serve as their own employees,[46] acting as the eyes and ears of management (Moeller, 2009:5-8). They helped with the auditing of internal operations (including large volume of transactions), which directly influenced these companies' financial performance and position, while simultaneously assisting management to reduce the costs of formal year-end external audits (Brink & Cashin, 1958[47] cited by Ramamoorti, 2003:4-5; Lee & Azham, 2008:4; Swinkels, 2012:28). These auditors were known as internal auditors.

Unsurprisingly, between 1934 and 1940 the popularity of the initiative to employ internal auditors increased rapidly as many companies internationally followed in the footsteps of USA companies (IIA, 2015a). With an increase in the demand for internal auditors, the Institute of Internal Auditors (IIA) was established in the USA in 1941, leading to the publication of the *Statement of Responsibilities of the Internal Auditor*[48] in 1947 (Ramamoorti, 2003:3). Taking into account the unique situation of internal auditors, their five core responsibilities, as per the *Statement of Responsibilities of the Internal Auditor*, were identified as follows:

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[44] Montgomery, R.H. 1934. *Auditing theory and practice*. 5th ed. New York, NY: Ronald Press.

[45] In this timeframe, auditors that were employed by companies (internally based) were classified as internal auditors, while auditors that were employed by external auditing service providers (externally based) were classified as external auditors (Ramamoorti, 2003:4-5; Moeller, 2009:5-8).

[46] The initiative taken by USA companies to employ internally based auditors from external auditing service providers was the first of its kind during 1934.

[47] Brink, V.Z. & Cashin, J.A. *Internal auditing*. New York, NY: Ronald Press.

[48] This 1947 IIA publication, the first of its kind, can be directly associated with modern-day internal control (Swinkels, 2012: 42-43).

- Reviewing and evaluating the soundness, adequacy and application of accounting controls, financial controls and operating controls inside a company.
- Determining the overall compliance in terms of established policies, plans and procedures throughout a company.
- Determining the extent to which a company's assets are accounted for, and ensuring that they are safeguarded from all types of losses.
- Determining the reliability of both accounting information and non-accounting information used in a company.
- Evaluating the quality of performance in carrying out assigned responsibilities.

Notwithstanding the above, the external audit function was reviewed between 1934 and 1938 by the American Institute of Certified Public Accountants, and in 1939 the first edition of the *Statements on Auditing Procedure* was officially issued in the USA (Imhoff, 2003:118; Byrnes et al., 2012:2). The crux of the latter publication was the official classification of the external audit function, describing it as an activity responsible for the inspection of assets and the auditing of a company itself, as opposed to being dependent on management verification procedures (Lee & Azham, 2008:4).

Although internal auditing and external auditing were worlds apart from one another, by the late 1940s they collectively provided a sense of reasonable assurance to companies' stakeholders in the sense that: 1) companies' internal processes were functioning as intended, while being supported by audit evidence from both internal and external sources, and 2) companies' reported financial statements were fairly and truthfully representative of the companies' actual financial performance and actual financial position (Matthews, 2006:148-149; Lee & Azham, 2008:4). With no major changes reported in the American economy between 1950 and 1960, the unique roles of internal auditing and external auditing were still deemed as suitable by the start of 1960, even after the discovery of automated accounting information systems in the early 1950s (Byrnes et al., 2012:2).

In South Africa, the auditing profession first started to gain momentum during the mid-1890s after the formal establishment of the Institute of Accountants and Auditors[49] (SAICA, 2015a); better known today as the South African Institute of Chartered Accountants (SAICA). Over the years, the popularity of (external) auditing

[49] The creation of the Institute of Accountants and Auditors was prompted by the Institute of Chartered Accountants in England and Wales (Maroun, 2013:30).

increased, resulting in similar institutions[50] established nationally (Verhoef, 2011:24). Owing to the vast number of established (external) auditing institutions in South Africa, the need for standardisation arose which lead to the *Chartered Accountants Designation Act No. 13 of 1927* being formally signed into law to empower chartered accountants to perform audits under the designation "CA(SA)", while the Joint Council of Societies of Chartered Accountants of South Africa[51] was constituted in the mid-1940s to provide a platform for co-operation among all existing national (external) auditing institutions (Maroun, 2013:30).

By the early 1950s, the *Public Accountants' and Auditors' Act No. 51 of 1951* was signed into law, which formalised the registration of (external) auditors, as well as the establishment of the Public Accountants and Auditors Board (ICAN, 2007). Although external auditing was predominantly focused on in South Africa between the early 1950s and the early 1960s, with the passing of time, stemming from the popularity of internal auditing in the USA, the IIA South Africa was established in the mid-1960s as a non-profit organisation (Papageorgiou et al., 2013:594). In South Africa, internal auditing assumed the same responsibilities as published in the revised edition of the *Statement of Responsibilities of the Internal Auditor* of 1957.[52]

In both South Africa and internationally, internal auditing and external auditing underwent more developments after the 1960s; however, it should be noted that these developments do not fall within the ambit of this research study.

On examining the evolution of auditing internationally, it is important to note that by the late 1950s, although internal auditing provided assurance in relation to the effective and efficient functioning of an organisation's internal processes, and external auditing provided assurance pertaining to the fair and truthful representation of an organisation's actual financial performance and position, unforeseeable risks started to realise in many organisations around the world (Damodaran, 2008:72-73). With the passing of time, the number of unforeseeable risks started to increase, greatly spurred on by increased market volatility. This lead internal auditors to shift their attention from predominantly ensuring that organisational operations were

[50] The Institute of Accountants in Natal is one example of the national institutions that were established throughout South Africa (Verhoef, 2011:24).

[51] This Joint Council was later renamed in 1966 as the National Council of Chartered Accountants (SA) (Maroun, 2013:30).

[52] The updated *Statement of Responsibilities of the Internal Auditor* of 1957 contained only one addition to the *Statement of Responsibilities of the Internal Auditor* of 1947, namely the operational responsibilities of internal auditors (Coetzee et al., 2012:4).

functioning as intended, towards the internal control of companies, all with the intent to help mitigate the potential impact and realisation of (financial) risks (Ramamoorti, 2003:7; Lee & Azham, 2008:5). Although interventions were put in place to mitigate both the potential impact and realisation of risks, they were very ineffective, resulting in the need for and later the development of a system of internal control.

2.1.2 The development of a system of internal control from 1960 to 1992

Between the early 1960s and the mid-1970s, technological advancements around the world, among other global factors, helped spur the growth of many economies (King & Levine, 1993:735; Holzer & Millo, 2004:5; Buchanan & O'Connell, 2006:32-33; Chang, 2011:483), resulting in many international companies reporting record financial performances[53] in their annual financial statements (Drucker, 1984; Kincaid, 2008:59-60; Yang, 2013). Market volatility gradually became a common phenomenon (Karmakar, 2006:1799) which adversely began to impact on many companies' financial performance and position, resulting in the failure of established international companies[54] (RMS, 2000). The reason for the growing market volatility was the sudden shifting of bull markets[55] to bear markets,[56] and vice versa, causing many unforeseeable, unaccounted and uninsured risks[57] to realise in companies (Dionne, 2013:147-150).

Stemming from the state of affairs above, internal auditors shifted their attention more towards the internal control[58] of companies (in relation to financial statements),

[53] The record financial performance of companies, in a global sense, is strongly associated with the levels of economic growth reported between the 1960s and the mid-1970s owing to technological advancements (IMF, 2009:3-5).

[54] The majority of established companies that failed were commercial banks (Barth et al., 2006).

[55] A bull market is characterised by investor optimism and confidence regarding the performance of a listed company. This optimism and confidence results in increased share prices as the demand for shares increases and the supply of shares, in most cases, remains constant (Investopedia, 2015a).

[56] A bear market is characterised by investor pessimism and distrust regarding the performance of a listed company. The pessimism of investors results in decreased share prices as the demand for shares decreases while the supply of shares, in most cases, remains the same (Investopedia, 2015b).

[57] During the 1950s, insurance companies were established for the first time with the main intent to provide coverage to companies for basic risks. Although most established companies were safeguarded against basic risks, insured companies were not safeguarded against financial risks (e.g. market volatility). Owing to the global prosperous economic period between the early 1960s and mid-1970s, financial risks were not covered by insurance companies; proper insurance against financial risks was only provided by insurance companies in the late 1980s (Dionne, 2013:147-150).

[58] During the mid-1970s, the term "internal control" strongly related to administrative and accounting control. Administrative control pertained to applicable control measures which influenced the day-to-day operations of an organisation (e.g. the organisational structure, the effectiveness of operations, the efficiency of operations, and the economy of operations), while accounting control pertained to applicable control measures which influenced

with the main intent to mitigate the potential realisation of (financial) risks (Ramamoorti, 2003:7; Lee & Azham, 2008:5). Since internal auditors were predominantly focused on the mitigation of key risks, for the sake of cost effectiveness, control-based auditing was mostly conducted by internal auditors during this timeframe (Power, 2007:379) – a type of audit whereby the risks of material misstatements in companies' financial statements are estimated in accordance with the design of the respective companies' internal controls (Griffiths, 2005:115; Lee & Azgham, 2008:5; Cao et al., 2015:318). Despite the valiant efforts of internal auditors to mitigate risks through control-based auditing, more unforeseeable and unaccounted risks[59] started to realise between 1970 and 1985 globally (Karmakar, 2006:1799), triggering rising cases of fraudulent activities and erupting in economic chaos (Dickinson, 2001:361; Lee & Azham, 2008:5).

In an attempt to establish order amidst the chaos, COSO[60] was established in 1987 by the Treadway Commission, mandated by the USA Securities and Exchange Commission and the USA Congress through the *1977 Foreign Corrupt Practices Act*, assigned to provide recommendations on how to limit the impact of risks, holistically, regardless of their nature, in companies (Rezaee, 1995:5-6). A "system of internal control" was recommended as an official tool to help prevent and detect all types of risks (COSO, 1999:8; Miller et al., 2013:3).

After five more years COSO formally developed the COSO Internal Control – Integrated Framework of 1992 (discussed in Section 2.3.1) where the term "internal control" was officially and formally defined as follows:

> It is a process, effected by a company's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to the effectiveness and efficiency of operations, the reliability of financial reporting, and the compliance with applicable laws and regulations (COSO, 1992).

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the accounting activities of an organisation (e.g. proper authorisation, safeguarding of assets, and the accounting of assets) (Adewale, 2014:254).

[59] During this timeframe, owing to the limited coverage that insurance companies provided to insured companies surrounding financial risks, the majority of insured companies started to establish their own risk management departments (internally) to help manage market risks and credit risks respectively. As there existed no formal standards and/or norms as to how relevant risks should be managed, established risk management departments were not as effective in managing market risks and credit risks as expected, resulting in limited assurance provided surrounding the achievement of companies' objectives in the foreseeable future (Dionne, 2013:156; RMS, 2000).

[60] COSO comprises five organisations, namely the Institute of Management Accountants, the American Accounting Association, the American Institute of Certified Public Accountants, the Institute of Internal Auditors, and Financial Executives International (Swinkels, 2012:50).

After the development of the COSO Internal Control – Integrated Framework of 1992, more internal control frameworks[61] were established (see Section 2.3.2 and Section 2.3.3) to assist with the fortification of internal control in companies. Notwithstanding this, since 1992 the COSO Internal Control – Integrated Framework has been considered one of the official formal frameworks that should be used by organisations to help establish sound internal control (Dickins et al., 2011:2; Baker Tilly, 2014:1) as it satisfies the main objective of internal control better than any other internal control framework (Debreceny et al., 2003:172).

Although the COSO Internal Control – Integrated Framework of 1992 was an innovation that set the norm for internal control, it is evident that its definition of the term "internal control" is extremely broad. In an attempt to conceptualise the term "internal control" within the ambit of this research study, the definition of internal control, as per the COSO Internal Control – Integrated Framework of 1992 is scrutinised in the next section.

2.1.3 Scrutinising the definition of internal control

The definition above (internal control) has an extensive breadth attached to it, as it encompasses an array of aspects. Therefore to aid in the conceptualisation of the term "internal control" for this research study, the definition of internal control based on the COSO Internal Control – Integrated Framework of 1992 (above) is deconstructed below by scrutinising its core features:

- A *process*: It is a sequence consisting of logical elements and/or actions that have a natural flow or an inter-connection to one another, in some way or another (Merriam-Webster, 2015b).
- *Effected* by a company's board of directors, management and other personnel: Something that is caused, applied, implemented and/or produced by relevant organisational stakeholders (Oxford Dictionaries, 2015a) that comprise the board of directors, management and other personnel.

[61] Some of these are control frameworks that include the CICA's CoCo Framework, the Basel Committee on Banking Supervision's Framework for Internal Control Systems, the COBIT Framework, and ISO Standard 9001 and Standard 14001 (IIA, 2008).

- Designed to provide reasonable *assurance*: Developed to provide an offer regarding a sound (fair) and positive declaration (pledge) of confidence in relation to a promise that was made in the past (Oxford Dictionaries, 2015b).
- Regarding the *achievement* of: Relative to the act of achieving and/or obtaining something through effort (Merriam-Webster, 2015c; Merriam-Webster, 2014d).
- *Objectives* relating to the effectiveness and efficiency of operations, the reliability of financial reporting, and the compliance with applicable laws and regulations: The overall goals, as established by an organisation's management and communicated through to employees, which should be attained in the foreseeable future (Business Dictionary, 2015c). These goals, in turn, should relate to the effectiveness and efficiency of operations, the reliability of financial reporting, and the compliance with applicable laws and regulations.

When the scrutinised core features pertaining to internal control, as deconstructed above, are paralleled with the original definition of the same term, as per the COSO Internal Control – Integrated Framework of 1992, it is fair to presume that internal control can alternatively be defined as follows:

> It is a sequence, comprising of logical and inter-connected elements, as applied by relevant organisational stakeholders, with the intent to provide a fair pledge of confidence regarding the achievement of organisational goals pertaining to the: 1) effectiveness and efficiency of operations, 2) the reliability of financial reporting, and 3) the compliance with applicable laws and regulations, in the foreseeable future.

Although the alternative definition above is based on a direct translation of the core features of the definition of internal control according to the COSO Internal Control – Integrated Framework of 1992, since 1992 many scholars have, over the years, developed their own conceptualised views of what constitutes internal control. A non-exhaustive list is provided of these conceptualised views in Table 2.1.

***Table 2.1**: Conceptualised views of scholars of the term “internal control”*

No.	Personalised definition of internal control	Source
1	“A process designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) reliability of financial reporting, 2) effectiveness and efficiency of operations, and 3) compliance with applicable laws and regulations.”	American Institute of Certified Public Accountants (1976)[62] cited by Changchit et al. (2001:275)
2	“Mechanisms that are put in place to either assist in preventing errors from entering the [internal control] process or detecting errors once they have. In simple terms, internal control can be defined as processes that management rely on to make sure that things don’t get goofed up.”	Grant Thornton (2004:1)
3	“It relates to the whole system of control, financial and otherwise, established to provide reasonable assurance of effective and efficient operations, reliable financial information, and compliance with laws and regulations.”	Shah (2007:4)
4	“An entity’s methods and processes, which are designed, created, monitored, documented and periodically modified, as necessary, by relevant stakeholders, to provide reasonable assurance that defined objectives are achieved, including: 1) the reliability of data, whether operational or financial, 2) the efficiency and effectiveness of operations, 3) the protection and safeguarding of the entity’s assets, and 4) compliance with applicable laws and regulations.”	Wallace (2008:4.03)
5	“Relevant actions taken by management, the board and other parties, to manage risks and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.”	IIA (2009:7)
6	“The process(es) designed, implemented, and maintained by those charged with governance, to provide reasonable assurance about the achievement of an entity’s objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and the compliance with applicable laws and regulations.”	Tarantino and Cernauskas (2011:124)
7	“Strategies, plans, policies and procedures, whose implementation requires the collective efforts of both management and employees in ensuring the achievement of the mission and objectives of the organisation.”	Mensah (2011:23)
8	“A process, effected by an entity’s people, designed to accomplish specified objectives relating to the entity’s operations, financial reporting and compliance.”	Buhr and Gray (2012:428)
9	“A process to achieve the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.”	Caratas and Spatariu (2014:532-533)

When the nine definitions in Table 2.1 are compared with and scrutinised against the main elements of internal control as per the definitions in the COSO Internal Control – Integrated Framework of 1992, the summary in Table 2.2 can be made.

[62] American Institute of Certified Public Accountants. 1976. *Codification of statements on auditing standards*. Chicago, IL: American Institute of Certified Public Accountants.

Table 2.2*: Summary of the conceptualised views of scholars surrounding internal control versus the main elements of internal control as per the definition of the COSO Internal Control – Integrated Framework of 1992*

COSO element / additional element	Definition number								
	1	2	3	4	5	6	7	8	9
Achievement of compliance objectives	✓		✓	✓	✓	✓		✓	✓
Achievement of objectives (general)							✓		
Achievement of operational objectives	✓		✓	✓	✓	✓		✓	✓
Achievement of reporting objectives	✓		✓	✓	✓	✓		✓	✓
Correct errors		✓							
Detect errors		✓							
Effected by relevant stakeholders charged with governance (management)				✓	✓	✓	✓	✓	
Prevent errors		✓							
Process	✓	✓	✓	✓	✓	✓	✓	✓	✓
Provide reasonable assurance	✓	✓	✓	✓	✓	✓	✓		

Stemming from Table 2.2, it appears that the various personalised conceptualised views of scholars pertaining to the term "internal control" are slightly different from the definition of the same term as per the COSO Internal Control – Integrated Framework of 1992. Most scholars regard internal control as a process that should provide reasonable assurance regarding the attainment of relevant organisational objectives; however, not all scholars share the view that internal control should be effected by relevant stakeholders (management) charged with governance. In essence, when the views of scholars are collated, the inference can be made that internal control is only a process that should provide reasonable assurance surrounding the attainment of operational, reporting and compliance objectives.

Taking the above into account, including the definition of internal control as per the COSO Internal Control – Integrated Framework of 1992, it could be concluded that internal control: 1) comprises logical inter-related elements, that should, 2) take into consideration relevant operating, reporting and compliance objectives of an organisation, as well as, 3) relevant internal control activities[63], with the main intent to 4) provide reasonable assurance that organisational objectives will be attained in the foreseeable future, through means of 5) maintaining and/or enhancing the economy, efficiency and effectiveness of operations, the reliability and integrity of financial and non-financial information, and the compliance with applicable policies, procedures, laws and regulations. Hence, stemming from the above, for the sake of this research study, internal control is conceptualised as follows:

[63] Internal control activities assist greatly in the mitigation of risks and are generally relative to the segregation of duties, proper authorisation activities, adequate document usage and design, the safeguarding of assets, and independent checks (see Section 2.5.2).

> It is a logical sequence, realised by relevant organisational stakeholders charged with governance, which comprises inter-related elements and internal control activities that aid in the mitigation of risks, with the main intent to provide a fair pledge of confidence regarding the achievement of an organisation's relevant objectives in the foreseeable future through means of maintaining and/or enhancing: 1) the economy, efficiency and effectiveness of operations, 2) the reliability and integrity of financial information and non-financial information, and 3) the compliance with applicable policies, procedures, laws and regulations.

Based on the conceptualised definition of internal control, while also taking into consideration relevant discussions in Section 2.1.1 and Section 2.1.2, the inference can be made that internal control is of vital importance to any organisation, particularly since it greatly assists an organisation to attain its relevant objectives – the main objective of internal control.

2.1.4 The main objective of internal control and institutional theories underpinning the importance of internal control

As mentioned above (see Section 2.1.3) the main objective of internal control is to provide reasonable assurance that an organisation will achieve its relevant objectives in the foreseeable future through means of maintaining and/or enhancing the economy, efficiency and effectiveness of operations, the reliability and integrity of financial and non-financial information, and the compliance with applicable policies, procedures, laws and regulations. These organisational objectives will, in turn, almost always comprise operational, reporting and compliance objectives (Akosile & Fasesin, 2013:26). According to previous research studies (Manolescu et al., 2011:14; Makgatho, 2013:20-21; Ji et al., 2014:3; Lenz & Hahn, 2015:14), reasonable assurance surrounding the attainment of organisational objectives can only be provided when an organisation:

- complies with applicable regulations set by government and other governing bodies;
- complies with policies and procedures as set by relevant stakeholders;
- has measures in place to safeguard assets;
- is geared towards the prevention and detection of fraud and/or irregularities;
- has reliable, transparent and honest financial information; and
- has economic, effective and efficient operations.

Notwithstanding the list above, the importance of sound internal control in organisations, over the years, has been justified through an array of developed theories. These theories include, but are not limited to, the *stakeholder theory* (all organisational stakeholders have a direct influence on how an organisation conducts its applicable activities), the *XY theory* (the attitudes of relevant organisational stakeholders towards an organisation's management have a direct influence on the attainment of organisational objectives), and the *administrative theory* (the principles used by management to manage relevant organisational tasks that have to be accomplished by organisational stakeholders will have a direct influence on the overall attainment of relevant organisational objectives) (Donaldson & Pretson, 1995:69; Kopelman et al., 2010:122; Wren & Bedeian, 2009:Chapter 211-220). In addition to the aforementioned theories, the *institutional theory* and the *neo-institutional theory* are probably less explored within the context of a system of internal control.

The *institutional theory* explains that although many organisations across the globe are subject to similar forces (e.g. prices, transactions, markets, and legislation), each organisation will be uniquely influenced by these forces owing to the distinctive nature of any given organisation (Coase, 1937:394). This view is supported by a previous research study (Foss, 2000:1) where it is explained that the forces that an organisation faces will have a direct and unique impact on, inter alia, its existence, internal organisation (structure), and boundaries. For this very reason, it is important to optimally mitigate risks which stem or may possibly stem from these forces, fortifying the ability of an organisation to achieve its relevant objectives in the foreseeable future (Coase, 1988:47; Swinkels, 2012:72-73).

The *neo-institutional theory*, in turn, takes the stance that although each organisation is unique all organisations tend to become similar to one another as they undergo isomorphic change, while simultaneously being influenced by similar forces from their respective external environments (Hu et al., 2007:156; Suddaby, 2010:16). In turn, the isomorphic change or changes takes into account three facets (DiMaggio & Powell, 1983:150-151):

- Coercive isomorphism: An organisation is influenced by formal and informal pressures that stem from societal expectations in relation to rules, regulations, standards and practices as implemented by government and other organisations.
- Mimetic isomorphism: An organisation is influenced by means of imitating and/or modelling the actions of other organisations when facing uncertain events.
- Normative isomorphism: An organisation is influenced by professionalisation in the sense where relevant organisational stakeholders perform their responsibilities in relation to an expected norm or norms.

According to a previous research study, the isomorphic changes that organisations undergo will have a direct influence on how organisations attain their objectives in the foreseeable future (Baker et al., 2014:373). On the one hand, isomorphic change may lead to the enhancement of an organisation along with the identification of new risks (Wijen & Ansari, 2007:1090), while on the other hand, by simply adopting and/or mimicking habits, routines, conventions and/or other external norms, it may result in relevant organisational stakeholders not performing their responsibilities as expected, adversely impacting on their overall contribution towards the attainment of relevant organisational objectives (Gupta et al., 1994:268; Shapiro & Matson, 2008:202). Since organisational stakeholders are generally risk neutral, management is responsible to adequately manage all risks in and around an organisation, in such a manner that they (risks) do not have an adverse influence on the attainment of organisational objectives in the foreseeable future (Honoré et al., 2015:533).

Stemming from the two theories above, the inference can be made that an organisation's scope of internal control, especially in relation to mitigating risks, is very extensive. This view is supported by a previous research study where it was found that even with internal control being thoroughly defined by the IIA through the *International Standards for the Professional Practice of Internal Auditors* (and by COSO through the COSO Internal Control – Integrated Framework), the scope of an organisation's internal control cannot be specified because of its size, as it consists of, inter alia, accounting control, administrative control, formal control, informal control, and personnel control (Swinkels, 2012:98,100). Despite this, the main objective of internal control is to provide reasonable assurance surrounding the attainment of relevant organisational objectives in the foreseeable future, serving as the foundation of any organisation to properly mitigate risks.

2.2 INTERNAL CONTROL AS AN ALLEVIATOR OF RISKS

Since internal control has to do with the provision of reasonable assurance surrounding the attainment of an organisation's objectives in the foreseeable future (see Section 2.1.4) through mitigating risks before they realise (see Section 2.1.3), regardless of the nature of these risks, internal control can therefore be seen as an alleviator of risks. As such, discussion that follows in this section falls under the following headings: 1) the concept of organisational risk, 2) the interrelation between internal control, organisational sustainability and corporate governance, 3) risk management, and 4) internal control as part of risk management.

2.2.1 The concept of organisational risk

More often than not, the term "risk" is strongly associated with the presence of uncertainty (Smit, 2012:45). A risk can be viewed as an event which may or may not occur, but once it occurs, it may potentially cause harm/loss or, in some cases, gain/profit[64] (November & Leanza, 2015:8). Risks are also inevitable (Sanne, 2008:1210) and are characterised by their probability of realising and their probable impact once they realise (Nissanke & Dammag, 2002:758).

Taking the above into account, the term "organisational risk" can also be associated with the presence of uncertainty. In core, organisational risk can be viewed as constituting uncertain events that may potentially occur in an organisation (Wood, 1964:83; Remenyi & Heafield, 1996:349) that will impact on the attainment of the respective organisation's objectives once such events occur (realise), be they positive or negative (IIA, 2003:133-135; Smit, 2012:45-46). In addition to the above, organisational risk is subjective in nature[65] (Hillson, 2002:235-236; Vatsa, 2004:5), meaning that organisational risk evident in one organisation will not necessarily be the same as that in another organisation (Spekman & Davis, 2004:416-417). Hence,

[64] The harm or loss caused by risks may be associated with a negative event which takes place (e.g. the demand for an existing product decreased; it resulted in a decrease in profitability) or the non-occurrence of a positive event that was expected to take place (e.g. it was decided to replace an existing product with a new product; it resulted in a low demand for the new product – negatively influencing profitability). Furthermore, risk taking may also cause a gain or profit in some cases (opportunities) through means of a positive event which takes place (e.g. the demand for an existing product increased; it resulted in an increase in profitability) or the non-occurrence of a negative event that was expected to take place (e.g. it was decided not to replace an existing product with a new product; it resulted in a high demand for the existing product – positively influencing profitability).

[65] Risks influence organisations in different ways – subjectively – based on their size and nature, among other aspects (Spekman & Davis, 2004:416-417).

the ultimate potential impact of organisational risk on the attainment of an organisation's objectives, and its influence on organisational sustainability,[66] will be unique (Archbold, 2005:32; Weber et al., 2010:42).

Although organisational risks are inevitable and fairly broad in nature (Ritchie & Brindley, 2007:304-306), research studies have found that organisational risks can be demarcated into four categories, namely: 1) strategic risks, 2) operational risks, 3) reporting risks, and 4) compliance risks (Remenyi & Heafield, 1996:350; Tchankova, 2002:292-295; Smit, 2012:47-51; Bruwer et al., 2013:1011-1012; Sin & Ng, 2013:4). These four categories of organisational risks are elaborated on below:

- Strategic risks: These risks have a direct impact on the overall attainment of an organisation's vision statement[67] and mission statement.[68] In essence, the strategic objectives, which stem from an organisation's vision statement and mission statement, set the foundation for the operational, reporting and compliance objectives that should be achieved by the organisation. Examples of strategic risks may include, inter alia: 1) inadequate and/or ineffective internal financial performance indicators, 2) strong competition, 3) extreme fluctuations in supply and/or demand, 4) volatile international financial indicators,[69] 5) weak internal financial position and/or performance, 6) increased probability of natural disasters occurring, 7) amendments to and/or additional legislation influencing the economy,[70] 8) unstable political environments, 9) harsh economic environments, and 10) weak internal control systems.
- Operational risks: These risks have a direct influence on the economy and the effectiveness and efficiency of organisational operations relative to how appropriately organisational resources are utilised by relevant organisational stakeholders to attain applicable organisational objectives. Examples of operational risks may include, among others: 1) inadequate and/or ineffective internal financial performance indicators, 2) incompetent human assets, 3) extreme fluctuations in supply and/or demand for products and/or services, 4) weak internal financial position and/or performance, 5) increased probability of natural disasters occurring, 6) amendments to and/or additional legislation

[66] Organisational sustainability, in this research study, refers to the long-term continuation of an organisation through means of the attainment of relevant economic, environmental, and social responsibilities (discussed in Section 2.2.2).

[67] A vision statement is an aggregation of assertions about an organisation, which includes its mission, values, goals and strategies, providing a detailed overview of where organisational management sees the respective organisation in the distant future (Castro & Lohmann, 2014:5).

[68] A mission statement is a clear expression by organisational management on how the respective organisation will achieve its vision statement – serving as the primary goal that the organisation should strive towards achieving in the distant future (David et al., 2014:96-97).

[69] This may relate to, inter alia, inflation rates, interest rates and exchange rates.

[70] Amendments in legislation also include changes made to existing taxation laws.

influencing the economy and labour relations, 7) unstable political environments, 8) harsh economic environments, 9) weak employee morale, 10) weak internal control systems, and 11) inferior product and/or service quality.

- Reporting risks: These risks have a direct influence on the integrity and reliability of information,[71] be it financial or non-financial, which is reported to applicable organisational stakeholders. Examples of reporting risks may include, but are not limited to: 1) weak internal control systems, 2) incompetent human assets, 3) increased probabilities of natural disasters occurring, 4) amendments to and/or additional legislation influencing the economy, 5) weak internal financial position and/or performance, and 6) unstable political environments.
- Compliance risks: These risks have a direct impact on the compliance of an organisation with relevant legislation, rules, regulations, policies and procedures. Examples of compliance risks may include, inter alia: 1) weak internal control systems, 2) amendments to and/or additional legislation influencing the economy and/or labour relations, 3) incompetent human assets, 4) increased probabilities of natural disasters occurring, 5) the subjective nature of legislation influencing the economy and/or labour relations, and 6) unstable political environments.

Owing to the expansive nature of organisational risks, it can be assumed that they will have an imminent influence on the overall attainment of organisational objectives, directly impacting on, inter alia, an organisation's profitability, solvency, liquidity and efficiency – evidently an organisation's entire existence (Luís et al., 2015:213; Prinsloo et al., 2015:73-74). In other words, if organisational risks are ineffectively mitigated,[72] then these risks will (in most cases) have an adverse influence on organisational sustainability (Hillson, 2002:236; Sin & Ng, 2013:4; Ridha & Alnaji, 2015:9), and subsequently have a negative impact on such an organisation's continuation rate. This is not surprising, as previous research studies (Bhimani, 2009:3; Buys, 2012:10) indicate that the ineffective mitigation of risks often serves as an indication of weak corporate governance,[73] an inappropriate tone set at the top by management, serving as evidence of a weak control environment (Schwartz et al., 2005:87; Grebe, 2014:50; Kommunuri et al., 2014:11).

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[71] All information reported on should be accurate, prudent, relevant, reliable, comparable, complete, objective, and consistent (Herrmann, Saudagaran & Thomas, 2006:45; FASB, 2008).

[72] Mitigation is regarded as the limitation of any negative repercussions which may stem from a given event (IoDSA, 2009:59).

[73] Corporate governance relates to the attainment of economic responsibilities, social responsibilities and environmental responsibilities, aiding in the achievement of organisational sustainability (Salfield, 2005:18; Ranängen et al., 2014:500).

Hence, stemming from the above, it appears that there exists a theoretical interrelationship among internal control (see Section 2.1.3), corporate governance, and organisational sustainability.

2.2.2 The interrelation among internal control, organisational sustainability and corporate governance

Although a theoretical association exists among internal control, organisational sustainability and corporate governance (see Section 2.2.1), it is important to first expand on the terms “corporate governance” and “organisational sustainability” before elaborating on the theoretical interrelation among these phenomena.

The term “governance” became familiar in the USA during the mid-1970s amidst growing market volatility (see Section 2.1.2) exacerbated by organisational stakeholders’ frustration with the lack of corporate accountability that existed inside companies (Cheffins, 2012:2-3). In essence, in this timeframe, stakeholders shared the belief that corporate accountability – which later became infused with the term “corporate governance” (Garvey & Newell, 2005:391) – should be present in organisations as it would provide reasonable assurance that management would perform and were performing their duties as expected, ultimately resulting in more assurance provided in terms of the attainment of relevant organisational objectives[74] (Seligman, 1982:548-550[75] cited by Cheffins, 2012:4; Post, 1987:1833; Edelman, 1990:1402; Bhasa, 2004:7-8).

From the mid-1970s, globally, corporate governance gained popularity worldwide and since 1992 started its rapid transformation[76] from an unorthodox and unexplored public perception to a solid foundation on which all organisations should be built (Brennan & Solomon, 2008:886; Windsor, 2009:309-310). Over the next few years

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[74] During this timeframe it was believed that corporate accountability would also greatly assist with the optimal minimisation of conflicts of interest that started to grow more evident with the separation between companies’ investors and companies’ management (see Section 2.1.2).

[75] Seligman, J. 1982. *The transformation of Wall Street: a history of the Securities and Exchange Commission and modern corporate finance*. Boston, MA: Houghton Mifflin.

[76] This transformation was spurred by the publication of the *Cadbury Report* in the UK in 1992, the first, second and third *King reports* in South Africa in 1994, 2002 and 2009 respectively, the *Turnbull Guidance on Internal Control* in the UK in 1999, and the *Sarbanes–Oxley Act* in the USA in 2002, among other ground-breaking publications. Refer to www.ecgi.org for a current list of similar publications, worldwide.

this transformation continued, and by the early 2000s the term "corporate governance" was formally recognised as follows:

> [Corporate governance is] a concept pertaining to the balance which should be kept between [an organisation's] economic responsibilities, environmental responsibilities and social responsibilities, and between individual goals and communal goals, all with the aim to optimally align the interests of relevant stakeholders in and around an organisation (IoDSA, 2002:7).

In core, the above definition has not changed dramatically since the early 2000s as corporate governance (since the mid-2000s) relates to the conduct[77] of transparent business practices in an organisation (strongly relative to the tone set at the top by management), which is built on the foundation of ethical values, as set and practised by an organisation's management, all with the intent to assist the organisation to become sustainable (Qiang, 2003:775; Turyakira et al., 2012:107; IFC, 2014). Fundamentally, the main outcome of sound corporate governance is the cultivation of organisational sustainability (Lantos, 2001:595-600).

When emphasis is placed on the term "organisational sustainability", in turn, it can be viewed as the (expected) long-term continuation of an organisation through means of fulfilling relevant economic responsibilities,[78] environmental responsibilities[79] and social responsibilities[80] (Bechtold et al., 2013:205). These three responsibilities are collectively regarded as the triple bottom line of any organisation (Husband & Mandal, 1999:703-704; Rodgers, 2010:126-127; Buys, 2012:10), graphically depicted in Figure 2.1.

[77] Corporate governance is strongly relative to the appropriate conduct of management (elaborated on in Section 2.6.3).

[78] Examples of economic responsibilities pertain to, inter alia, the minimisation of wastage, providing investment stability, the continuous development of human resources, attaining optimum financial performance, and possessing optimal financial position.

[79] Examples of environmental responsibilities may include, among others, the minimisation and/or eradication of pollution.

[80] Examples of social responsibilities may include, but are not limited to, promoting healthy lifestyles and contributing positively towards society by community engagement initiatives.

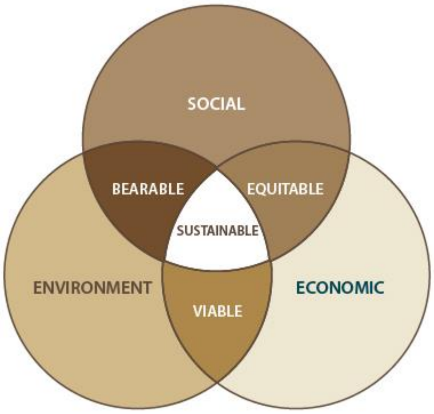

Figure 2.1: The concept of organisational sustainability as the triple bottom line (**Source**: Lille University of Science and Technology, 2013)

Of these three responsibilities, the attainment of economic responsibilities is the most elementary to measure (Hartarska, 2009:980), as economic responsibility largely relates to the financial performance and/or financial position of an organisation (Chen et al., 2008:187). In the same vein, scholars are of the opinion that social and environmental responsibilities cannot be measured precisely (Norman & MacDonald, 2004:246), owing to their subjective nature[81] (Hart, 1995:1007-1008; Bardos, 2014:26). Notwithstanding the latter, previous research studies (Villalonga, 2004: 206-207; Elkington, 2006:523; Isaksson, 2006:633-634; Edwards, 2009:192-193) show that sound organisational sustainability is directly associated with the following six characteristics in any organisation: 1) there is a strive towards achieving optimum profitability, 2) there is a strive towards becoming a going-concern entity, 3) it is objective driven, 4) it strives towards optimum broad-based compliance, 5) it is committed to add value to all its stakeholders, and 6) it is community focused. Taking into account that the main outcome of sound corporate governance is the cultivation of organisational sustainability (Lantos, 2001:595-600), it is unsurprising that the above characteristics of organisational sustainability are concomitant with the foundation of sound corporate governance (Fiss, 2008: 389-410).

Therefore, taking the above into account, the inference can be made that the terms “corporate governance” and “organisational sustainability” have some sort of correlation with each other, at least from a theoretical viewpoint. This sentiment is supported by previous research studies which found that when an organisation has sound corporate governance in place, it will have a direct and positive influence on

[81] Some organisations may have a greater responsibility towards the environment and/or society, depending on the nature of these organisations.

organisational sustainability, favourably influencing aspects such as investors' willingness to invest in the organisation and relevant stakeholders' overall trust in the organisation (Steyn & Niemann, 2010:111; Khoo 2012:18). With the link that exists between organisational sustainability and corporate governance, the question remains whether (and how) internal control plays a role in the solidification of the latter.

Since internal control is effected by relevant organisational stakeholders that are charged with governance (see Section 2.1.3), and since corporate governance holds strong relevance to the tone set at the top by organisational management – strongly relative to the control environment – (Gillan & Martin, 2007:930), the inference can be made that internal control can be regarded as one of the cornerstones of corporate governance. Thus, the soundness of an organisation's internal control will almost always have a direct influence on the corporate governance evident in the particular organisation (Shahin & Zairi, 2007:756-757). In addition, internal control should also provide reasonable assurance to relevant stakeholders regarding the achievement of applicable organisational objectives in the foreseeable future by means of maintaining and/or enhancing the: 1) economy, efficiency and effectiveness of operations, 2) reliability and integrity of financial and non-financial information, and 3) compliance with applicable policies, procedures, laws and regulations (see Section 2.1.4). When these three tasks are equated with the three elements constituting the triple bottom line of an organisation (see Figure 2.1), the following clear tangent planes emerge:

- The economy, efficiency and effectiveness of operations will have a direct impact on the attainment of an organisation's environmental, economic and social responsibilities.
- The reliability and integrity of financial and non-financial information will have a direct impact on the attainment of an organisation's environmental, economic and social responsibilities.
- The compliance with applicable policies, procedures, laws and regulations will have a direct impact on the attainment of an organisation's environmental, economic and social responsibilities.

Hence, taking into account the abovementioned, the interrelation among internal control, corporate governance and organisational sustainability can be schematically presented as follows in Figure 2.2.

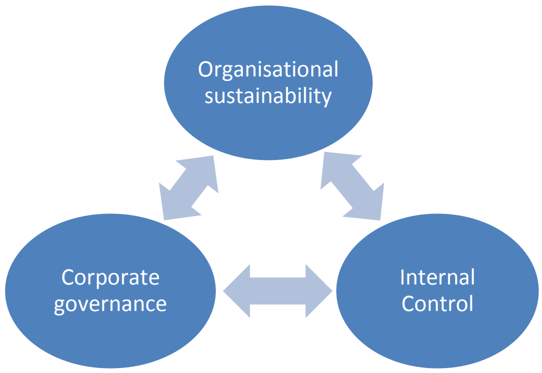

Figure 2.2: The interrelation among internal control, organisational sustainability and corporate governance

Using Figure 2.2 as foundation, while taking the discussions above into account (see Section 2.2.1 and Section 2.2.2), the inference can be made that the soundness of internal control in an organisation will impact on the corporate governance evident in the relevant organisation which, in turn, will have an influence on its organisational sustainability and the attainment of an organisation's objectives in the foreseeable future. Internal control is also regarded as mitigating risks (see Section 2.1.4); therefore it is important to understand how risks should be mitigated in an organisation. The latter is commonly referred to as risk management.

2.2.3 Risk management

As previously mentioned (see Section 2.2.1), since all risks are inevitable, regardless of their nature, they need to be adequately mitigated. Risks are best mitigated through means of risk management. In this section, the history of risk management (from the early 1950s to 2004) is first discussed, followed by a conceptualisation of the term "risk management" within the ambit of this research study.

Although risks were common phenomena in the business world during the early 1950s (Damodaran, 2008:72-73), the notion of risk management was relatively new to companies and their respective stakeholders (Cruz et al., 2015:1-4), particularly since risks were largely regarded as static and analogous across the globe[82] (Lee et al., 2003:2). As a result, it was deemed appropriate for companies to outsource all their risks, regardless of their nature, to insurance companies[83] (Close & Bidek, 1977:42-43; Santomero & Babbel, 1997:234) to be safeguarded against potential external losses[84] stemming from realised risks (loss events) in the foreseeable future (Dionne, 2013:151).

Insurance companies continued to provide coverage (risk managing services) to insured companies over ordinary risks but between the early 1960s and mid-1970s, global market conditions started to become extremely volatile[85] (Peters, 1996:113; Jorion, 2002:7; Karmakar, 2006:1799) which resulted in many insured companies incurring extensive losses against which they were not insured[86] (Thompson, 1991:11; RMS, 2000; Kunreuther, 2008:906-907), triggering the failure of various established companies[87] (Caprio & Honohan, 1999:44).

Because financial risks caused so much distress, throughout the remainder of the 1970s many insured organisations (predominantly those based in the financial services industry) recognised the need for financial risk management (Dickinson, 2001:361; Dionne, 2013:151). There was therefore a need for reasonable assurance that the probability of incurring excessive losses and/or costs in the foreseeable future would be limited to the greatest possible extent (Santomero & Babbel, 1997:243-245; Norton, 1999:924). Insurance companies started to offer very basic coverage against financial risks (particularly between 1975 and 1977) to companies as an additional insurance product, but only to a limited extent[88] (Embrechts, 2001: 169-184).

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[82] This was especially the case since there were no major reported changes in global economies between the 1950s and 1960s (see Section 2.1.1).

[83] From the perspective of insurance companies, these risks were largely addressed by "risk managers" (also known as "insurance buyers") and employed by insurance companies (Outreville, 1997:48; Tippins, 2004:9-11; Lee et al., 2003:280). They had the sole responsibility of managing the risk portfolios of insured companies (Crockford, 1982:172).

[84] More often than not, companies were insured against risks relating to technical uncertainties, uncertainties in relation to legislation and natural disasters only (Arrow, 1951:407; Winter, 1991:123).

[85] The reason for this phenomenon was related to the sudden shifts of bull to bear markets and vice versa (see Section 2.1.2).

[86] These uninsured risks, in most cases, were directly associated with financial risks (Dionne, 2013:147-150).

[87] The majority of these established companies were commercial banks (Altman et al., 1977:29; Santomero & Vinso, 1977:185-187; Barr et al., 1994:417-418; Barth et al., 2006: 22;175).

[88] Limited coverage was provided by insurance companies regarding financial risks, particularly due to, inter alia, the unpredictability and/or fluctuations of exchange rates, interest rates and commodity prices (Merna & Al-Thani, 2008:221).

During the late 1970s, global market volatility was more extreme than ever before (Becketti & Shellon, 1989:22; Rahl & Lee, 2000:21), which adversely impacted on exchange rates, interest rates and other international financial indicators (Buckley & Casson, 1998:23; Eatwell & Taylor, 2000:51; Staikouras, 2006:245-246; Merna & Al-Thani, 2008:221), as well as on the overall financial position and financial performance of many insured organisations (RMS, 2000; Boyd et al., 2001:225). These events placed excessive pressure on insurance companies to provide even more coverage in relation to risk (in a broad sense) and, as such, the idea of offering derivatives (contracts) was conceived (Karol, 1995:195; Allen & Santomero, 1997:1464; Bouchaud & Potters, 2003:77). The purpose of a single derivative is to protect the holder against specific risks, serving as a type of "guarantee of protection" against potential harm caused by certain financial and other risks, and based on explicit terms and conditions (Wagner, 1998:576-577; Shiller, 2003:90; LiPuma & Lee, 2004:47; Folger, 2015).

Although insurance companies did their best to provide comprehensive coverage to insured companies against all types of risks (largely through derivatives), financial risks[89] not covered by issued derivatives started to realise (Barton et al., 2002:96-97; Manns, 2013:1592-1593), adversely impacting on the organisational sustainability and the overall existence of many insured companies (Kopcke & Randall, 1991:29; DePrince & Ford, 1993:9; McNeil et al., 2005:6-7). As a result, the role of insurance companies had become very questionable by the mid-1980s (Harrington & Litan, 1988:737; Turner, 1978[90] cited by Stead & Smallman, 1999:3), especially since the realisation of uncovered and uninsured financial risks resulted in the failure of large and well-established insured companies (Dionne, 1983:316; Loubergé, 1998:547-548).

Amid the uncertainty surrounding the role of insurance companies, JP Morgan developed a risk-management tool called RiskMetrics (Jorion, 1997:75-80), which allowed for the measurement of risks evident in issued derivatives[91] (Dimson & Marsh, 1997:1519-1520; Pafka & Kondor, 2001:305-306). In turn, this development sparked the creation of various other risk-management tools and as a result the term

[89] These risks included, among others, pandemics, irregular market speculations, and fraudulent activities (Clark, 1976:7; Dionne, 2013:149).

[90] Turner, B.A. 1978. *Man-made disasters*. London: Wykeham.

[91] In layman's terms, RiskMetrics measured the risk of insuring a risk (the issue of a derivative), while insuring a risk (the providence of insurance coverage).

"risk management" assumed a more generic stance in the world of commerce (RMS, 2000; Dionne, 2013:153).

Based on these innovative risk-management tools, by the mid-1980s many insured companies (predominantly those situated in the financial services industry) appropriated the responsibility of managing risks (both insured and uninsured) and established their own risk-management departments (Cassidy et al., 1990:665; Mikes, 2009:20) to manage market financial and credit risks, among others (Angelopoulos & Mourdoukoutas, 2001:62; Lee et al., 2003:21). Although insured companies attempted to manage risks through their newly established risk-management departments, market speculation and random cases of fraud, inter alia, made the task of effectively managing risks very difficult (Rahl & Lee, 2000:22; Dionne, 2013:156). Furthermore the effectiveness of established risk-management departments was also very limited since, at this time, few or no formal benchmarks or standards existed in relation to risks (in general) and how risks (as a whole) should be managed[92] (Leiss, 1996:88; Santomero & Babbel, 1997:231; Beck, 2004:15). In almost all cases, risk management departments only placed emphasis on managing risks in silos as opposed to managing risks from a holistic point of view[93] (Crockford, 1982:176; Parales, 2010:3).

In an attempt to limit both the realisation and impact of (insured and uninsured) risks in companies, while also taking into account the ever-growing global market volatility in the mid-1980s (Karmakar, 2006:1799), COSO was established in 1987 (COSO, 1999:8) which, five years later, gave rise to the COSO Internal Control – Integrated Framework of 1992[94] (see Section 2.1.2). Since the COSO Internal Control – Integrated Framework of 1992 was the first framework to guide companies in providing comprehensive coverage in relation to the mitigation of risks, it was widely prescribed as one of the best-suited frameworks to be implemented practically in companies across the globe (Bierstaker & Thibodeau, 2006:879; Dickins et al., 2011:2).

[92] Between 1980 and 1985, the term "risk management" was extremely broad, as it was relevant to various disciplines. Definitions of risk management included, inter alia: 1) the prevention of accidental losses and financing the restoration of losses which cannot be prevented (Head, 1982:180), 2) a concept central to occupational health and safety (Rantanen, 1981:84), 3) the elimination of risks caused by government-imposed restrictions (Pearson, 1982:26), and 4) protecting organisational liquidity at all costs (Hollis, 1980:53).

[93] The management of risks, from a holistic point of view, is often referred to as Enterprise Risk Management (ERM) (Hoyt & Liebenberg, 2011:795).

[94] After the 1992 COSO Internal Control – Integrated Framework, more internal control frameworks were developed (see Section 2.1.2, Section 2.3.2 and Section 2.3.3).

Between 1992 and the early 2000s however, concerns were raised pertaining to the appropriateness of using the COSO Internal Control – Integrated Framework of 1992 as a sole risk management tool, particularly since an internal control system involves human actions which, in turn, are subject to human errors (Doyle et al., 2007:198; Zhang et al., 2007:301-302). At the same time, the demand for corporate governance started to grow (see Section 2.2.2), especially after the publication of, inter alia, the 1992 *Cadbury Report* in the UK, the first *King Report* in 1994 in South Africa, and the 1999 *Turnbull Guidance on Internal Control* in the UK (Spira & Page, 2001:646; Rossouw et al., 2002:289-290; Daily et al., 2003:374; Brennan & Solomon, 2008:890). Even with the introduction of corporate governance policies around the globe, some established organisations[95] were still adversely influenced by financial risks (Nowakowski, 2006:1; Wright, 2009: 9-13; Jin, 2013:111-120) caused by fraudulent activities[96] (Brickey, 2003:357-358).

Notwithstanding the above, between 2001[97] and 2004, COSO[98] used the foundation of the COSO Internal Control – Integrated Framework of 1992 to develop a new framework pertaining to the management of risks (COSO, 2004:6; Power, 2004:59; Moeller, 2007:17; Smit, 2012:32; Anderson et al. 2015:38-39), namely the COSO Enterprise Risk Management (ERM) Framework of 2004 (Power, 2009:851-852; Arena et al., 2010:659); depicted in Figure 2.3.

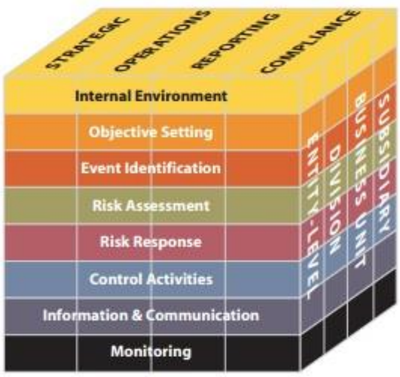

Figure 2.3: The COSO ERM Framework of 2004 (**Source**: COSO, 2004:5)

[95] These organisations include, inter alia: Enron, WorldCom, Viacom, Arthur Andersen.

[96] These events lead to the publication of, among others, the 2002 *Sarbanes–Oxley Act* in the USA and the second *King Report* in 2002 in South Africa, which addressed the importance of managerial responsibility and accountability (Flowerday & Von Solms, 2005:605-607; Steyn & Niemann, 2010:117).

[97] After the COSO Internal Control – Integrated Framework of 1992, and before the COSO ERM Framework of 2004, the term "risk management", in a commercial dispensation, was regarded as a three-stage process to control risks and mitigate their effects in the foreseeable future. The latter pertained to the: 1) identification of hazards, 2) assessment of hazards, and 3) proper control of hazards (Holmes et al., 1999:252; Uher & Toakley, 1999:161).

[98] In partnership with PricewaterhouseCoopers.

The COSO ERM Framework of 2004 suggests that sound risk management comprises eight inter-related steps, namely: 1) internal environment, 2) objective setting, 3) event identification, 4) risk assessment, 5) risk response, 6) control activities, 7) information and communication, and 8) monitoring (COSO, 2004:3-4; Hallikas et al., 2004:52-54; Gordon et al., 2009:303; COSO, 2012a). Each step is briefly expanded on below:

- Internal environment: The tone of organisational stakeholders regarding the management of risks should be ascertained, taking into consideration the organisation's risk-management philosophy, risk appetite, ethical values and the environment in which the organisation conducts its business (relative to the element "control environment").
- Objective setting: As an organisation should have sound objectives in place, the adequacy and appropriateness of organisational objectives, in relation to its mission and risk appetite, need to be taken into account after ascertaining the tone of its internal environment.
- Event identification: All possible internal events and external events that may have an adverse influence on the attainment of organisational objectives (see previous step) should be properly identified. More often than not, these identified events are classified as either risks or opportunities.
- Risk assessment: After risks have been identified, they should be properly analysed (assessed) in relation to their likelihood of realising and, in addition, their impact on the attainment of organisational objectives once they realise.

- Risk response: Once risks have been assessed, management needs to decide how assessed risks should be responded[99] to. More often than not, the response of management should pertain to 1) avoiding of risks, 2) accepting of risks, 3) reducing of risks, or 4) sharing of risks.
- Control activities: Relevant preventive controls, detective controls and corrective controls need to be implemented to help ensure that management's responses to risks (see previous step) are effectively carried out. More often than not, control activities are strongly associated with the segregation of duties, proper authorisation activities, adequate document usage and design, safeguarding of assets, and independent checks.

[99] The following responses to risks are recommended in the COSO ERM Framework of 2004: 1) high probability and high impact mean that risks should be avoided, 2) high probability and low impact mean that risks should be reduced, 3) low probability and high impact mean that risks should be shared, and 4) low probability and low impact mean that risks should be accepted.

- Information and communication: Relevant information should be identified, captured and communicated to relevant stakeholders, pertaining to the effectiveness of risk management in an organisation, all with the aim to help them carry out their respective responsibilities to, in turn, assist with the attainment of organisational objectives.
- Monitoring: On a continual basis (or periodical basis, depending in the nature of the organisation) the entirety of the ERM process (all previous steps) should be monitored and modified as deemed necessary by management.

In core, each of the eight steps of the COSO ERM Framework of 2004 should effectively work together with one another across all divisions within an organisation (i.e. strategic, operational and functional levels), all for the sake of managing risks optimally in a holistic manner (Anderson et al., 2015:38). The term "ERM" is defined in the COSO ERM Framework of 2004[100] as follows:

> Enterprise risk management is a process, effected by organizational stakeholders [charged with governance], applied in a strategic setting and across the [applicable] organization, designed to identify potential events that may affect the organization, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of organizational objectives (COSO, 2004:2).

Stemming from the above, it appears that the task of managing risks in an organisation relates to the identification of risks, analysing of risks, treatment of risks and monitoring of risks, ultimately ensuring that the adverse impact of risks pertaining to the attainment of organisational objectives is minimal (Beretta & Bozzolan, 2004:267; Connell, 2004:143; Ghosh & Jintanapakanont, 2004:634; Thevendran & Mawdesley, 2004:131; Van Tonder, 2006:15). In essence, based on the conceptualised definition of ERM, the assumption can be made that the adequate and effective treatment of risks is strongly associated with the soundness of internal control in an organisation (see Section 2.1.3).

[100] In 2014 COSO announced that the ERM Framework would be enhanced in the foreseeable future (COSO, 2015).

2.2.4 Internal control as part of risk management

As previously mentioned (see Section 2.1.3), for the sake of this research study, internal control was conceptualised as follows:

> It is a logical sequence, realised by relevant organisational stakeholders charged with governance, which comprises inter-related elements and internal control activities that aid in the mitigation of risks, with the main intent to provide a fair pledge of confidence regarding the achievement of an organisation's relevant objectives in the foreseeable future through means of maintaining and/or enhancing the 1) economy, efficiency and effectiveness of operations, 2) reliability and integrity of financial and non-financial information, and 3) compliance with applicable policies, procedures, laws and regulations.

From the conceptualised definition of internal control, the part of the definition that reads: "It is a logical sequence ... that aid in the mitigation of risks", is strongly associated with the task of risk management (see Section 2.2.3). In the same vein, when emphasis is placed on ERM, as defined in the COSO ERM Framework of 2004 (see Section 2.2.3), the part of the definition which reads: "[It] is a process ... designed to identify potential events that may affect the organisation, and manage risk[s] ... to provide reasonable assurance regarding the achievement of organisational objectives" serves as evidence that internal control is embedded in the definition of ERM. In essence, although ERM has to do with the identification of risks, the analysis of identified risks, and the treatment of analysed risks to ensure that the adverse impact of risks is kept at an absolute minimum, ERM should also provide all relevant stakeholders (particularly management) with reasonable assurance surrounding the attainment of organisational objectives in the foreseeable future.

Notwithstanding the aforementioned, after the establishment of the COSO ERM Framework of 2004, many economic changes took place in a global context that influenced the views of scholars on the management of risks (in an organisation). Hence, before elaborating on how exactly internal control forms part of risk management, it is imperative to take into account the various personal conceptualised views of scholars, post-2004, with regard to the term "risk management". A non-exhaustive list of these conceptualised views is shown in Table 2.3.

Table 2.3: *Conceptualised views of scholars on the term “risk management” (post-2004)*

No.	Personalised definition of risk management	Source
1	“A systematic and controlling procedure of risks that are predicted, to be faced in an organisation in the foreseeable future.”	Öztaş and Ökmen (2005:1245)
2	“The management of all risks in an organisation, with consideration to all risk interdependencies, while also taking into account organisational processes and organisational culture, aligned directly with the achievement of objectives set by the organisation.”	Woloch (2006:153)
3	“A range of related activities for coping with risks, including how risks are identified and assessed, and how social interventions to deal with risks are monitored and evaluated – ultimately transforming problems into solutions.”	Nilsen (2007:15)
4	“A monitoring system to be understood, appreciated, implemented, and maintained by an organisation throughout its existence. Such a system comprises the identification, analysis, and evaluation of risks, including the selection of the most advantageous method of treating such risks.”	Jannadi (2008:777)
5	“A fundamental management tool to help identify, analyse, control and monitor future uncertainties which may have an adverse influence on organisational objectives.”	Kwak and Smith (2009:814)
6	“A systematic process that entails the identification, analysis, control and communication of risks in and around an organisation.”	Lovejoy et al. (2010)
7	“The coordinated activities to direct and control an organisation with respect to the treatment of risks in and around it.”	Aven (2011:720-721)
8	“A continuous, proactive and systematic process to understand, manage and communicate risk from an organisation-wide perspective.”	Treasury Board of Canada (2012)
9	“[It comprises] the identification, assessment, and prioritisation of risks in an organization which include the allocation of resources to minimize, monitor, and control the likelihood and consequences of risks occurring, while simultaneously realising opportunities.”	Langenhan et al. (2013:88)
10	“The process of identifying, analysing and either accepting or mitigating uncertainties which may have a negative influence on business decisions.”	Wu, Chen and Olson (2014:2)

When the ten definitions in Table 2.3 are compared with and scrutinised against the definition of ERM as per the COSO ERM Framework of 2004, the following summary can be made in Table 2.4:

Table 2.4: *Summary of conceptualised views of scholars on risk management (post-2004) versus the COSO ERM Framework of 2004 definition*

COSO element / additional element	Definition number									
	1	2	3	4	5	6	7	8	9	10
Analysis/assessment/evaluation of risks			✓	✓	✓	✓			✓	✓
Assist with the attainment of organisational objectives		✓								
Identification of risks	✓		✓	✓	✓	✓			✓	✓
Keep the (negative) impact of risks at a minimum					✓				✓	✓
Management of uncertain events (general)		✓				✓	✓	✓		
Prediction of uncertain events	✓									
Process	✓	✓	✓		✓	✓		✓		✓
Transforming problems into solutions			✓	✓					✓	
Treatment of risks			✓	✓	✓	✓	✓		✓	✓

Stemming from Table 2.4, it appears that the various personalised conceptualised views of scholars pertaining to the term “risk management” are different from the original definition of the COSO ERM Framework of 2004 of the same term. Most scholars regard risk management (in an organisation) as a generic process that should appropriately identify risks, analyse (identified) risks, and treat (analysed) risks. However, not all scholars share the view that risk management should keep the negative impact of risks at an absolute minimum, all to aid an organisation to achieve its relevant objectives. Hence, taking the above into account, including the definition of ERM, as per the COSO ERM Framework of 2004, it can be inferred that risk management: 1) is a customised[101] logical process which, 2) pertains to the identification of risks, 3) the analysis of identified risks, and 4) the treatment of analysed risks, with the main intent to, 5) absolutely minimise the potential adverse impact of realised risks (loss events) and/or absolutely maximise the potential positive impact of realised risks (opportunities) which should, in turn, 6) aid in the attainment of relevant organisational objectives in the foreseeable future.

Therefore, taking the aforesaid into consideration, for the sake of this research study, risk management (in an organisation) is conceptualised as follows:

> Risk management is a customised and systematic process that entails the appropriate identification, analysing and adequate treatment of uncertain evens in and around an organisation. The latter should optimally minimise the potential adverse impact of loss events and optimally maximise the potential positive impact of opportunities with the main intent to help the relevant organisation attain its applicable objectives in the foreseeable future.

Relative to discussions at the beginning of this section when portions of the conceptualised definition of internal control were compared with portions of the definition of ERM according to COSO, it became evident that internal control is intertwined in risk management, particularly since internal control is deemed as: 1) a *process* which, 2) is focused on the *mitigation of risks* (adequate treatment of risks) with the main intent to, 3) provide *reasonable assurance* to relevant stakeholders that, 4) *relevant objectives will be attained in the foreseeable future*. Hence the analogy can be drawn that for an organisation to have proper internal control, an appropriate strategy should exist pertaining to risk management and vice versa. As internal control is intertwined in risk management, the inference can be made that the soundness of an organisation's internal control will be greatly influenced by the manner in which risks are managed in the relevant organisation.

The inter-relationship between internal control and risk management is further justified by previous research studies that found that the manner in which risks are treated (managed) in an organisation impact directly on the soundness of internal control in an organisation (Oblakovic, 2013:98; Coetzee & Lubbe, 2014:117). To

[101] Owing to the subjective nature of organisational risks, a one-size-fits-all approach to risk management should not be followed (Smit, 2012:255-257).

place the latter in perspective, a depiction of the similarities between the COSO Internal Control – Integrated Framework of 1992 and the COSO ERM Framework of 2004 is shown in Figure 2.4.

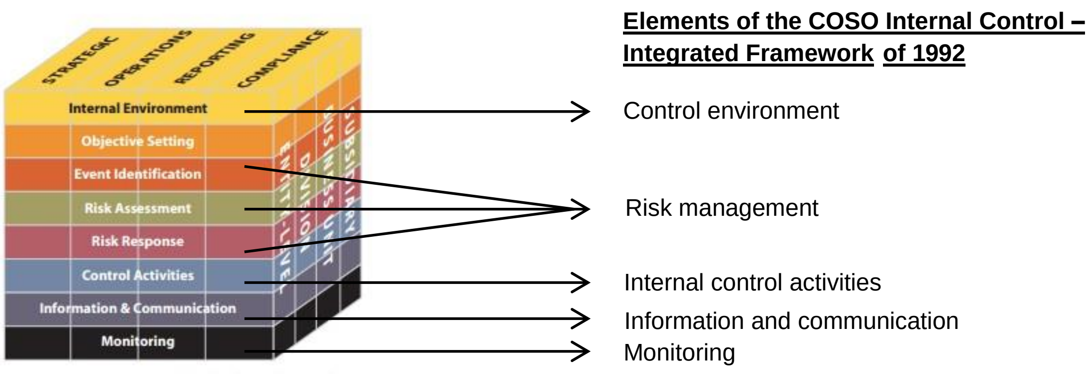

Figure 2.4: The similarities between the COSO ERM Framework of 2004 and the COSO Internal Control – Integrated Framework of 1992

Based on Figure 2.4, the COSO Internal Control – Integrated Framework of 1992[102] (as updated in 2013) places emphasis on internal control in an organisation through means of first identifying key risks ("risk management"), followed by the identification of key controls ("control activities") to help mitigate these risks – all with the intent to provide reasonable assurance surrounding the attainment of organisational objectives. In turn, the COSO ERM Framework of 2004 places emphasis on the overall management of risks with "control activities" as a major step, to help mitigate and minimise the potential adverse influence of risks on the attainment of organisational objectives.

This notwithstanding, in most cases an organisation is able to enhance the likelihood of attaining its relevant objectives (by optimally mitigating risks) in the foreseeable future through implementing a sound system of internal control (see Section 2.1.2). More often than not a system of internal control is based on at least one formal internal control framework.

[102] Since the COSO Internal Control – Integrated Framework of 1992 was used as foundation to develop the COSO ERM Framework of 2004 (see Section 2.2.3), many elements and/or steps in these frameworks overlap one another. As a result, these frameworks are often used in conjunction with one another in an organisation in order for the organisation to experience the "best of both worlds" in relation to internal control and risk management.

2.3 THE HISTORIC DEVELOPMENT OF INTERNAL CONTROL FRAMEWORKS

Between the mid-1970s and mid-1980s, taking into consideration the increased global market volatility during this timeframe (see Section 2.2.2), many unforeseeable, unaccounted for and uninsured risks were realising in organisations, which stimulated the need for sound internal control (see Section 2.2.3). Stemming from this, COSO was established in 1987 and five years later, the COSO Internal Control – Integrated Framework of 1992 was developed (see Section 2.1.2). Based on the COSO Internal Control – Integrated Framework of 1992, many prominent internal control frameworks were developed from the mid-1990s, which included, among others: 1) the CoCo Framework of 1995, 2) the COBIT Framework of 1996, 3) ISO International Standards, and 4) the Basel Committee on Banking Supervision's Framework for Internal Control Systems (IIA, 2008).

Although there are many more internal control frameworks than those listed above, the COSO Internal Control – Integrated Framework of 1992, the CoCo Framework of 1995 and the COBIT Framework of 1996 were chosen as the three most important internal control frameworks for this research study (see Section 2.3.1, Section 2.3.2 and Section 2.3.3), particularly because of their use in a South African SMME context (Akoka & Wattiau, 2010:5-6; Siwangaza et al., 2014:171). Therefore, for the remainder of this section, discussion occurs under the following headings: 1) the COSO Internal Control – Integrated Framework of 1992, 2) the CoCo Framework of 1995, 3) the COBIT Framework of 1996, and 4) comparisons of internal control frameworks.

2.3.1 The COSO Internal Control – Integrated Framework of 1992

The COSO Internal Control – Integrated Framework of 1992 set the foundation in relation to: 1) the definition of internal control, 2) what constitutes sound internal control in an organisation, and 3) how to implement a sound system of internal control within an organisation (Moeller, 2007:4-10; Fleak et al., 2010:712). This framework is depicted in Figure 2.5.

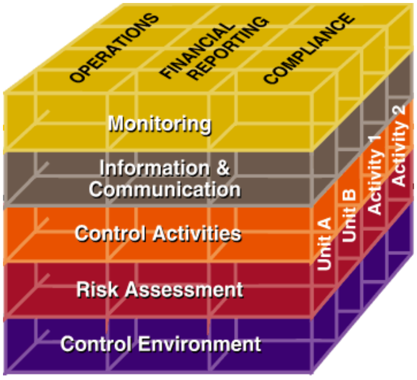

Figure 2.5: The COSO Internal Control – Integrated Framework of 1992 (**Source**: Wood, 2013)

The philosophy behind the COSO Internal Control – Integrated Framework of 1992 is that an organisation can be assured of sound internal control if the respective organisation implements an internal control system which comprises five inter-related elements, all of which should be present. These five inter-related elements are: 1) control environment, 2) risk assessment, 3) control activities, 4) information and communication, and 5) monitoring (Rezaee, 1995: 6-7; COSO, 2012b:5,12-14; Smit, 2012:39; McNally, 2013:6; Martin et al., 2014:110). These five inter-related elements are briefly expanded on below:

- <u>Control environment</u>: This is the foundation of the COSO Internal Control – Integrated Framework, and is characterised by the overall attitude of management regarding internal control (extensively elaborated on in Section 2.5.1).
- <u>Risk assessment</u>: Risks that may adversely influence the attainment of organisational objectives have to be properly identified across an organisation, after which they should be adequately assessed in terms of: 1) their probability of realising, and 2) their potential impact on the organisation, as a whole, once realised. During the assessment phase, risks should be classified as “avoidable”, “acceptable”, “transferable” or “mitigatable” to control them adequately.
- <u>Control activities</u>: Relevant actions, based on applied organisational policies and procedures, should be implemented to help mitigate and/or eliminate assessed risks to aid in the provision of reasonable assurance with regard to the attainment of organisational objectives in the foreseeable future. Control activities are generally preventive, detective and corrective in nature, and are strongly associated with the following five categories of control: 1) segregation of duties, 2) proper authorisation activities, 3) adequate document usage and design, 4) safeguarding of assets, and 5) independent checks (extensively elaborated on in Section 2.5.2).

- Information and communication: Relevant information pertaining to an organisation's internal control, in a broad sense, should be properly communicated to relevant stakeholders in an organisation in a transparent manner. This will result in the empowerment of relevant stakeholders to execute their applicable responsibilities effectively, which will in turn help the organisation to achieve its objectives.
- Monitoring: The effectiveness of a system of internal control should be assessed on an continual basis (or periodically, depending on the nature of the organisation) to ensure that all five inter-related elements of the COSO Internal Control – Integrated Framework are present, sound and functioning as intended.

The COSO Internal Control – Integrated Framework of 1992 has a thorough and systematic approach to internal control. In essence, this internal control framework suggests that an organisation will have sound internal control when the following is evident: 1) management has a favourable attitude towards internal control, 2) risks are properly identified, 3) identified risks are properly assessed, 4) assessed risks are properly controlled, 5) proper information processes and communication processes exist, and 6) the implemented internal control system is monitored continually. Previous research studies suggest that the COSO Internal Control – Integrated Framework of 1992 is comprehensive in its coverage of how internal control can be fortified within an organisation (Khalil et al., 2014:612; Cho et al., 2015:456). A major drawback of the COSO Internal Control – Integrated Framework of 1992 however, according to Zhang et al. (2007:301-302), is that it does not take into consideration, to a large extent, the control of human actions (particularly organisational stakeholders that are in non-managerial positions) in an organisation.

After approximately two decades, the COSO Internal Control – Integrated Framework of 1992 was revised and updated in 2013[103] to include, inter alia: 1) the codification of 17 principles pertaining to the five inter-related elements which make up a system of internal control, 2) clarification surrounding management's role in relation to objective setting, and 3) the increased relevance of technology in relation to internal control (COSO 2013a; McNally, 2013:1-2; Protiviti, 2013).

[103] The COSO Internal Control – Integrated Framework of 2013 is discussed, in depth in Section 2.4.1 and Section 2.4.2.

2.3.2 The CoCo Framework of 1995

After the establishment of the COSO Internal Control – Integrated Framework of 1992, the CICA developed an internal control framework – the CoCo Framework. The CoCo Framework was officially published in 1995 (Spira & Page, 2003:648) and built on the foundation of internal control as positioned by the COSO Internal Control – Integrated Framework of 1992[104] (Champlain, 2003:407-408; Van Peursem, 2005:489; Pfister, 2009:51). The CoCo Framework of 1995 is depicted in Figure 2.6.

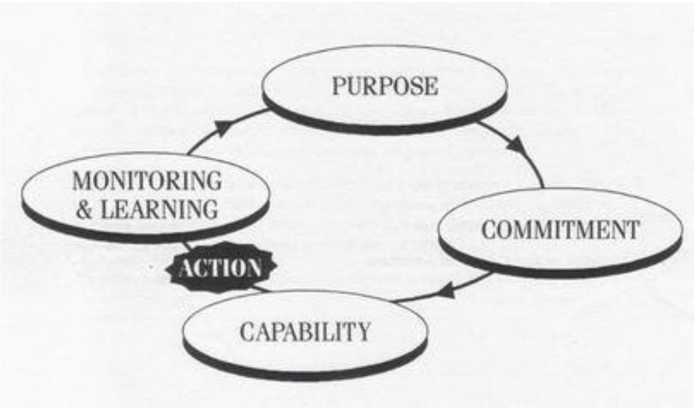

Figure 2.6: The CoCo Framework of 1995 (**Source**: McGill University, 2015)

Fundamentally, the CoCo Framework of 1995 suggests that a system of internal control should be less systematic and more personalised[105] (as opposed to the COSO Internal Control – Integrated Framework of 1992) as it should provide support to all applicable organisational stakeholders, be they part of management or not, to help them attain relevant organisational objectives in the foreseeable future (Bellehumeur, 1999:50; Yong, 2009:179). In particular, the CoCo Framework of 1995 suggests that an organisation will have sound internal control when it places emphasis on the following core aspects (CICA, 1995):

- Purpose: Organisational objectives should be established and communicated to organisational stakeholders, while significant risks, both internally and externally based, should also be identified and assessed. In addition, policies and procedures should be designed to manage identified and assessed risks while simultaneously providing guidance to organisational stakeholders on how relevant organisational objectives should be achieved.

[104] The 1992 *Cadbury Report* in the UK was also used by CICA in the development of the CoCo Framework.

[105] The phenomenon of corporate governance was fairly new at that time.

- Commitment: Shared ethical values should be both communicated and practised within an organisation by management, and relevant human resource policies should be in agreement with these values. In addition there should be a holistic commitment towards authority, accountability and responsibility to create an environment of trust within the organisation.
- Capability: All organisational stakeholders should be equipped with the necessary knowledge, skills and tools to help them attain organisational objectives. Moreover, communication processes should be supportive of organisational values and aid in the attainment of organisational objectives, particularly through means of identifying areas where the organisation, in a holistic sense, can improve on and implement adequate and effective internal control activities.
- Monitoring and learning: External and internal environments that may influence the attainment of organisational objectives should be monitored and evaluated regularly to measure organisational performance as a whole. Furthermore, management should also regularly assess the effectiveness of internal control in an organisation to ensure that it is sound.

The CoCo Framework of 1995 suggests that an organisation can enhance its internal control through means of implementing a sound internal control system that should take facets of corporate governance into account. A sound internal control system, as per the CoCo Framework of 1995, should make provision for: 1) clear organisational objectives, 2) clear communication of organisational objectives between organisational stakeholders, 3) proper identification of risks, 4) proper assessment of identified risks, 5) proper control (management) of assessed risks, 6) communication and practice of sound ethical values by management, 7) equipping relevant organisational stakeholders in relation to knowledge, skills and tools to help them attain relevant organisational objectives, 8) monitoring of changes in internal and external environments which may influence the attainment of organisational objectives, and 9) regular assessment of the effectiveness of internal control by an organisation’s management.

Stemming from the above, it appears that the CoCo Framework of 1995 has a comprehensive coverage in respect of internal control, especially since it also takes aspects of corporate governance into consideration (Arwinge, 2013:38). Prior research suggests that the CoCo Framework of 1995 functions better when used in conjunction with the COSO Internal Control – Integrated Framework of 1992 as opposed to its being used as a self-standing internal control framework (Verschoor, 1995:11; Ştefănescu et al., 2010:589-590). To date, the CoCo Framework of 1995 has not been updated by CICA.

2.3.3 The COBIT Framework of 1996

By the mid-1990s information technology was being utilised by many organisations (and their stakeholders) around the globe (Booth & Philip, 1998:29; Chau & Hu, 2002:191). Although the previously discussed internal control frameworks (see Section 2.3.1 and Section 2.3.2) only covered the management of risks in a general sense, risks relating to information technology were not covered to a large extent during the timeframe (Bernroider & Ivanov, 2011:325-326). As a result the COBIT Framework of 1996 was developed by the Information Systems Audit and Control Association (ISACA).

Although the COBIT Framework of 1996 was also built on the foundation of the COSO Internal Control – Integrated Framework of 1992, it placed more emphasis on the management of both information and risks within an information technology environment (Debreceny et al., 2003:172). Among all the new perspectives covered by the COBIT Framework of 1996 in relation to internal control from an information technology perspective, the three main points which were covered included: 1) the identification of control objectives at specific levels within an organisation, 2) how to address the complexity of inherent risks relevant to information technology, and 3) how to address the nature of inherent risks relevant to information technology (Tuttle & Vandervelde, 2007:243).

The main philosophy surrounding the COBIT Framework of 1996 is that for an organisation to have sound internal control, a total of four domains should be covered by the implemented internal control systems of an organisation. These four domains pertain to: 1) planning and organising, 2) acquiring and implementing, 3) delivery and support, and 4) monitoring (Holstrum & Hunton, 1998:356). Nevertheless, it should be noted that although the COBIT Framework of 1996 is extremely comprehensive in its coverage in relation to internal control, including the objectives of internal control, this framework is more relevant to an information technology environment than to a general business environment as in the case of the COSO Internal Control –

Integrated Framework of 1992 and the CoCo Framework of 1995 (Tuttle & Vandervelde, 2007:244).

The COBIT Framework was updated in 1998 to include the aspect of “control” (Westby, 2004:5) and updated again in 2000 to include the aspect of “management guidelines” (Finkemeier, 2011:38). Following the latter updates, a first revised edition of the COBIT Framework was published in 2005, and in 2012 a second revised edition of the same framework was published (Abu-Musa, 2009:74; ISACA, 2012; Geerts et al., 2013:832).

2.3.4 Comparisons of internal control frameworks

Stemming from the above, the analogy can be drawn that over the years internal control frameworks served as holistic propositions on how to improve the internal control in an organisation by implementing sound internal control systems which, in turn, had to consist of various structured elements (Anderson et al., 2006:9; Agbejule & Jokipii, 2009:501). The internal control frameworks discussed above (see Section 2.3.1, Section 2.3.2 and Section 2.3.3) are diverse from one another as they hold different views pertaining to the establishment, enhancement and/or fortification of internal control, as well as what constitutes a sound system of internal control. Owing to the diversity of these internal control frameworks, it is important to evaluate how appropriate they are for this research study based on the following two criteria: 1) how well does the internal control framework address the definition of internal control, and 2) how well does the internal control framework address the main objective of internal control (Fadzil et al., 2005:847; Sarens & De Beelde, 2006:72; IIA, 2015b).

Before this evaluation is made, it is important to note that the COBIT Framework of 1996 is more relevant to internal control in an information technology environment while the COSO Internal Control – Integrated Framework of 1992 and the CoCo Framework of 1995 are more relevant to internal control in a general business environment (see Section 2.3.3). As such, and by making reference to the primary research objective of this study (see Section 1.2.1), only the COSO Internal Control – Integrated Framework of 1992 and the CoCo Framework of 1995 were evaluated against their overall coverage of the definition of internal control (see Section 2.1.3) and their overall coverage of the main objective of internal control (see Section

2.1.4). To ensure a fair comparison between the two frameworks, the 1992 version of the COSO Internal Control – Integrated Framework was used and not the 2013 version, especially since the CoCo Framework was issued in 1995 without a later update. The applicable evaluation of these internal control frameworks is evident in Table 2.5.

***Table 2.5**: Evaluation of the COSO Internal Control – Integrated Framework of 1992 and the CoCo Framework of 1995 based on the definition and main objectives of internal control*

Criteria of evaluation	COSO	CoCo
Elements of internal control definition (see Section 2.1.3)		
Assists with the mitigation of risks	✓	✓
Comprises inter-related elements/activities	✓	✓
Helps with the attainment of organisational objectives	✓	✓
Logical sequence	✓	✓
Provides reasonable assurance	✓	✓
Realised by relevant stakeholders charged with governance	✓	✓
Critical aspects of the main objectives of internal control (see Section 2.1.4)		
Compliance with applicable regulations and/or laws	✓	✓
Compliance with internal policies and procedures as set by management	✓	✓
Economy, effectiveness and efficiency of operations	✓	
Prevention, detection and correction of fraud and/or irregularities	✓	✓
Reliability, integrity and transparency of financial information	✓	
Safeguarding of assets	✓	✓

Stemming from Table 2.5, while both internal control frameworks fully address the definition of internal control, it appears that the COSO Internal Control – Integrated Framework of 1992 is better aligned in respective of the main objective of internal control as opposed to the CoCo Framework of 1995 (see also Section 2.3.2). Consequently the COSO Internal Control – Integrated Framework[106] was used as basis for this research study.

As previously mentioned (see Section 2.3.1), 20 years after the establishment of the COSO Internal Control – Integrated Framework of 1992, it was revised and updated in 2013, incorporating relevant changes in modern business environments. The COSO Internal Control – Integrated Framework of 2013 is expanded on in the section that follows.

[106] The COSO Internal Control – Integrated Framework of 1992 was revised and update in 2013. To a large extent, the crux of the COSO Internal Control – Integrated Framework of 1992 remained the same with only a few amendments. The 2013 version of the COSO Internal Control – Integrated Framework (the most recent version) was used as basis for this research study.

2.4 The COSO Internal Control – Integrated Framework of 2013

After a thorough review of literature, the COSO Internal Control – Integrated Framework of 1992 was identified as the first established internal control framework providing the foundation pertaining to internal control as a whole (see Section 2.3.1). Although this internal control framework was the first of its kind, by the late 1990s, taking into account the development of other control frameworks (see Section 2.3) the COSO Internal Control – Integrated Framework of 1992 was still regarded as one of the best internal control frameworks to use as it thoroughly addressed the definition of internal control and covered the core objective of internal control (see Section 2.3.3 and Section 2.3.4).

During the course of 2013, however, after a little more than two decades, the COSO Internal Control – Integrated Framework of 1992 was officially updated for the first time since its establishment, streamlining one of the most widely used internal control frameworks in the world (Savage et al., 2008:63; Martin et al., 2014:110-111). In this section, discussion resorts under the following headings: 1) the revision of the COSO Internal Control – Integrated Framework of 1992 in 2013, and 2) the elements of the COSO Internal Control – Integrated Framework of 2013.

2.4.1 The revision of the COSO Internal Control – Integrated Framework of 1992 in 2013

For the past two decades, since its establishment, the COSO Internal Control – Integrated Framework of 1992[107] has been regarded as one of the most widely used internal control frameworks in the world (Savage et al., 2008:63; Martin et al., 2014:110-111). This view is substantiated by the fact that the COSO Internal Control – Integrated Framework of 1992 thoroughly addresses the definition of internal control and the core objectives of internal control, as well as aspects pertaining to how internal control can be established and/or enhanced in a structured manner within any organisation (Moeller, 2007:4-10; Fleak et al., 2010:712).

McNally (2013:2) notes that the COSO Internal Control – Integrated Framework of 1992 was long overdue for an update as it: 1) contained extensive discussion on

[107] Sometimes the COSO Internal Control – Integrated Framework of 1992 is used in conjunction with the COSO ERM Framework of 2004 in established organisations (Muralidhar, 2010:60).

internal control concepts that were regarded as "ordinary" by the early 2000s, 2) covered concepts of internal control principles which were hidden within the details, and 3) was used by an array of organisations to help them attain only one internal control objective – reliability and integrity of financial information. The COSO Internal Control – Integrated Framework of 1992 was therefore updated during the course of 2013. Apart from minor adjustments made to the original COSO Internal Control – Integrated Framework (1992 version), the following five major refinements were added to the body of the 1992 Framework (COSO 2013a; COSO, 2013b; McNally, 2013:1-2; Protiviti, 2013):

- Codification of principles to support the five inter-related elements of internal control: The five inter-related elements of internal control[108] as based on the COSO Internal Control – Integrated Framework of 1992 were codified to incorporate essential principles relating to the following: 1) a demonstration of commitment to integrity and ethical values, 2) an exercise of oversight responsibility, 3) structure, authority and responsibility are established, 4) a demonstration of commitment to competence, 5) accountability is enforced, 6) suitable organisational objectives are specified, 7) risks that may influence organisational objectives are both identified and analysed, 8) identified risks are assessed, 9) assessed risks are treated and monitored, 10) appropriate control activities are both selected and developed, 11) general control over technology is selected and developed, 12) policies and procedures are in place, 13) information used is relevant, 14) information is appropriately communicated internally, 15) information is appropriately communicated externally, 16) evaluations of the internal control system are conducted on an continual and/or periodic basis, and 17) deficiencies in internal control are identified and communicated. In essence, through the codification of the five inter-related elements of internal control, more clarity was provided on what constitutes a sound system of internal control.
- Clarification on the role of objective setting: For management to set organisational objectives, it is imperative that organisational sustainability should be taken into account. In essence, it is strongly recommended that organisational objectives should be achievable, measurable and manageable. In turn, organisational objectives should also pertain to: 1) operational objectives, 2) reporting objectives, and 3) compliance objectives.

[108] These five inter-related elements are: 1) control environment, 2) risk assessment, 3) control activities, 4) information and communication, and 5) monitoring.

- Points of focus: When management implements internal control activities, it is imperative that not only the nature of risks is taken into account (their probability of realising and their potential impact on the organisation as a whole), but also the nature of the organisation. This can include, inter alia, the use of technology in the organisation, the dependence of an organisation on technology, and the competence of personnel responsible for internal control.
- Enhanced discussions on organisational governance: As organisational governance is directly associated with internal control (see Section 2.2.2), organisations should take organisational governance into account when: 1) establishing objectives,[109] 2) internal control activities are implemented, and 3) the effectiveness of internal control within an organisation is evaluated.
- An increased focus on non-financial reporting objectives: To promote organisational sustainability, it is strongly recommended that focus be placed on the attainment of both financial and non-financial reporting objectives. Moreover, organisations should place emphasis on accomplishing environmental and social responsibilities, not only economic responsibilities.

From the above the assumption can be made that the five major refinements made to the COSO Internal Control – Integrated Framework of 1992 are predominantly based on the evolution of risk management and corporate governance over the years since the early 2000s (see Section 2.2 and Section 2.3). This assumption is supported by previous research studies which indicate that the changes effected to the COSO Internal Control – Integrated Framework of 1992 were mostly evolutionary in nature, consistent with relevant changes in business environments and changes in business operations since 1992 (KPMG, 2013; Cho et al., 2015:460).

Although the COSO Internal Control – Integrated Framework of 1992 underwent five major refinements (along with a few minor adjustments) in 2013, its initial structure essentially remained the same. In the next section, the revised inter-related elements of the COSO Internal Control – Integrated Framework of 2013 after the update to the COSO Internal Control – Integrated Framework of 1992 are discussed.

[109] Although the CoCo Framework of 1995 addressed aspects of corporate governance through "purpose", they were only addressed to a limited extent. This is especially the case since "corporate governance", as it is known today, was still in development at that time (see Section 2.2.2).

2.4.2 Elements of the COSO Internal Control – Integrated Framework of 2013

As previously mentioned (see Section 2.4.1), the initial structure of the COSO Internal Control – Integrated Framework remained largely the same after undergoing five major revisions (and some minor adjustments) in 2013. For this reason, it is not surprising that the appearance of the COSO Internal Control – Integrated Framework of 2013 is very similar to its 1992 version. The COSO I Internal Control – Integrated Framework of 2013 is depicted in Figure 2.7.

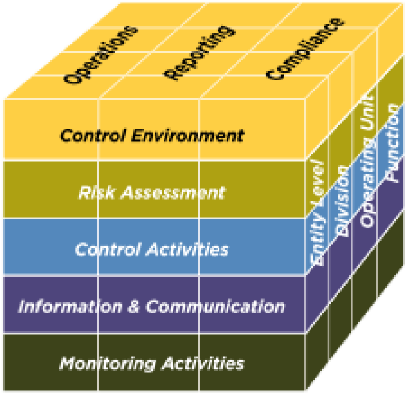

Figure 2.7: The COSO Internal Control – Integrated Framework of 2013 (**Source**: COSO, 2013a:6)

Using Figure 2.7 as basis, the COSO Internal Control – Integrated Framework of 2013 (similar to the 1992 version) suggests that a sound system of internal control should (also) consist of five inter-related elements which pertain to: 1) control environment, 2) risk assessment, 3) control activities, 4) information and communication, and 5) monitoring (COSO, 2013a:4-5). Although these five inter-related elements are exactly the same as the five inter-related elements identified in the 1992 version of the respective internal control framework, it is important to take cognisance that the COSO Internal Control – Integrated Framework of 2013 makes provision for 17 codified principles in relation to these inter-related elements (see Section 2.4.1). Hence, the description of each inter-related element is more detailed in the COSO Internal Control – Integrated Framework of 2013 than in the 1992 version. The five inter-related elements as noted in the COSO Internal Control – Integrated Framework of 2013 are concisely explicated below (COSO, 2012b:5,12-14; Smit, 2012:39; McNally, 2013:6; Martin et al., 2014:110):

- <u>Control environment</u>: This is the foundation of the COSO Internal Control – Integrated Framework and is characterised by the overall attitude of management regarding internal control. The control environment consists of, and is greatly influenced by, inter alia: 1) the managerial philosophy of management, 2) the managerial operating style of management, 3) the commitment of management towards integrity and ethical values, 4) management's exercising of oversight of the development and performance of internal control, 5) management's maintenance of appropriate lines of authority, 6) management's commitment to responsibility, 7) management's commitment to attract, develop and retain competent human resources, and 8) management's commitment to accountability (extensively discussed in Section 2.5.1).
- <u>Risk assessment</u>: Once achievable, measureable and manageable organisational objectives have been established, management should properly identify risks in the organisation that may have an adverse influence on the attainment of organisational objectives. Once risks are identified, they should be adequately assessed in terms of: 1) their probability of realising, and 2) their potential impact on the organisation, once realised. Furthermore assessed risks should be labelled as "avoidable" (high probability of realising; high potential impact), "acceptable" (low probability of realising; low potential impact), "transferable" (low probability of realising; high potential impact) or "mitigatable" (high probability of realising; low potential impact).
- <u>Control activities</u>: Relevant actions based on applicable policies and procedures should be put in place by management to help mitigate assessed risks, with the main intent to provide reasonable assurance regarding the attainment of organisational objectives in the foreseeable future. Implemented control activities should be concomitant with the nature of the organisation and should also take corporate governance into account. Control activities generally take the form of preventive, detective and corrective controls, and are largely associated with the following five categories of control: 1) segregation of duties, 2) proper authorisation activities, 3) adequate document usage and design, 4) safeguarding of assets, and 5) independent checks (extensively discussed in Section 2.5.2).
- <u>Information and communication</u>: Relevant information pertaining to an organisation's internal control, in a broad sense, should be properly communicated to relevant stakeholders in an organisation (mostly through means of policies, procedures and reports) in a transparent manner. This should be done to empower relevant stakeholders to effectively execute their responsibilities to help the organisation to achieve its objectives. Ultimately, information and communication should provide insight regarding the overall functioning of the five inter-related elements of the COSO Internal Control – Integrated Framework and the effectiveness of the implemented system of internal control within an organisation, in a holistic sense.

- Monitoring: The effectiveness of a system of internal control should be assessed, be it on a continual or periodic basis, in accordance with the nature of an organisation, with the main intent to ensure that all five elements of the COSO Internal Control – Integrated Framework are present, sound and functioning as intended. If any deficiencies in internal control are detected through such assessment, they should be communicated timeously to management to ensure that applicable improvements are made to the applicable implemented system of internal control.

As mentioned previously (see Section 2.3.1) it is important that these five inter-related elements are comprehensive in their coverage across all divisions within an organisation (i.e. strategic levels, operational levels and functional levels) since they should provide reasonable assurance in relation to the attainment of operational, reporting and compliance objectives in the foreseeable future. Although all of the five inter-related elements are of vital importance in relation to the establishment and/or enhancement of sound internal control, for the sake of this research study, the elements of “control environment” and “control activities” were foregrounded.

2.5 CONCEPTUALISING THE CONTROL ENVIRONMENT AND CONTROL ACTIVITIES

It should be noted that although the COSO Internal Control – Integrated Framework of 2013 thoroughly defines each of the five inter-related elements of a system of internal control (see Section 2.4.2), over the years scholars have developed their own conceptualised views surrounding these elements, particularly what constitute the elements “control environment” and “control activities”. Before these two elements can be conceptualised within the ambit of this research study, their definitions, as per the COSO Internal Control – Integrated Framework of 2013, are first deconstructed, scrutinised, and thereafter compared with the personal conceptualised views of independent scholars. Relevant discussions in this section take place under the following headings below: 1) the control environment, and 2) control activities.

2.5.1 The control environment

The COSO Internal Control – Integrated Framework of 2013 formally defines the element "control environment" as follows:

> [It] is a set of standards, processes and structures that provide the basis for carrying out internal control across an organization. Organizational stakeholders [charged with governance] should establish the tone at the top regarding the importance of internal control including expected standards of conduct (COSO, 2013a:4)

Although the definition of the control environment above is thorough in its coverage, it is simultaneously broad. In order to minimise this, the definition above is deconstructed below by means of scrutinising the core features comprising the control environment of an organisation:

- A set of *standards, processes and structures*: A collection of norms (as established by those charged with governance) to measure values and/or performance qualities which should be achieved by relevant stakeholders; logical courses of action that consist of a series of actions and/or steps; and a particular set of arrangements consisting of various parts, laid out in a logical manner (Dictionary.com, 2015b; Merriam-Webster, 2015e; Oxford Dictionaries, 2015e).
- That provide the *basis* for carrying out *internal control* across an organisation: Making available the important facts, the important ideas and/or the important events that should provide support; serving as foundation to aid in establishing *internal control*[110] across an organisation (Oxford Dictionaries, 2015f).
- Organisational stakeholders should establish the *tone at the top*: Management should both guarantee and practise a commitment towards, inter alia, openness, honesty, integrity and ethical behaviour (Boise, 2015).
- Regarding the *importance* of internal control: In relation to the overall significance of internal control (Dictionary.com, 2015e).
- Including expected *standards of conduct*: Together with expected norms in relation to professional behaviour (Dictionary.com, 2015f).

When the above deconstructed core features of the control environment above are paralleled with the original definition of the control environment, as per the COSO Internal Control – Integrated Framework of 2013, it can alternatively be defined as follows:

[110] Refer to the conceptualised definition of internal control (see Section 2.1.3).

The control environment is a collection of expected norms, expected qualities and expected actions that should be in place to provide an important foundation for attaining a sound level of internal control in an organisation. The control environment can be fortified when organisational stakeholders, charged with governance, practically showcase the overall significance of internal control in an organisation through means of behaving in a professional manner, characterised by a commitment towards, among other aspects, openness, honesty, integrity and ethical behaviour.

Although clearer, the alternative definition above, in essence, is based on a direct translation of the core features of the control environment as per the COSO Internal Control – Integrated Framework of 2013. For this reason it is important to take the views of scholars into account. Over the years, many scholars have developed their own conceptualised views of what the control environment is. A non-exhaustive list of these conceptualised views is provided in Table 2.6.

***Table 2.6**: Conceptualised views of scholars on the "control environment"*

No.	Personalised definition of the element "control environment"	Source
1	"The control environment provides an atmosphere in which organisational stakeholders conduct their responsibilities in relation to internal control, serving as the foundation of an internal control system that has a direct influence on the control consciousness of relevant organisational stakeholders."	Coetzee (2004:31)
2	"The control environment influences the comprehension of organisational stakeholders regarding the execution of their responsibilities in such a way that they are committed to doing what is right and doing it the right way."	Teketel and Berhanu (2009:16)
3	"The control environment is one of the key concepts of an organisation's internal control system which sets the tone at the top and influences the overall control consciousness in the organisation."	Wathowan (2010:1)
4	"The control environment is the overall control consciousness of an organisation which is effected by management through policies, procedures, ethical standards, and monitoring processes."	Ofori (2011:12)
5	"The control environment is the consciousness of an organisation – the atmosphere that compels organisational stakeholders to conduct their activities and responsibilities in relation to internal control objectives."	Ntongo (2012:12)
6	"The control environment consists of integrity and ethical values in an organisation that are predominantly set and practised by the organisation's management."	Vollbehr (2014:11)
7	"The control environment is the foundation on which the internal control of an organisation is built, providing discipline and structure in relation to the vision of management in relation to accountability, responsibility, integrity and ethical values."	Dmitrieva (2014:16)
8	"The control environment is concerned with how much organisational stakeholders, charged with governance, care about internal control."	Siwangaza (2013:77)

When the eight definitions in Table 2.6 are compared with and scrutinised against the original definition of the control environment as per the COSO Internal Control – Integrated Framework of 2013, the following summary can be made in Table 2.7:

***Table 2.7**: Summary of conceptualised views of scholars surrounding the "control environment" versus the definition of the "control environment" as per the COSO* Internal Control – Integrated Framework *of 2013*

COSO element	Definition number							
	1	2	3	4	5	6	7	8
Based on ethical values		✓		✓		✓	✓	✓
Collection of standards or expected norms/actions				✓				
Helps relevant stakeholders execute their responsibilities adequately		✓			✓			
Serves as foundation for a system of internal control	✓		✓		✓		✓	✓
Sets tone at the top regarding internal control	✓		✓	✓		✓	✓	✓
Showcases importance of internal control / sets the atmosphere for internal control	✓	✓	✓		✓		✓	✓

Using Table 2.7 as basis, it appears that the various personalised views of scholars are partly in accordance with the definition of the control environment as per the COSO Internal Control – Integrated Framework of 2013. Most scholars regard the control environment as a phenomenon based on ethical values that serve as the foundation for internal control, as such values ultimately set the tone at the top pertaining to internal control, serving as an indicator of the importance of internal control in an organisation. In the same vein, scholars are not all in agreement that the control environment is relevant to a collection of standards or expected norms which help relevant stakeholders of an organisation to adequately execute their respective responsibilities.

Taking the aforementioned into account, as well as the definition of the control environment as per the COSO Internal Control – Integrated Framework of 2013, within the ambit of this research study, the control environment (in an organisational dispensation) is conceptualised as follows:

> The control environment serves as the foundation of a system of internal control instilled by organisational stakeholders charged with governance and provides the atmosphere in which relevant organisational stakeholders should execute their respective responsibilities to, in turn, help achieve relevant organisational objectives. Fundamentally, the control environment is directly influenced by the manner in which organisational stakeholders charged with governance execute their respective responsibilities in terms of professionalism and ethical conduct, portraying the overall importance of internal control in the organisation.

Stemming from the above, the assumption can be made that the control environment of an organisation plays a very important role in relation to the establishment of a sound internal control in the respective organisation. This assumption is justified by a previous research study (Vašiček et al., 2010:71-75), where it was found that the soundness of an organisation's internal control system is largely dependent on the soundness of its control environment. In essence, since the control environment of an organisation can be viewed as the foundation of a system of internal control (D'Aquila, 1998:472), the inference can be made that the control environment evident in an organisation will also have an influence on the ability of an organisation to attain its relevant objectives in the foreseeable future (see Section 1.1.2).

Previous research studies indicate that the control environment of an organisation is extremely sensitive as it is directly influenced by an array of factors which include, inter alia: 1) the manner in which management performs its duties, 2) the organisational (hierarchal) structure in an organisation, 3) organisational culture, and 4) the dependability (reliability) of relevant organisational stakeholders (Forte, 2001:3; Coetzee, 2006:183; Karagiorgos et al., 2011:24; Talet, 2014:12). Otherwise stated, for an organisation to have reasonable assurance surrounding the achievement of its relevant objectives in the foreseeable future, it should have a sound control environment (Muceku, 2014:302).

Unfortunately no definitions exist on what constitutes a sound control environment (Marden et al., 1997:51), largely attributable to the sensitivity of the control environment evident in an organisation. Based on previous research studies however, the control environment of an organisation can be deemed as sound if the following nine characteristics are present in the respective organisation: 1) there is evidence of ethical values based on integrity, 2) a commitment of management towards competence exists, 3) a proper managerial philosophy exists, 4) a sound managerial operating style exists, 5) an appropriate organisational structure exists, 6) a commitment of management towards accountability exists, 7) a commitment of management towards responsibility exists, 8) adequate human resource policies and practices exist, and 9) there is a proper execution of governance oversight responsibilities by management (Coetzee, 2004:31-34; Moeller, 2007:4-10; COSO, 2013a:4).

2.5.2 Control activities

The COSO Internal Control – Integrated Framework of 2013 defines the element "control activities" as follows:

> Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks, in the achievement of organizational objectives, are carried out. Control activities are performed at all levels in an organization and at various stages within business processes ... They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations, approvals, verifications, reconciliations and performance reviews (COSO, 2013a:4).

Although the definition of control activities above is not too broad, for the sake of consistency, this definition is deconstructed below by scrutinising the core features that comprise "control activities":

- *Actions* established through *policies* and *procedures*: Specified pursuits, deeds or activities that are based on a set of principles, rules and guidelines which were developed by relevant organizational stakeholders to help achieve relevant organisational objectives (Business Dictionary, 2015d; Dictionary.com, 2015g).
- That help *ensure* that management's *directives* to *mitigate risks,* to the *achievement* of *organizational objectives,* are carried out: That help safeguard or provide assurance surrounding management's overall approach in relation to optimally controlling risks to attain applicable goals, as established by management (Business Dictionary, 2015c; Business Dictionary, 2015e; Dictionary.com, 2015h; Oxford Dictionaries, 2015g).
- These actions may be *performed* at all *levels* of an organization and at various *stages* within *business processes*: These actions can be effected in a formal manner, in accordance with applicable terms, conditions, policies and procedures, at all positions within an organizational hierarchy and at various intervals within tasks that are performed by relevant organizational stakeholders, all with the intent to help achieve relevant organizational objectives (Business Dictionary, 2015f; Macmillan Dictionary, 2015; Merriam-Webster, 2015f).
- They may be *preventive* or *detective* in nature and may encompass a range of manual and automated activities: These actions may be strongly relative to the forestalling of expected events or the notification of expected events once they realise, supported by an array of manual and automated activities (Dictionary.com, 2015i; Merriam-Webster, 2015g).

- <u>Such as *authorizations*, *approvals*, *verifications*, *reconciliations* and *performance reviews*</u>: These activities pertain to, inter alia, permitting (to give consent to), confirming (to prove) and checking for accuracy, including the examination and evaluation of performance (Business Dictionary, 2015g; Collins, 2015a; Collins English Dictionary, 2015b; Merriam-Webster, 2015h).

When the deconstructed features above are paralleled with the definition of control activities, as per the COSO Internal Control – Integrated Framework of 2013, they can alternatively be defined as follows:

> Control activities are the those activities – based on established policies, procedures, rules and guidelines as effected by management – that help provide assurance surrounding management's approaches to mitigate risks with the intent to achieve organisational objectives in the foreseeable future. These activities take place at all positions within an organisational hierarchy and at various intervals within applicable business processes, strongly relative to the forestalling and/or notification of identified risks, which can take place in manual and/or automatic ways, used for permitting, confirming and checking accuracy, including the examination and evaluation of performance, in a holistic sense.

Since the alternative definition above is based on a direct translation of the core features of control activities as per the COSO Internal Control – Integrated Framework of 2013, it is important to take the views of scholars into account. Similar to the case of the element "control environment", over the years, many scholars have developed their own conceptualised views on what constitute control activities. A non-exhaustive list of these conceptualised views is provided in Table 2.8.

***Table 2.8**: Conceptualised views of scholars on "control activities"*

No.	Personalised definition of the term "control activities"	Source
1	"Control activities are the policies, procedures and practices established to help ensure that an organisation's personnel execute the directives of management at every level within the organisation. These activities help ensure that risks are controlled through means of preventing and detecting them before adversely influencing the attainment of organisational objectives."	Koranteng (2011:27-28)
2	"Control activities are policies and procedures that ensure that management mitigates risks to the best of their abilities. These activities pertain to the approvals, authorisations, verifications and reconciliations – greatly relative to the safeguarding of assets and the segregation of duties."	Frazer (2012:363)
3	"Control activities are tools – both manual and automated – that help identify, prevent or reduce risks that can impede the accomplishment of organisational objectives. Management should establish control activities that are effective and efficient."	Gyebi and Quain (2013:222)
4	"Control activities are implemented by management and should be designed to be effective and efficient in order to ensure that relevant risks are mitigated to the greatest possible extent."	Mwachiro (2013:13)
5	"Control activities help ensure that management directives are carried out in order to attain organisational objectives. These activities comprise performance reviews, information processing, physical controls, and the segregation of duties."	Ejoh and Ejom (2014:133-134)
6	"Control activities are practices, based on policies and procedures, to help ensure that organisational objectives are achieved and that risks are optimally mitigated. In addition, control activities assist greatly with the safeguarding of assets, preventing and detecting of errors and the completeness of accounting records."	Halonen (2014:26-27)

When the six views of scholars in Table 2.8 are compared with and scrutinised against the original definition of control activities, as per the COSO Internal Control – Integrated Framework of 2013, a summary can be made as shown in Table 2.9.

***Table 2.9**: Summary of conceptualised views of scholars surrounding "control activities" versus the definition of "control activities" as per the COSO Internal Control – Integrated Framework of 2013*

COSO element	Definition number					
	1	2	3	4	5	6
Activities based on policies, procedures, rules and/or guidelines	✓	✓	✓			✓
Assists with the attainment of organisational objectives	✓		✓		✓	✓
Detection of risks	✓		✓			✓
Implemented by management				✓		
Evident across all levels (hierarchies) in an organisation	✓					
Helps provide assurance	✓					
Mitigation of risks	✓	✓	✓	✓		✓
Prevention of risks	✓		✓			✓
Relates to approval		✓			✓	
Relates to authorisation		✓			✓	
Relates to performance reviews					✓	
Relates to physical controls		✓			✓	✓
Relates to reconciliation		✓				✓
Relates to segregation of duties		✓			✓	
Relates to verification		✓				

Stemming from Table 2.9, the various personalised views of scholars appear to be incongruent, although also slightly different from the definition of control activities based on the COSO Internal Control – Integrated Framework of 2013. In essence, the majority of scholars agree that "control activities" are those activities that are based on policies, procedures, rules and/or guidelines that should assist with the attainment of an organisation's objectives through mitigating risks. Scholars have different opinions pertaining to the stakeholders who are responsible for implementing control activities and how exactly risks should be mitigated through control activities.

With this in mind, while also taking the definition of the element "control activities" as per the COSO Internal Control – Integrated Framework of 2013 into consideration, for the sake of this research study, control activities (in an organisational dispensation) are conceptualised as follows:

> Control activities are those activities that are based on policies and procedures, as implemented by management, that exist across all hierarchal levels in an organisation. These activities assist greatly with the provision of assurance regarding the attainment of organisational objectives through means of optimally mitigating risks. In turn, control activities aid with the latter by means of preventing risks and/or detecting risks, whether manually and/or automatically, particularly by approvals, authorisations, validations, reconciliations and performance reviews.

From the above, the conclusion can be reached that control activities should mitigate risks through appropriate preventive measures and/or detective measures. These measures, in turn, according to previous research studies (Zhang et al., 2007:304; Agbejule & Jokipii, 2009:503; COSO, 2013a:3; Kobelsky, 2014:305; Al-Thuneibat et al., 2015:203), should be strongly associated with: 1) proper segregation of duties (approvals and authorisations), 2) proper authorisation activities (authorisations), 3) adequate document usage and design (validations), 4) safeguarding assets (validations and reconciliations), and 5) independent checks (reconciliations).

Apart from their preventive and detective nature, control activities also need to be adequate and effective to assist with the attainment of relevant organisational objectives, particularly since they have a direct influence on how risks are managed in an organisation (Raiborn et al., 2009:353). In the same vein, as previously discussed (see Section 2.5.1), the overall adequacy and effectiveness of implemented control activities in an organisation will directly be impacted by the soundness of the respective organisation's control environment. Previous research studies note that the adequacy and effectiveness of implemented control activities will be largely influenced by, inter alia: 1) the manner in which management executes their relevant responsibilities, 2) the manner in which an organisation complies with relevant laws and regulations, and 3) the nature of an organisation (Müller et al., 2014:40; Lenz & Hahn, 2015:11,19-20).

Similar to the findings in relation to a sound control environment (see Section 2.5.1), there exist no formal definitions as to what constitute adequate and effective control activities. Previous research studies (COSO, 2005; Ramos, 2006:50-51; Agbejule & Jokipii, 2009:503; Shin et al., 2013:603) suggest that control activities can be regarded as both adequate and effective if: 1) they relate to an organisation's risk management strategies, 2) they assist management with the execution of their responsibilities, 3) they take the nature of an organisation into account, 4) they are strongly associated with applicable organisational policies and procedures, 5) they are robust in relation to preventing risks and detecting risks, and 6) they are adaptable to changes in an organisation's direct environment(s).

Taking the relevant discussions above into account (see Section 2.5.1 and Section 2.5.2), as well as the fact that management is ultimately responsible for the internal control evident in an organisation (see Section 2.1.2), clear tangent planes start to emerge in relation to the managerial conduct and internal control. In core since a sound system of internal control is built on the foundation of the control environment (see Section 2.5.1), the manner in which management executes their respective responsibilities (relative to the tone set at the top by management) will have a direct influence on the establishment of sound internal control in an organisation – ultimately influencing the reasonable assurance provided surrounding the attainment of relevant organisational objectives in the foreseeable future. As a result, the managerial conduct needs to be discussed.

2.6 THE MANAGERIAL CONDUCT

The managerial conduct is a phenomenon that pertains to the overall behaviour of management while carrying out their respective responsibilities. This behaviour, in turn, will (almost always) have a direct impact on the soundness of an organisation's control environment and, subsequently, impact the overall soundness of the implemented internal control systems in the relevant organisation (see Section 2.5.1 and Section 2.5.2). Owing to the importance of managerial conduct, for the remainder of this section focus is placed on conceptualising this term, while also expanding on its core aspects. Relevant discussion for the remainder of this section falls under the following headings: 1) conceptualising managerial conduct, 2) the core aspects of managerial conduct, and 3) appropriate managerial conduct.

2.6.1 Conceptualising managerial conduct

When the term "managerial conduct" is deconstructed, it can be regarded as a phenomenon that holds direct relevance to the terms "management" and "conduct". These terms are briefly deconstructed below:

- Management: An individual or individuals responsible for planning, organising, directing (leading) and control in an organisation (Dictionary.com, 2015i).
- Conduct: The manner in which a person behaves in his or her personal capacity; the standard behaviour of an individual upon executing a task (Business Dictionary, 2015h; Oxford Dictionaries, 2015h).

Based on the above, this term can be defined as follows:

> Managerial conduct pertains to the manner in which individuals, charged with governance, behave in an organisation while executing their respective responsibilities. Their behaviour is directly associated with their personal values and personal ethical standards.

The formulated definition above is supported by an array of scholars. According to Beer (2010:xiii), the term "managerial conduct" can be regarded as "an indication of how much managers appreciate the influence of ethics on their managerial tasks", while Hoque (2006:213) notes that the same term "pertains to the manner in which management discharges their applicable responsibilities". In addition, Tomasic et al. (2002:287) contend "managerial conduct pertains to the manner in which management performs their respective responsibilities to satisfy the expectations of relevant organisational stakeholders", while Tsukamoto (2007:199) posits that "managerial conduct relates to the behaviour of management in relation to circumstances in and/or around an organisation".

Taking the fundamental definition of the term "managerial conduct" into account, as well as the views of the scholars above, for the sake of this research study the managerial conduct is conceptualised as follows:

> The managerial conduct pertains to the manner in which an organisation's management behaves when discharging their applicable responsibilities. The overall behaviour of management is strongly influenced by their personal primary values and their personal ethical standards.

Stemming from the conceptualised definition above, while also taking into account that every person on earth is unique, the inference can be made that the managerial conduct is subjective in nature – the managerial conduct of one manager will be unique when compared with another manager's managerial conduct. This sentiment is also supported by both the *institutional theory* and the *neo-institutional theory* (see Section 2.1.4) in the sense that no two organisations will ever be exactly the same, especially since any organisation is a distinct and vivid reflection of its management (Gerber, 1995:5).

In view of the above, and as previously mentioned (see Section 2.1.3, Section 2.2.2, Section 2.5.1 and Section 2.5.2), the managerial conduct is believed to have a direct influence on the soundness of the control environment evident in an organisation which, in turn, has an influence on the soundness of internal control evident in an organisation. For this reason, it is important to expand on the core aspects constituting the term "managerial conduct".

2.6.2 The core aspects of managerial conduct

Based on the conceptualised definition of managerial conduct (see Section 2.6.2), it is apparent that this term is strongly relative to the manner in which management behaves while executing their respective responsibilities. This behaviour, in turn, is strongly influenced by the personal preferences of management, their personal values and personal ethical standards (see Section 2.6.1).

Using the above as foundation, previous research studies share the view that since the term "managerial conduct" is unique from one manager to the next, it can be regarded as a phenomenon which comprises a combination of two aspects, namely: 1) the managerial philosophies of management, and 2) the operating styles of management[111] (Du Gay et al., 1996:275; Ghiselli & Ismail, 1999:295; Hofstede, 1999:35; Reiss, 2000:104-120; Buckingham & Clifton, 2001:75-121; Gerber, 2005:12; Singh, 2005:74; Mayle, 2006:157-160; Davis, 2009:15; Moeller, 2009:115; Olmedo-Cifuentes & Martínez-León, 2013:226; Greco et al., 2014: 92-94; Aicher et

[111] The part of the conceptualised definition of the term "managerial conduct" (see Section 2.6.1) which reads "... personal primary values and their personal ethical standards ..." is strongly associated with the managerial philosophy of management, while the part that reads "... discharging their applicable responsibilities ... " is strongly linked with the managerial operating style of management.

al., 2016:17-25). For the sake of clarification, these two terms are briefly explained below (Kirkeby, 2000:4-5; Jamian et al., 2013:279):

- Managerial philosophy of management: It has to do with the manner in which management make business decisions, based on their personal beliefs, which directly influence organisational operations. Personal beliefs are extremely broad in nature and pertain to the following principles (values), inter alia: 1) accountability, 2) adaptability, 3) caution, 4) commitment, 5) competitiveness, 6) courage, 7) loyalty, 8) fairness, 9) logic, 10) compassion, 11) creativity, 12) curiosity, 13) embracing diversity, 14) enthusiasm, 15) ethics, 16) generosity, 17) humility, 18) innovation, 19) optimism, and 20) transparency. All in all, the personal beliefs of management will strongly influence how they make decisions.
- Operating style of management: This relates to the methods in which management choose to plan, organise, lead and control in an organisation, greatly impacted by their personal preferences. Again, depending largely on the personal beliefs of management, their operating styles can relate to, inter alia: 1) a democratic style (allow employees' input before taking action), 2) autocratic style (take action without employees' input), 3) persuasive style (force employees to agree with management's views before taking action), 4) paternalistic style (management has final say before taking action), or 5) *laissez-faire* (employees should take any course of action needed to act out their relevant responsibilities).

Stemming from the above, the assumption can be made that the appropriateness (soundness) of both the managerial philosophy of management and the operating style of management will most probably: 1) have a direct influence on the soundness of the control environment evident in an organisation (see Section 2.5.1), which will, in turn, 2) have a direct influence on the adequacy and effectiveness of implemented control activities in the particular organisation (see Section 2.5.2). Apart from being substantiated by previous sections in this thesis, previous research studies (Adeniyi & Aramide, 2014:200; Zhang, 2014:99-102) are also supportive of the this assumption when highlighting that the soundness of a system of internal control (which comprises five inter-related elements) is directly influenced by both the overall behaviour of management while executing their relevant responsibilities and the manner in which management discharge their relevant responsibilities.

As each organisation is different (see Section 2.1.4), and as any organisation is a distinct and vivid reflection of its management (Gerber, 1995:5), the assumption can be made that that in an organisational dispensation both the managerial philosophies of management and the operating styles of management need to be appropriate. Thus, it is important to understand what constitutes appropriate managerial conduct.

2.6.3 Appropriate managerial conduct

As previously discussed (see Section 2.6.2), the inference was that the managerial conduct is of vital importance in any organisation. This is particularly the case since the managerial conduct will have a direct influence on, inter alia: 1) business decisions that are made, 2) the productivity of employees, 3) the morale levels of relevant organisational stakeholders, and 4) the overall effectiveness and efficiency of operations (Taplin, 2001:1-2; Wright et al., 2002:157; Lee, 2013:54-55). Hence the assumption can be made that if the managerial conduct of management (i.e. their managerial philosophy and operating style) in an organisation is appropriate, its holistic influence on the respective organisation will be positive.

When focus is shifted to the conceptualised definition of the term "management conduct", it is apparent that the overall approach which management will follow to execute their respective responsibilities, in most cases, will be based on, and will be influenced by, their personal primary values and their personal ethical standards stemming from their own personal perceptions (Frąs et al., 2014:33-34). Therefore, it is fair to assume that the term "appropriate" will be very subjective in nature as it may have different meanings for different people (managers). The term "appropriate" is briefly deconstructed below:

- <u>Appropriate</u>: Suitable or proper under certain circumstances (Oxford Dictionaries, 2015i).

Although the definition of the term "appropriate" is very broad, in a business context it is commonly associated with the characteristics of good corporate governance (Heracleous, 2001:167; Berry & Junkus, 2013:710-711; Palliam & Ankli, 2015:9). This is particularly the case as, over the years, in a commercial dispensation, the question of *what is appropriate* underwent changes[112] to transform from perceived acceptable norms to universally acceptable norms (IIA, 2012).

There are no formal definitions of what constitutes appropriate managerial conduct; however according to Kwinana (2013:22), the appropriateness of managerial conduct can be evaluated in terms of, inter alia, the manner in which management: 1)

[112] These changes are strongly associated with the development of corporate governance amid fraudulent activities taking place in established organisations across the globe (Section 2.2.3).

promotes ethics, 2) promotes proper values, 3) executes its responsibilities, 4) promotes accountability, 5) promotes responsibility, and 6) promotes transparency. In addition, and from a corporate governance viewpoint, after the publication of the second *King Report of 2002* (and as re-emphasised in the third *King Report of 2009*), an "appropriate" managerial conduct was strongly aligned to the characteristics of good corporate governance, namely that of: 1) discipline, 2) transparency, 3) independence, 4) accountability, 5) responsibility, and 6) fairness (IoDSA, 2002:7; 11-13).

Therefore, taking the above into account, and within the ambit of this research study, appropriate managerial conduct is conceptualised as follows:

> It pertains to the manner in which management executes their respective responsibilities through making use of a suitable managerial philosophy and operating style built on the characteristics of good corporate governance, namely: 1) discipline, 2) transparency, 3) independence, 4) accountability, 5) responsibility, and 6) fairness.

The conceptualised definition of an appropriate managerial conduct is supported by previous research studies (Njegomir & Tepavac, 2014:83; Idowu et al., 2015:159-165) which indicate that since organisational sustainability is greatly impacted by the manner in which management executes its responsibilities (see Section 2.6.2), the overall conduct of management should be strongly associated with sound and ethical values to the greatest possible extent.

2.7 CONCLUSION AND RELEVANCE TO THE STUDY

Within the ambit of this chapter, a thorough literature review was conducted on internal control, an internal control system, the five inter-related elements of an internal control system, and the managerial conduct, with the intention to: 1) provide clarity on the identified research problem, 2) answer the first two investigative research questions, and 3) achieve the first two secondary objectives.

Over the course of more than 2000 years, the need for internal control was cultivated through events globally characterised by the realisation of unforeseen and/or or unplanned risks. With the lapse of time, the need for internal control was appropriately addressed for the first time through the publication of the COSO Internal Control – Integrated Framework of 1992.

Not only did the internal control framework define internal control, but it also provided guidance to relevant organisational stakeholders charged with governance to achieve internal control to, in turn, assist with the attainment of relevant organisational objectives. Notwithstanding the latter, the COSO Internal Control – Integrated Framework of 1992 suggests that the best way for an organisation to obtain assurance relative to sound internal control is to implement a system of internal control which should comprise five inter-related elements, namely, 1) control environment, 2) risk assessment, 3) control activities, 4) information and communication, and 5) monitoring.

In such a system of internal control (as depicted in the COSO Internal Control – Integrated Framework of 1992), the element "control environment" serves as the foundation, which, in turn, has a direct and extensive influence on the adequacy and/or effectiveness of the remaining four inter-related elements. One of these four remaining inter-related elements is "control activities", mainly responsible for preventing and detecting risks, aiding greatly in the attainment of organisational objectives. After approximately two decades, the COSO Internal Control – Integrated Framework of 2013 was published (through revision of the 1992 version of the relevant internal control framework), taking into account changes that had taken place in a business context, along with the global development of corporate governance and risk management. Despite the changes made to the COSO Internal Control – Integrated Framework, the core aspects of the prescribed internal control system to achieve sound internal control in an organisation, remained the same. Therefore, stemming from the literature reviewed, a sound system of internal control should:

- entail a process;
- be implemented by stakeholders charged with governance;
- help prevent risks from realising;
- help detect risks as they realise;
- help with the attainment of operational objectives;
- help with the attainment of reporting objectives; and
- help with the attainment of compliance objectives.

Taking the above into account, the elements of “control environment” and “control activities”, as defined by the COSO Internal Control – Integrated Framework of 2013, were compared with the conceptualised views of scholars pertaining to these elements; these elements were then conceptualised within the ambit of this research study. In addition, the core aspects constituting adequate and effective internal control activities were also elaborated on, answering the second investigative question of this research study. In essence, based on the literature reviewed, adequate and effective internal control activities:

- consist of preventive controls and/or detective controls;
- are adaptable to changes in the business environment of an organisation;
- assist management with the execution of their respective responsibilities;
- are robust;
- are suitable for the industry in which the organisation is based;
- are supportive of relevant policies and procedures;
- are supportive of risk management strategies; and
- are relative to the five categories of control, namely: 1) segregation of duties, 2) proper authorisation activities, 3) adequate document usage and design, 4) safeguarding of assets, and 5) independent checks.

After elaborating on the two aforementioned elements, emphasis was placed on the term “managerial conduct”. This term was conceptualised within the ambit of this research study while also expanding on the two core aspects comprising the managerial conduct. Lastly the core characteristics representative of an appropriate managerial conduct were elaborated on, thereby answering the first investigative question of this research study. Essentially, stemming from the literature reviewed, an appropriate managerial conduct is characterised by:

- the manner in which management execute their relevant responsibilities, which should be in line with the characteristics of good corporate governance (i.e. discipline, transparency, independence, accountability, responsibility, and fairness);
- management’s utilisation of a suitable managerial philosophy to make decisions, built on the characteristics of good corporate governance; and
- management’s use of a suitable operating style to manage, built on the characteristics of good corporate governance.

In the next chapter, emphasis is placed on South African FMCG SMMEs to answer the third investigative question and achieve the third secondary objective.

CHAPTER 3: LITERATURE REVIEW – SOUTH AFRICAN FMCG SMMEs

SYNOPSIS

Throughout this thesis a methodical process is followed whereby each chapter builds on the previous one. This methodical process is presented below, while also placing this particular chapter in context with all other chapters:

Chapter 1: Introduction to the research study

Chapter 2: Literature review - Internal control, the elements of an internal control system and the managerial conduct

Chapter 3: Literature review - South African fast-moving consumer goods Small, Medium and Micro Enteprises

3.1) An overview of Small, Medium and Micro Enterprises
3.2) Small, Medium and Micro Enterprises in a South African economic context
3.3) The managerial conduct and internal control activities evident in South African fast-moving consumer goods in Small, Medium and Micro Enterprises
3.4) Conclusion and relevance to the research study

Chapter 4: Research design, methodology and methods

Chapter 5: Data analyses, results and discussion

Chapter 6: Conclusion

3.1 AN OVERVIEW OF SMALL, MEDIUM AND MICRO ENTERPRISES

Since the early 1980s, SMMEs have been regarded as the driving force of many economies around the world owing to the socio-economic value they add, particularly in terms of eradicating poverty and diminishing unemployment (Chepurenko, 2010:312; Chimucheka, 2014:783). Previous research studies (Ruttan, 1978:716; Bożyk, 1986:86-87; Franke, 1987:143; Kindleberger, 1995:223; Kai-Sun, 1997:61; Reinfeld, 1997:4; Panfilov, 2012:331; Brown et al., 2012:163) note that current poverty levels and unemployment rates around the globe stem from the reverberations of, among others, the technological revolution (between the late 1880s and the early 1910s), increases in the global human population size (particularly between the early 1910s and the late 1930s) and the Great Depression (starting in 1929 with its aftershocks lasting until the late 1930s).

Amid poor international economic conditions between the 1900s and the late 1930s, together with an increase in the global human population, World War II (WWII) took place between 1939 and 1945. Essentially, although WWII addressed global unemployment rates to some extent, it did so at the cost of many lives. However, both global unemployment rates and poverty levels started to increase rapidly after the end of WWII in 1945 (Romer, 1999:27).

During the course of 1947, the theory of *creative response* was developed by Joseph Schumpeter as a means to empower people around the world to make a living while aiding their respective governments in the eradication of poverty and the diminishing of unemployment, relative to individual capitalism (Jones & Wadhwani, 2006:5). Over the next few years the theory of *creative response* was integrated into the concept of "entrepreneurship" which, in turn, grew in popularity, and had evolved into a meticulous science by the early 1980s (Kuratko, 2005:577-578). Consequently many governments globally started to formally recognise both the importance and socio-economic potential of entrepreneurship, which resulted in the implementation of legislation and the formal promotion of entrepreneurship (in the form of small businesses) through policies and programmes, supporting entrepreneurs who wished to start their own small businesses (Park, 2001:846; Hill, 2001:248; Wren & Storey, 2002:336-337).

With the lapse of time, after governments actively started to support SMMEs, these business entities have been found, according to previous research studies, to play a major role in the enhancement of the economy of many countries around the world by generating income, while simultaneously providing employment opportunities to many citizens, thereby assisting governments with the eradicating of poverty and the alleviation of unemployment (Nkwe, 2012:35; Zhu et al., 2012:1133; Agwa-Ejon & Mbohwa 2015:1).

Therefore, for the remainder of this section, discussion takes place under the following headings: 1) how the need for SMMEs was cultivated, 2) government support for SMMEs and the economic environments in which these business entities operate, and 3) conceptualising SMMEs.

3.1.1 The cultivation of the need for Small, Medium and Micro Enterprises

Between the late 1880s and the early 1900s, while many countries were still becoming accustomed to the changes effected by the industrial revolution, newer technologies (inter alia, plastics, electronics and automobiles) were invented and introduced (Perez, 2004:233). These inventions stimulated the technological revolution (Drucker, 1961:349; Perez, 2002:13) and one of the major contributions of the technological revolution was the realisation of large-scale production with minimal human intervention,[113] better known as mass production (Macrae, 1951:146; Cowan, 1976:6).

Between the early 1900s and the mid-1920s, many organisations around the world started to make use of mass production (Rapping, 1965:81), and although mass production positively impacted on the profitability[114] of many organisations internationally (Curran & Blackburn, 1991:168; Brey et al., 2012:42), it did however start to have an adverse influence on global unemployment rates (Hancock, 1960:305; Jenkins, 1965:94-95; Gillespie & Owen, 1981:189). Despite the scarcity of employment opportunities between the early 1900s and the mid-1920s (largely due

[113] As most business processes were being automated through mass production, employees who were involved in mass production processes only had to perform simple tasks, resulting in cheap wages offered to employees by employers (Betts, 1953:231).

[114] In most industries, mass production resulted in the absolute minimisation of labour costs, a large expense for most organisations at the time (Berlanstein, 1992:35).

to mass production) the global human population[115] increased (Cohen, 2003:1172; Caselli et al., 2006:42) by an approximate 500 million people (Ramankutty et al., 2002:253).

Taking the above into account, it is unsurprising that by the late 1920s, global unemployment rates, on average, exceeded 30 percent (Ahamed, 2011:92), which resulted in fewer citizens being able to participate in their respective countries' economic activities (Vedder & Gallaway, 1993:14-16). Although global economic conditions were bad (Shea et al., 2007:210), they deteriorated owing to the 1929 Great Depression and accelerated by the NYSE stock market crash (Crouch et al., 1982:257-258; Romer, 1993:22-23; Granados & Roux, 2009:17291). A major repercussion of the Great Depression was an extreme increase in global unemployment rates[116] – increases ranging between 10 percent and 20 percent were reported around the world (Benjamin & Kochin, 1982:410; Crafts, 1989:247; Margo, 1993:42) that caused extreme global poverty (Hibbs, 1979:715; Larson, 1980:131; Singh, 1999:66). This remained constant for the remainder of the 1930s, with no radical changes reported in global unemployment rates and poverty levels (Lucas & Rapping, 1972:188; Margo, 1993:43).

Approximately ten years after the 1929 Great Depression, by the late 1930s, many countries had already started to recoup from the repercussions of the Great Depression (Romer, 1993:22-23). In the same vein, during 1939, WWII commenced and lasted for six years until 1945, marking a period where almost all countries around the globe participated in a single war to restore peace.[117] To finance their WWII expenditure, governments[118] of WWII participating countries made use of the following financing methods: 1) raised taxes, 2) borrowed money, and/or 3) printed money (Koistinen, 1973:446; Ohanian, 1997:23-24; Rockoff, 2000:107). As their global unemployment rates were high, most governments opted to finance their WWII expenditure by borrowing money from central and/or reserve banks (Toniolo, 1988:174-175; Goodfriend, 2011:8). Regardless of the financing methods used by

[115] The global human population grew from an estimated 1.54 billion people in 1900 to an approximate 1.99 billion people in 1930 (Ramankutty et al., 2002:253).

[116] Globally, it was very conservatively estimated that at least 30 million people were unemployed at this time (Konrad & Maderthaner, 2013:4).

[117] WWII started after Britain and France declared war on Germany. The reason was that Germany had attacked Poland without provocation (Goldsmith & Posner, 2002:117).

[118] At this time, some of the smaller WWII participating countries were still colonies of Great Britain and France (e.g. countries in West Africa and the West Indies), and gained their independence only during or after WWII (Magstadt, 2013:216-217).

WWII participating countries to finance their WWII expenditure,[119] WWII had a deleterious influence on the economies[120] of most WWII participating countries (Ruttan, 1978:716; Bożyk, 1986:86-87; Franke, 1987:143; Kindleberger, 1995:223; Kai-Sun, 1997:61; Brown et al., 2012:163; Panfilov, 2012:331), resulting in the accumulation of mammoth amounts of debt (Blanchard & Fisher, 1992:65; Conti et al., 1994:85-87; Gropman, 1997:164; Mundell, 2011:17).

From an economic perspective, many WWII participating countries saw WWII as an opportunity to address the problem of the steady increase in unemployment (Eichengreen & Hatton, 1988:398; Guender & Oh, 2006:375), particularly in the sense that unemployed citizens[121] of WWII participating countries could be easily absorbed into their respective militaries, effectively increasing the size of national militaries to aid in their respective countries' fight in the war. As a result, many national militaries around the globe between 1939 and 1945 started to absorb their respective countries' unemployed citizens to fight in WWII as soldiers (Giersch, 1985:412; Higgs, 1992:42-43) but unfortunately, and inevitably, an inordinate number[122] of soldiers were killed during this war (Hoff, 1994:82; Desjarlais et al., 1996:3; Kaldor, 2005:493).

After WWII ended in 1945, it was reported that global unemployment rates had improved,[123] but only to a marginal extent (Romer, 1999:27). Despite the loss of life in WWII, it was reported that, in effect, the global human population still managed to grow to an estimated two billion people between 1939 and 1945 (Nierenberg, 2005:92), with no visible signs of its decreasing or stabilising in the foreseeable future[124] (Lima & Berryman, 2011:1301).

[119] For example, in the USA it was estimated that the total WWII debt amounted to US$270 billion at the end of 1945, while in Great Britain the approximate cost of WWII was believed to be close to US$1 trillion (Cavanaugh, 1996:26; Bryce, 2005:293; Ahamed, 2011:95).

[120] As most governments around the globe spent money on WWII initiatives, limited money was available to invest in infrastructure (Aschauer, 1991:41).

[121] During this time the average age of an unemployed citizen globally was 27 years (Elder, 1987:450-451).

[122] WWI*I* is believed to have cost the lives of up to 50 million people – close to 3% of the global human population in 1939.

[123] With the adoption of the Universal Declaration of Human Rights (UDHR) after WWII in 1948, the need for "social security" was formally recognised. With the UDHR, governments of member countries agreed to assist their citizens with welfare by promoting and guaranteeing access to resources to fulfil basic needs (United Nations, 1999). Countries such as the USA, for example, had already recognised and implemented "social security" prior to 1948.

[124] Between 1945 and 2014, the global population grew by more than five billion, to an estimated 7 174 611 584 people (IndexMundi, 2015a).

Two years after the end of WWII, during the course of 1947, economist and political scientist Joseph Schumpeter published a seminal research paper titled 'The Creative Response in Economic History'*.* In this research paper, Schumpeter raised the point that even though global unemployment rates were stabilised after WWII to some extent, an increase in global unemployment rates would be inevitable as long as two variables existed, namely: 1) expected increases in the global human population size, and 2) limited supplies of employment opportunities.

> Sometimes an increase in the population actually has no other effect than that predicated by classical theory – a fall in per capita real income ... [A]n economy ... adapts itself to a change in its data in the way that traditional theory describes, whenever, that is, an economy reacts to an increase in population by simply adding the new brains and hands to the working force in the existing employments (Schumpeter, 1947:149-150).

To place the views of Schumpeter in context, it is important to note that during the late 1940s: 1) governments and large organisations around the globe were already responsible for providing a substantial number of all existing employment opportunities, and 2) owing to global economic environments, excessive pressure was placed on governments, by their citizens, to make urgent provision for social security[125] (Drucker, 1984:59; Achenbaum, 1986:41; Samwick, 1998:208-209; Stokes & Wilson, 2010:7). In the same research paper Schumpeter proposed the *theory of creative response* as a means to limit potential increases in global unemployment rates, particularly by embracing innovation, emphasising that the role of innovation (i.e. enhancing the effectiveness of an existing idea) was more important than the role of invention (i.e. the creation of a new idea).

> ... [W]henever the economy ... do[es] something else, something that is outside of the range of existing practice, we may speak of creative response ... Creative response changes social and economic situations for good, or, to put it differently, it creates situations for which there is no bridge to those situations that might have emerged in its absence ... and [it is] coterminous with a study of entrepreneurship (Schumpeter, 1947:150).

It is important to note that during the mid-1940s, not only was the concept of entrepreneurship relatively new, but its scope was extensive. The concept of entrepreneurship was regarded as a phenomenon associated with an integrated sequence of personal actions, by individuals, based on their talents and skills, in a

[125] In the context of this research study, the term "social security" refers to the promotion and guarantee of access to resources, by government, to help citizens fulfil their basic needs.

world full of uncertainty, with the main intent to modify economic and/or social forces for the better (Dillard, 1942:68; Schickele, 1942:75; Cole, 1946:4). In core, Schumpeter's *theory of creative response* suggested that the concept of entrepreneurship (based on its mid-1940s definition) should assume a more innovative approach (Wong et al., 2005:336) whereby individuals should be allowed to strive to create their own wealth, particularly by starting their own businesses through means of enhancing existing ideas, while simultaneously adding socio-economic value to the economies of the countries in which they operated – a notion strongly relative to individual capitalism (Jones & Wadhwani, 2006:5).

Schumpeter's *theory of creative response* garnered very little attention and popularity, particularly since his radical views were not widely accepted by society (Fagerberg, 2003:126). By the start of the 1950s however, the concept of entrepreneurship did take some of Schumpeter's views into account. The improved definition of entrepreneurship, in the early 1950s, reads:

> Entrepreneurship ... [is] the purposeful activity of an individual or group of associated individuals, undertaken to initiate, maintain, or aggrandize a profit-oriented business unit for the production or distribution of economic goods and services with pecuniary or other advantage the goal or measure of success, in interaction with the internal situation of the unit itself or with the economic, political, and social circumstances of a period, which allows an appreciable measure of freedom of decision (Waters, 1952:13-14).

During the early 1950s, the USA was the only country to formally recognise the potential value of entrepreneurship (based on the above definition), especially entrepreneurship in the form of small business entities. In the USA the national government saw small business entities as tools that could address the core socio-economic objectives of decreasing the national unemployment rate and alleviating national poverty. As a result, the Small Business Administration (SBA) was formally established as an independent government agency[126] in 1953 (Tolley, 1974:402) to aid, counsel and protect, to the greatest possible extent, the interest of USA-based small business entities (SBA, 2015). Apart from the USA, between the early 1950s and 1960s, the majority of countries did not see the need for entrepreneurship as many economies, in a global sense, flourished during this timeframe (King & Levine, 1993:735; Chang, 2011:483).

[126] Although the SBA was effective in executing its mandate at first, it underwent a transformation to become a financial institution in the mid-1950s, lending money to entrepreneurs without entrepreneurs held accountable for how borrowed money was used (De Rugy & DeHaven, 2011). Between the mid-1960s and mid-1970s the SBA was immersed in various scandals driven by political agendas (DeHaven, 2011).

Between the early 1960s and the mid-1970s however, global market conditions started to become volatile (Peters, 1996:113; Jorion, 2002:7; Karmakar, 2006:1799), which resulted in the failure of many established organisations (Caprio & Honohan, 1999:44). By the late 1970s, despite all the interventions implemented by relevant stakeholders to minimise risks in organisations (see Section 2.2.3), global market conditions became extremely volatile, adversely impacting on economies around the world[127] (Buckley & Casson, 1998:23; Eatwell & Taylor, 2000:51; Staikouras, 2006:245-246).

Many countries therefore started to realise both the importance and potential value of entrepreneurship[128] for the first time – specifically entrepreneurship in the form of small business entities. As in the USA, many governments of countries worldwide started to regard small business entities as tools to aid in the achievement of core socio-economic objectives[129] (Stokes & Wilson, 2010:7). Hence, from the early 1980s and onwards governments around the world started to place more emphasis on entrepreneurship. This was particularly done through means of developing legislation for SMMEs[130] (a universal term that refers to small business entities) to both define and govern these business entities and promote and support them to aid governments, worldwide, to decrease relevant national unemployment rates and alleviate poverty (Hill, 2001:248; Park, 2001:846; Wren & Storey, 2002:336-337; Chepurenko, 2010:312).

3.1.2 Government support for Small, Medium and Micro Enterprises and the economic environments in which these business entities operate

As previously mentioned (see Section 3.1.1), the concept of SMMEs was first recognised in the USA (a developed country) and later adopted by other developed and developing countries. Although many countries (both developed and developing) have provided support to SMMEs over the years, the inference can be made that

[127] These phenomena are discussed in depth in Section 2.2.1.

[128] In this timeframe the definition of entrepreneurship did not differ drastically when compared with its early 1950s definition (Akeredolu-Ale, 1973:347; Duignan & Gann, 1975:306).

[129] Governments of many countries particularly wanted to address the sudden increase in unemployment rates as a result of the failure of established organisations, stemming from the volatile global market conditions.

[130] Internationally, SMMEs are commonly referred to as “Small and Medium Enterprises” (SMEs) or “Micro, Small and Medium Enterprises” (MSMEs). For the sake of this research study, the abbreviation SMMEs will be used to refer to these business entities.

government support for SMMEs will not be exactly the same in all countries – for example, government support offered to SMMEs in developed countries will, more often than not, differ significantly from the government support offered to SMMEs in developing countries. Since the economic environment of one country will differ significantly from that of another, the analogy can be made that the economic environment of a country will have a direct impact on the scope of the government support offered to the respective country's SMMEs.

For the remainder of this section, the government support for SMMEs is differentiated between developed countries (as benchmark) and developing countries; followed by discussions surrounding the economic environments of these countries.

3.1.2.1 Government support for Small, Medium and Micro Enterprises in developed countries

Before elaborating on how SMMEs are supported by governments in developed countries, it is important to first conceptualise what is meant by the term "developed country".

Prior to the 1990s, the development of a country was based purely on its economic wellbeing (Outreville, 1990:490), predominantly measured in relation to its annual GDP (Bourguignon & Morrisson, 2002:735). As time elapsed, the United Nations (UN) raised the point that the development of a country should be based on more than just its economic wellbeing. The argument was that the overall development of a country should also take into account non-economic criteria (e.g. a country's population size, the average education of a country's citizens and the average life expectancy of a citizen in a country) as such criteria, in conjunction with economic criteria, can be indicative of the overall development of a country (McGillivray, 1991:1461). During the course of 1991 the Human Development Index (HDI) was developed (Burd-Sharps & Lewis, 2012:26) as a yardstick to evaluate the overall development of countries across the world on a scale ranging from zero to one[131] (UNDP, 2015).

[131] Countries with HDI scores ranging between 1.00 and 0.700 are regarded as developed countries; countries with HDI scores lower than 0.700 are regarded as developing countries (UNDP, 2015).

Fundamentally, the HDI factors into account many aspects of a country to evaluate its overall development, which include, inter alia, its political, economic and social freedom; individual opportunities for citizens to be healthy; average education of citizens; average national productivity; and regard for human rights (Arizpe, 2002:50). Though there exist no formally recognised definitions for the term "developed country" (Nasir, 2014:10), prior research does however suggest that a developed country is largely characterised by, inter alia: 1) a high per capita income, 2) a high level of economic activity, 3) a high life expectancy, 4) a sound average education level, and 5) monetary stability (Jänicke, 2005:135; Alon & Dwyer, 2014:356; Fritz & Koch, 2014:191-192; Cavallini et al., 2013:6).

Therefore, taking the above into account, and for the sake of this research study, a developed country is conceptualised as follows:

> It is a country that has sound infrastructure that allows it to experience sound socio-economic prosperity, while also having a HDI-score that ranges between 1.00 and 0.700.

In Table 3.1, examples of some of the developed countries that appear in the *UN Human Development Report*[132] are provided.

For the sake of this research study, to elaborate fairly on the government support offered to SMMEs in developed countries, it is of vital importance to understand the nature of SMMEs in developed countries, the impact of these business entities on developed countries' economies, and the legislative requirements of SMMEs in developed countries, among other important factors. The latter is taken into account in relevant discussions for the remainder of Section 3.1.2.1.

[132] The complete list of countries in the *UN Human Development Report* covers a total of 187 countries – both developed and developing countries.

***Table 3.1**: A non-exhaustive list of developed countries around the world (**Source**: UNDP, 2015)*

Global rank	Country	Continent	Development	Score (out of 1)
1	Norway	Europe	Very highly developed	0.944
2	Australia	Oceania/Australasia	Very highly developed	0.933
3	Switzerland	Europe	Very highly developed	0.917
6	Germany	Europe	Very highly developed	0.911
7	New Zealand	Oceania/Australasia	Very highly developed	0.910
8	Canada	North America	Very highly developed	0.902
10	Denmark	Europe	Very highly developed	0.900
48	Latvia	Europe	Very highly developed	0.810
49	Argentina	South America	Very highly developed	0.808
67	Venezuela	South America	Highly developed	0.764
69	Turkey	Europe	Highly developed	0.759
71	Mexico	South America	Highly developed	0.756
73	Sri Lanka	Asia	Highly developed	0.750
79	Brazil	South America	Highly developed	0.744
82	Peru	South America	Highly developed	0.737
84	Belize	Central America	Highly developed	0.732
88	Fiji	Oceania/Australasia	Highly developed	0.724
89	Thailand	Asia	Highly developed	0.722

Owing to the large number of developed countries that exist, a total of four countries were purposively selected for discussion under this section as they adhered to the following three criteria: 1) the four countries were based in North America, South America, Europe or Oceania/Australasia – the four most developed continents in the world (Wuzella, 2014:9), 2) the four countries consisted of a mixture of "very highly developed countries" and "highly developed countries" based on the 2014 *UN Human Development Report* (UNDP, 2014), and 3) each country was situated on a continent different from the remaining three developed countries.

Stemming from the above, the four developed countries that were purposively chosen for discussion for the remainder of this section were: 1) Australia, 2) Canada, 3) Germany, and 4) Brazil. Relevant discussion appears below:

- Australia: In Australia, a total of 97% of all existing businesses are regarded as SMMEs (Coetzer et al., 2012:432; Bhattacharya, 2014:131). Although limited legislation[133] governs SMMEs, these business entities are greatly supported and actively promoted by the Australian government (Australia. New South Wales Government, 2015).

  A major example of the government support provided to these business entities is the *Small and Medium Enterprises Policy Framework* which allows SMMEs to have better access to government opportunities, in relation to goods and services, in the form of SMME tenders (Australia. New South Wales Government, 2013). Furthermore, the Small Business and Family Enterprise Ombudsman and the Small Business Commissioner

[133] SMMEs are referred to in the *Customs Determination Amendment Act of 2013* and the *Fair Work Act of 2009* for example, but after a thorough review of literature, it appears that no legislation exclusively governs these business entities in Australia.

empower SMMEs by promoting fair business conduct in a holistic manner (Australian Treasury, 2015).

More often than not an Australian SMME is referred to as a business entity which takes the form of sole trader, partnership, trust or company, while simultaneously being responsible for employing up to a maximum of 199 full-time employees at any given time while operating within the borders of Australia (Kotey & Falker, 2007:218; ABS, 2009; Australia. New South Wales Government, 2013:4; Perera & Chand, 2015:168). In addition, these business entities are categorised in relation to their size (i.e. micro, small and medium) based on the number of employees as sole criterion. The size categorisation of Australian SMMEs is summarised in Table 3.2.

Table 3.2*: Summary of Australian SMMEs' sizes based on employment numbers (****Source****: Kushnir, 2010:17)*

Size	Number of employees
Micro	1 – 4 employees[134]
Small	5 – 19 employees
Medium	20 – 199 employees

Based on the aforementioned, it can be deduced that SMMEs are supported by the Australian government. In turn, these business entities add socio-economic value to the Australian economy by providing employment opportunities to Australian citizens; this is believed to have a positive influence on the national unemployment rate[135] and national poverty levels.

- Canada: From a Canadian perspective, an estimated 99.8% of all existing businesses are regarded as SMMEs, responsible for providing up to 89.9% of all national employment opportunities (Industry Canada, 2013). Despite the existence of limited legislation[136] pertaining to the overall governing of SMMEs, these business entities are extensively supported by the Canadian government.

  Examples of support provided to SMMEs by the Canadian government include the Chamber of Commerce, through its SME Committee, responsible for promoting suitable environments for SMMEs to operate in (Canadian Chamber of Commerce, 2015), and the Canadian Office of Small and Medium Enterprises that is largely responsible for, inter alia, providing information, offering training services, reducing competition barriers and identifying opportunities for SMMEs (Government of Canada. Public Works and

[134] It should be noted that, in a global sense, if an SMME employs only its owner(s), it is still regarded as an SMME.

[135] The Australian unemployment rate, for the second quarter of 2015, was estimated at 6% (Trading Economics, 2015a).

[136] The *Canada Small Business Financing Act of 1998* is a major example of legislation that only makes reference to SMMEs (in *Section 2* thereof) but it does not provide information on how these business entities should be governed (Government of Canada, 2001).

Government Services, 2015). Furthermore, SMMEs are supported by the Competition Bureau, where emphasis is placed on providing equitable opportunities to SMMEs to participate in the Canadian marketplace, particularly through means of the *Competition Act*, *Consumer Packaging and Labelling Act*, *Textile Labelling Act*, and the *Previous Metals Marketing Act* (Competition Bureau, 2012).

In essence, a Canadian SMME can be regarded as any business entity, be it a sole trader, partnership or company, that employs fewer than 500 employees while simultaneously striving towards earning a profit, and operating within the borders of Canada (Government of Canada, 2001; Young, 2009:13; McIntyre-Bhatty & Wu, 2014). In addition, these SMMEs are categorised in relation to their size (i.e. small and medium), based on the number of employees as sole criterion. The size categorisation of Canadian SMMEs is summarised in Table 3.3.

Table 3.3*: Summary of Canadian SMMEs' sizes based on employment numbers (****Source****: Industry Canada, 2013)*

Size	Number of employees
Small	1 – 99 employees
Medium	100 – 499 employees

Taking all of the above into account, the inference can be made that SMMEs are predominantly supported by the Canadian government as these business entities are of vital importance to the economy of Canada. Similar to their Australian counterparts, Canadian SMMEs are also responsible for adding socio-economic value to the Canadian economy by providing plentiful employment opportunities to Canadian citizens, all with the intent to keep the national unemployment rate[137] and poverty levels at an absolute minimum.

- Germany: In Germany, SMMEs account for an estimated 99.8% of all existing business entities, which in turn are also responsible for providing up to 62.2% of all national employment opportunities (European Commission, 2013:2). These business entities are empowered by the German government by encouraging them to participate in public tenders, while simultaneously providing SMMEs with access to numerous European funding opportunities[138] (European Commission, 2013:10; Jordan et al., 2014:318).

[137] The Canadian unemployment rate, for the second quarter of 2015, was estimated at 6.8% (Trading Economics, 2015b).

[138] The available European funding opportunities include, but are not limited to, the Investing in Skills programme and the Jobs for Youth programme (which are provided by the European Investment Bank), among other funding opportunities (German Federal Government, 2014).

When emphasis is placed on the legislation that governs German SMMEs, it should be noted that these business entities are essentially governed by the European Union[139] (EU), particularly through means of the *Small Business Act for Europe*[140] that was signed into law during 2008 (European Commission, 2008). Apart from governing German SMMEs, this same Act also formally defines an SMME, in the EU, as any business entity that is engaged in an economic activity, irrespective of its legal form, that strives to make a profit, while simultaneously providing employment opportunities to no more than 249 European citizens while operating on European soil[141] (European Commission, 2008; McNamara, 2014:6). SMMEs are also categorised in relation to their size (i.e. micro, small and medium), number of employees, annual turnover and gross asset value as core criteria. The size categorisation of German SMMEs is summarised in Table 3.4.

***Table 3.4**: Summary of German SMMEs' sizes (**Sources**: European Commission, 2008; European Commission, 2015)*

Size	Number of employees	Annual revenue earned[142]	Assets and/or Investments
Micro	1 – 10 employees	€0 – €2 000 000	€0 – €2 000 000
Small	11 – 49 employees	€2 000 001 – €10 000 000	€2 000 001 – €10 000 000
Medium	50 – 249 employees	€ 10 000 001– €50 000 000	€ 10 000 001– €43 000 000

Taking the aforementioned into consideration, it can be concluded that SMMEs are very well supported by the German government and the EU alike. Not only do SMMEs play a substantial role in the stimulation of the German economy (and the EU, in an economic dispensation) through adding critical value to the national GDP[143] with their revenue-generation abilities, but these business entities also provide plentiful employment opportunities to German citizens to keep the national unemployment rate[144] and poverty levels at bay.

- Brazil: In a Brazilian context, approximately 99% of all existing businesses are regarded as SMMEs, responsible for providing up to 56.1% of all national employment opportunities (Saeed, 2009:136; García, 2015:137). In essence, SMMEs are supported

[139] In 1957, Germany, with the assistance of Luxembourg, Belgium, The Netherlands, Italy, and France, founded the European Economic Community that would later become known as the European Union (EU) (Reynaud et al., 2007:137).

[140] This Act replaced the initial Recommendation 2003/361/EC policy document first used to govern SMMEs in the EU (European Commission, 2005:2).

[141] European soil includes all of the member countries of the EU, namely, Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.

[142] Germany makes use of the euro (€) as currency - €1 is equivalent to R17.86 (at 27 January 2016).

[143] At December 2013, the German GDP was estimated at US$3 635 billion (Trading Economics, 2015c), to which German SMMEs contributed approximately 75% (GASME, 2013).

[144] The estimated German unemployment rate, in the second quarter of 2015, stood at 4.7% (Trading Economics, 2015c).

by the Brazilian government through many initiatives[145] (Timm, 2011:24-25) and are predominantly governed by the *National Statute of the Micro and Small Businesses*[146] (Mello, 2012).

Not only does the *National Statute of the Micro and Small Businesses* establish general rules concerning the management of SMMEs, but it also defines a Brazilian SMME as a business entity that is involved in the generation of revenue, regardless of its legal form, while operating in at least one formal industry, within the borders of Brazil, and employing up to a maximum of 499 Brazilian citizens (White, 2005:14-15; Lages, 2008; Gilmore et al., 2013:92). In addition, SMMEs are categorised in relation to their size (i.e. micro, small and medium), based on their number of employees and annual turnover as core criteria. The size categorisation of Brazilian SMMEs is summarised in Table 3.5.

***Table 3.5**: Summary of Brazilian SMMEs' sizes*[147] *(**Sources**: Timm, 2011:97; White, 2005:14)*

Size	Number of employees	Annual revenue earned[148]
Micro	1 – 9 employees	R$0 – R$240 000
Small	10 – 49 employees	R$240 001 – R$2 400 000
Medium	50 – 449 employees	>= R$ 2 400 001

Stemming from the above, the inference can be made that SMMEs are supported by the Brazilian government to a large extent. Similar to the case of SMMEs in Germany, the Brazilian economy is positively influenced by Brazilian SMMEs through these business entities' revenue-generating abilities, which in turn directly (and positively) impact on the Brazilian GDP.[149] Moreover, these business entities provide employment opportunities to a large proportion of Brazilian citizens to keep the national unemployment rate[150] and national poverty levels at a minimum.

Taking the above into account, the assumption can be made that SMMEs in developed countries are supported by their relevant governments, especially since these business entities add great socio-economic value to their countries' national economies. The socio-economic value these business entities add to their respective

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[145] Examples of these initiatives include the *Policy on Small Businesses* (empowering SMMEs to participate in public tenders), the *Empreendedor Individual* law (empowers one-man-owners of SMMEs financially), the *Ministry of Development Industry and Commerce* (oversees the development of SMMEs), and the *Brazilian Micro and Small Business Support Service* (assists SMMEs with, inter alia, technological development and access to finance) (FORLAC, 2013:5-6; Portal Brasil, 2015).

[146] This is also referred to as *Lei Geral*, meaning General Law – particularly Law 9841/1999 (Timm, 2011:97).

[147] Brazilian SMMEs predominantly operate in two sectors, namely: 1) the commercial and service sector, and 2) the industrial sector. The statistics in Table 3.5 are only representative of Brazilian SMMEs that operate in the commercial and service sector.

[148] Brazil makes use of the real (R$) as currency – R$1 is equivalent to R4.01 (at 27 January 2016).

[149] The Brazilian GDP, as at December 2013, was estimated at US$2 246 billion (Trading Economics, 2015d) and Brazilian SMMEs are believed to have contributed an estimated 20% to it (FORLAC, 2013:4).

[150] The Brazilian unemployment rate, for the second quarter of 2015, was estimated at 6.4% (Trading Economics, 2015d).

economies predominantly stems from their income-generating abilities (enhancing their countries' GDPs in the process), while simultaneously providing ample employment opportunities that result in the reduction of national poverty and the mitigation of national unemployment levels.

Hence, stemming from the support that these business entities receive from their respective governments, the perception can be formed that in a theoretical dispensation SMMEs in developed countries are quite sustainable.[151] Unfortunately, this perception is strongly contested by previous research studies (Wagner, 2013; Herath, 2014:61; Mwangi & Gachunga, 2014:586), where it was found that regardless of the country in which SMMEs operate, and regardless of the government support these business entities enjoy, a large proportion of newly established SMMEs are likely to fail within their first 36 months of operation. This is substantiated by the following statistics: 1) up to 48% of Canadian SMMEs have to close their doors after being in operation for only five years, 2) approximately 43% of Brazilian SMMEs have to close their doors after being in operation for only three years, and 3) an estimated 23% of Australian SMMEs have to close their doors after being in operation for only five years (Monk, 2000; Ahmad & Seet, 2009:99; Oduyoye et al., 2013:73).

Although the statistics pertaining to the failure rate of SMMEs in three developed countries are disconcerting, it is important to take into account that despite the support that SMMEs receive from their respective national governments, the overall sustainability of these business entities will be directly and largely influenced by, inter alia, the economic environment in which they have to operate (Moore & Manring, 2009:279; Adelakun, 2014:18). Thus, to make sense of the failure rate of SMMEs in developed countries, it is essential to expand on the economic environment of developed countries.

3.1.2.2 The economic environments of developed countries

The economic environment of a country refers to the overall form/state of the respective country's economy (Guilhoto et al., 2002:99). To evaluate the economic environment of a country, it is important that key economic indicators of the

[151] The concept of "sustainability" is expanded on, in depth, in Section 2.2.2.

respective country are first measured and then interpreted accordingly (Borghi et al., 2010:4; Pepple, 2012:15). Although a magnitude of economic indicators can be used to evaluate the economic environment of any given country (Fite et al., 2002:302-303), only six economic indicators deemed as the primary economic indicators required to measure the fundamental economic well-being/condition of a country (Furdell & Wolman, 2006:16) are taken into consideration when evaluating the economic environment of countries within the ambit of this research study. These six economic indicators are briefly elaborated on below:

- GDP:[152] It is the total monetary value of all finished goods and/or services that are produced within the borders of a country, for a specific period of time, which is normally equal to 12 months (Schmitt-Grohé & Uribe, 2001:497-498; Račickas & Vasiliauskaitė, 2010:1009) – expressed in US$.[153]
- GDP per capita:[154] It is regarded as the total monetary value of all final goods and/or services that are produced, in a specific country, over a specific period of time (see definition of GDP) which, in turn, is divided by the population size of the particular country (Akiba et al., 2012:174). This economic indicator represents the value which the average citizen of a country contributed to the overall GDP of the country under review; otherwise expressed, what the average annual salary of an average citizen of a specific country should have been (Mas-Colell, 2013:87) – also expressed in US$.
- Gini index: It measures how equitably a monetary resource (money) is distributed between all citizens of a particular country. This statistic is measured on a scale from zero (representative of an absolute equal distribution of money) to one (representative of an absolute unequal distribution of money) (Farris, 2010:851).
- Inflation rate: It is a continuous and substantial measurement of the cost of goods and/or services (in percentage) sold and/or rendered in a particular country – an indicator of the cost of living in the relevant country (Mohr & Fourie, 2004:566).
- Population size: It refers to the (estimated) size of a particular country's population – expressed in number of people.
- Unemployment rate: It serves as an indication of the size (in percentage) of the number of citizens in a country that have been unemployed for between one and four weeks,[155] including those citizens who indicate that they wish to be employed but have not

[152] Statistics for only the GDP (nominal) were used as it measures the value of a country's GDP by taking into account official international exchange rates – a real measurement of economic growth.

[153] The $US refers to the US dollar, currency of the USA – $US1 is equivalent to R16.36 (at 27 January 2016).

[154] Statistics for only the GDP per capita (nominal) were used as it measures the value of the average contribution of one citizen, of a certain country, to the overall GDP (nominal) of a country. This measurement also takes into consideration official international exchange rates – a real measurement of productivity.

[155] The sentence, to this point, is the official criterion for the "narrow definition" of unemployment.

searched for any employment opportunities for between one and four weeks[156] (Kingdon & Knight, 2000:3).

For the sake of consistency, relevant statistics pertaining to the aforementioned six economic indicators are provided for only the developed countries of Australia, Canada, Germany and Brazil, for the years 2011 to 2014, in Table 3.6.

***Table 3.6**: Economic indicators of Australia, Canada, Germany and Brazil from 2011 to 2014 (**Sources**: IndexMundi, 2015b; IndexMundi 2015c; Statistics Canada, 2015; IndexMundi, 2015d; IndexMundi, 2015e; Trading Economics, 2015g; Trading Economics, 2015h; Trading Economics, 2015i; Trading Economics, 2015j)*

AUSTRALIA				
Economic Indicator	**2011**	**2012**	**2013**	**2014**
GDP (nominal)	US$ 1.14 trillion	US$ 1.39 trillion	US$ 1.53 trillion	US$ 1.56 trillion
GDP per capita (nominal)	US$ 36 175.11	US$ 36 504.13	US$ 37 218.15	US$ 37 497.07
Gini index	0.32	0.33	N/A	N/A
Inflation rate	3.33%	1.75%	2.45%	2.47%
Population size	22.34 million	22.72 million	23.13 million	24.03 million
Unemployment rate (narrow)	5.07%	5.20%	5.66%	6.06%
CANADA				
Economic Indicator	**2011**	**2012**	**2013**	**2014**
GDP (nominal)	US$ 1.78 trillion	US$ 1.82 trillion	US$ 1.83 trillion	US$ 1.84 trillion
GDP per capita (nominal)	US$ 36 465.71	US$ 37 176.16	US$ 37 442.33	US$ 37 753.63
Gini index	0.32	0.32	0.33	N/A
Inflation rate	2.88%	1.52%	0.94%	1.91%
Population size	34.34 million	34.75 million	35.16 million	35.54 million
Unemployment rate (narrow)	7.50%	7.33%	7.08%	6.92%
GERMANY				
Economic Indicator	**2011**	**2012**	**2013**	**2014**
GDP (nominal)	US$ 3.41 trillion	US$ 3.75 trillion	US$ 3.53 trillion	US$ 3.73 trillion
GDP per capita (nominal)	US$ 37 147.02	US$ 38 470.84	US$ 39 274.36	US$ 39 208.76
Gini index	N/A	0.29	0.28	N/A
Inflation rate	2.07%	2.01%	1.50%	0.90%
Population size	80.33 million	80.52 million	80.77 million	81.08 million
Unemployment rate (narrow)	5.85%	5.37%	5.23%	5.00%
BRAZIL				
Economic Indicator	**2011**	**2012**	**2013**	**2014**
GDP (nominal)	US$ 2.21 trillion	US$ 2.62 trillion	US$ 2.41 trillion	US$ 2.39 trillion
GDP per capita (nominal)	US$ 5 678.29	US$ 5 848.98	US$ 5 900.51	US$ 6 010.79
Gini index	0.53	0.53	0.55	N/A
Inflation rate	6.63%	5.40%	6.21%	6.33%
Population size	196.94 million	198.66 million	200.36 million	202.03 million
Unemployment rate (narrow)	5.98%	5.50%	5.39%	4.84%

Before relevant deductions can be made from the statistics in Table 3.6, these statistics are first briefly analysed and interpreted for each relevant developed country below:

[156] The whole section is the official criterion for the “broad definition” of unemployment.

- Australia: Between 2011 and 2014 the GDP (nominal) experienced a net increase of 33.90% (±US$ 420 billion) – an increase of 21.9% from 2011 to 2012, an increase of 10.1% from 2012 to 2013, and an increase of 1.9% from 2013 to 2014. The net increase in the GDP (nominal) points to two probable scenarios: 1) the productivity of Australian citizens increased from 2011 to 2014, and/or 2) national unemployment experienced a net decrease from 2011 to 2014.

  The statistics pertaining to the GDP per capita (nominal) show that this indicator experienced an increase of 0.91% from 2011 to 2012, an increase of 1.96% from 2012 to 2013, and an increase of 0.75% from 2013 to 2014 – aggregating to a net increase of 3.62% (± US$1 329.96) from 2011 to 2014. The net increase in the GDP per capita (nominal) serves as proof of increased productivity of Australian citizens over the four years, which in turn had a positive impact on the GDP (nominal). Another way to view the GDP per capita (nominal) is that in 2014, the average Australian contributed roughly US$ 3 124.76 to the Australian economy on a monthly basis – supporting the first identified scenario that the productivity of Australian citizens increased during the four years under review.

  The average inflation between 2011 and 2014 amounted to 2.50% – an indication that the cost of living increased slightly during this applicable timeframe. Although this percentage appears to be minute, its influence can best be described through means of the following scenario:

  > During 2010, a single product (Product A) could be purchased in Australia for R10.00 from a manufacturer. Owing to inflation, Product A had a purchase price of R10.33 at the end of 2011, R10.51 at the end of 2012, R10.77 at the end of 2013, and a purchase price of R11.03 at the end of 2014.

  For both 2011 and 2012, the reported Gini index score ranged between 0.32 and 0.33, which serves as an indication that money was relatively equally divided among Australian citizens over these two years. In addition, it is also reasonable to assume that poverty was not a major problem in Australia during 2011 and 2012.

  From 2011 to 2014 the Australian human population increased by ±1.69 million people (from 22.34 million people in 2011 to 24.03 million people in 2014), while the unemployment rate increased from 5.07% to 6.06% over the same timeframe. In essence, these statistics show that between 2011 and 2014 the estimated number of unemployed Australian citizens increased by ±323 000 people, from 1.13 million people in 2011 to 1.46 million people in 2014 – disproving the second identified scenario that the unemployment rate decreased during the four years under review.

- Canada: The GDP (nominal) of Canada increased by 2.25% from 2011 to 2012, increased by 0.55% from 2012 to 2013, and increased by 0.55% from 2013 to 2014 – amounting to a net increase of 3.35% (±US$ 60 billion) from 2011 to 2014. As in the case of Australia, the net increase in the GDP (nominal) points to two probable scenarios: 1) the productivity of Canadian citizens increased from 2011 to 2014, and/or 2) national unemployment decreased from 2011 to 2014.

  When focus is placed on the GDP per capita (nominal), it is evident that it increased by 1.95% from 2011 to 2012, increased by 0.72% from 2012 to 2013, and increased by 0.83% from 2013 to 2014 – a net increase of 3.50% (±US$ 1 287.92) from 2011 to 2014. Otherwise stated, in 2014, the average Canadian citizen contributed US$ 3 146.14 to the Canadian economy on a monthly basis, serving as a clear indicator of an increase in the productivity of Canadian citizens between 2011 and 2014. This statistic also proves the first identified scenario that the productivity of Canadian citizens increased during the four years under review.

  Between 2011 and 2014, the average inflation amounted to 1.81%. Again, although this inflation does not seem material, its influence is best explained through means of the following scenario:

  > During 2010, a single product (Product B) could be purchased in Canada for R10.00 from a manufacturer. Owing to inflation, Product B had a purchase price of R10.29 at the end of 2011, R10.44 at the end of 2012, R10.54 at the end of 2013, and a purchase price of R10.74 at the end of 2014.

  The Canadian Gini index score ranged between 0.32 and 0.33 between 2011 and 2013 (similar to the Australian Gini index scores for 2011 and 2012), meaning that money was relatively equally divided among Canadian citizens during these three years. Furthermore, based on this statistic, one can also draw the conclusion that poverty was not regarded as a major issue in Canada during this timeframe.

  Although the number of Canadian citizens increased from 34.34 million people in 2011 to 35.54 million people in 2014 (a net increase of ±1.2 million people), it is interesting to note that the unemployment rate decreased from 7.50% in 2011 to 6.92% in 2014. The relevant statistic can be translated to the fact that ±2.46 million people were unemployed in 2014 when compared with ± 2.57 million unemployed people in 2011, a decrease of ±116 000 people. This statistic also supports the second identified scenario that the unemployment rate decreased during the four years under review.

- <u>Germany</u>: From 2011 to 2014 the GDP (nominal) had a net increase of 9.57% – an increase of 9.97% from 2011 to 2012, a decrease of 5.87% from 2012 to 2013, and an increase of 5.67% from 2013 to 2014 – otherwise put an average increase of ±US$ 310 billion. Similarly to the cases of the previous two developed countries, the net increase in the GDP (nominal) points to two probable scenarios: 1) the productivity of German citizens increased from 2011 to 2014, and/or 2) national unemployment experienced a net decrease from 2011 to 2014.

  The GDP per capita (nominal) experienced a net increase of 5.48% (±US$ 2 061.74) between 2011 and 2014, comprising an increase of 3.56% from 2011 to 2012, an increase of 2.09% from 2012 to 2013, and a decrease of 0.17% from 2013 to 2014. Although there was a slight decrease in the GDP per capita (nominal) between 2013 and 2014, the net increase for this economic indicator serves as proof of the increased productivity of German citizens – justifying the first identified scenario. The net increase can alternatively be viewed in the sense that in 2014 the average German citizen contributed US$ 3 267.40 to the GDP (nominal) on a monthly basis.

  The average annual inflation (cost of living) from 2011 to 2014 increased by 1.62%. Although the amount for inflation appears small, its influence it best explained through means of the following scenario:

  > During 2010, a single product (Product C) could be purchased in Germany for R10.00 from a manufacturer. Owing to inflation, Product C had a purchase price of R10.21 at the end of 2011, R10.41 at the end of 2012, R10.57 at the end of 2013, and a purchase price of R10.66 at the end of 2014.

  The Gini index score ranged between 0.28 and 0.29 from 2012 to 2013, serving as a clear indication that money was relatively equally shared among German citizens during this timeframe. As such, the inference can be made that poverty was not a major concern for the German economy between 2012 and 2013.

  When emphasis is placed on the population size, it appears that it increased from 80.33 million people in 2011 to 81.33 million people in 2014 (an increase of ±750 000 people), while the unemployment rate experienced a decrease from 5.85% in 2011 to 5.00% in 2014. In other words, the estimated number of unemployed German citizens decreased from ±4.7 million people in 2011 to ±4.1 million people in 2014, a net decrease of ±645 000 people. This statistic serves as justification for the second identified scenario.

- Brazil: Between 2011 and 2014, the GDP (nominal) experienced a net increase of 9.70% (±US$ 200 billion) – an increase of 18.55% from 2011 to 2012, a decrease of 8.02% from 2012 to 2013, and a decrease of 0.83% from 2013 to 2014. It is important to note that the GDP (nominal) experienced decreases from 2012 to 2014; however owing to the net increase it does point to two probable scenarios: 1) the productivity of Brazilian citizens increased from 2011 to 2014, and/or 2) national unemployment decreased from 2011 to 2014.

  When focus is placed on the GDP per capita (nominal), it appears that it experienced a net increase of 5.86% (±US$ 332.50) from 2011 to 2014 – an increase of 3.01% from 2011 to 2012, an increase of 0.88% from 2012 to 2013, and an increase of 1.87% from 2013 to 2014. Another way to view the net increase of the GDP per capita (nominal) is that in 2014 the average Brazilian citizen contributed an approximate US$ 500.90 per month to the GDP (nominal) – serving as justification for the first identified scenario regarding the increased productivity of Brazilian citizens during the applicable timeframe.

  The annual inflation increased by 6.14% from 2011 to 2014. To explain the influence of inflation, the following scenario is used:

  > During 2010, a single product (Product D) could be purchased in Brazil for R10.00 from a manufacturer. Owing to inflation, Product D had a purchase price of R10.66 at the end of 2011, R11.24 at the end of 2012, R11.94 at the end of 2013, and a purchase price of R12.69 at the end of 2014.

  From 2011 to 2013 the Gini index score ranged between 0.53 and 0.55, serving as an indicator that money was not equally shared among its citizens. Moreover this relevant Gini index score is also indicative that poverty may have emerged as (was already) a problem in Brazil during this timeframe.

  The population increased from 196.94 million people in 2011 to 202.03 million people in 2014 (an increase of ±5.09 million people), while the unemployment rate decreased from 5.98% to 4.84% during the same timeframe. This can also be viewed in the sense that the estimated number of unemployed citizens decreased from ±11.77 million people in 2011 to ±9.78 million people in 2014, a net decrease of ±1.92 million people. In turn, this statistic serves as justification for the second identified scenario that unemployment decreased between 2011 and 2014.

Stemming from the above, the analogy can be drawn that the more developed a country is, the more conducive its economic environment will be for SMMEs to operate in. This analogy is defended when focus is placed on the similarities that exist between the economic environments of Australia (second most developed country), Germany (sixth most developed country) and Canada (eighth most developed country):

- GDP (nominal) is greater than US$ 1.5 trillion (2014).
- GDP per capital (nominal) of at least US$ 37 400 (2014).
- Gini index scores of 0.33 or less (2012).
- Average annual inflation rates are less than 2.51% (2014).
- Population of fewer than 100 million people (2014).
- Fewer than an estimated 4.1 million unemployed people (2014).

Based on the aforementioned similarities, the inferences can be made that in Australia, Germany and Canada: 1) citizens are productive in terms of adding value to their respective countries' GDP (nominal), 2) money is fairly equally disseminated among citizens, indicative of low poverty levels and low crime rates,[157] 3) the cost of living (existing) is not too expensive, and 4) unemployment is not too extreme – an encouraging economic environment for SMMEs to operate in.

When the economic environment of Brazil (79th most developed country) is compared with the above, it is apparent that although it has a GDP (nominal) in excess of US$ 1.5 trillion (in 2014), it also has:

- A GDP per capita (nominal) which is less than US$ 6 100 (2014).
- A Gini index score greater than 0.50 (2013).
- An average annual inflation rate in excess of 6.00% (2014).
- A population of greater than 200 million people (2014).
- More than an estimated 9 million unemployed people (2014).

Hence, when focus is placed on the economic environment of Brazil, the assumptions can be made that 1) not all its citizens are optimally productive, 2) money is not reasonably equally disseminated between its citizens, indicative of potentially high poverty levels and/or crime levels, 3) the cost of living is more expensive than in the other three developed countries, 4) unemployment is worse than in the other three developed countries, therefore providing a less congenial economic environment for SMMEs to operate in.

[157] Prior research has found that the greater the Gini index score of a country is, the higher the levels of crime and corruption will be in such a country (Landman & Schönteich, 2002:72; Dos Santos & Vieira, 2013:648).

3.1.2.3 Government support to Small, Medium and Micro Enterprises in developing countries

Before focusing on how SMMEs are supported by governments in developing countries, it is imperative to first conceptualise what a developing country is.

A developing country can be viewed as the polar opposite of a developed country. This sentiment is supported by prior research where it was found that developing countries are predominantly characterised by, inter alia: 1) under-developed financial markets, 2) "boom and bust" economic growth trends, 3) limited availability/quantity of skilled labour, 4) weak levels of governance, and 5) limited infrastructure (Gurtoo, 2008:472; Macchiavello, 2010:162; Kar et al., 2013:159; Savrul et al., 2014:42).

Hence, by taking the above into account, including the underpinning literature used to conceptualise the term "developed country" (see Section 3.1.2.1), the term "developing country", within the ambit of this research study, is conceptualised as follows:

> It is a country that has limited infrastructure that allows it to experience limited socio-economic prosperity, while also having an HDI score that is less than 0.700.

In Table 3.7, examples of developing countries that appear in the *UN Human Development Report* are provided.

***Table 3.7**: A non-exhaustive list of developing countries around the world (**Source**: UNDP, 2014)*

Global rank	Country	Continent	Development	Score (out of 1)
108	Indonesia	Asia	Medium developed	0.684
110	Egypt	Africa	Medium developed	0.682
116	Uzbekistan	Asia	Medium developed	0.661
118	South Africa	Africa	Medium developed	0.658
121	Vietnam	Asia	Medium developed	0.638
129	Morocco	Africa	Medium developed	0.617
135	India	Asia	Medium developed	0.586
138	Ghana	Africa	Medium developed	0.573
142	Bangladesh	Asia	Medium developed	0.558
146	Pakistan	Asia	Low developed	0.537
156	Zimbabwe	Africa	Low developed	0.492
159	Tanzania	Africa	Low developed	0.488
166	Sudan	Africa	Low developed	0.473
173	Ethiopia	Africa	Low developed	0.435
176	Mali	Africa	Low developed	0.407
180	Burundi	Africa	Low developed	0.389
184	Chad	Africa	Low developed	0.372
187	Niger	Africa	Low developed	0.337

For the sake of this research study, in order to fairly elaborate on government support for SMMEs in developing countries, it is important to understand the nature of SMMEs in developing countries, the impact of these business entities on developing countries' economies, and the legislative requirements of SMMEs in developing countries, among other important factors. These are taken into account in the remainder of Section 3.1.2.3.

Owing to the large number of developing countries that appear on the *UN Human Development Report*, it was decided to discuss the government support provided to SMMEs from the perspective of only three developing countries. These three countries were purposively selected based on the following criteria: 1) the three countries were based in Africa and Asia – the two least developed continents in the world (Dijkstra, 2012:5), 2) the three countries had HDI-scores ranging between 0.660 and 0.560[158] based on the 2014 *UN Human Development Report*, 3) each country was situated on a continent that is different from the selected developed countries in Section 3.1.2.1.

Stemming from the above, the three developing countries that were purposively chosen for discussion were: 1) South Africa, 2) Vietnam, and 3) India. Relevant discussion appears below:

- <u>South Africa</u>: In South Africa approximately 90% of all existing businesses are regarded as SMMEs, responsible for providing up to 61% of all national employment opportunities (NCR, 2011:7; Swart, 2011:10; Mouloungui, 2012:1). The South African government provides support to SMMEs through various government agencies,[159] a range of support programmes,[160] and through formal legislation that is predominantly used to govern these business entities (South Africa.info, 2002).

[158] Since South Africa was chosen as one of the developing countries for this research study, the two remaining countries had to have similar HDI scores as South Africa.

[159] Major government support agencies, which work through the Department of Trade and Industry (DTI), include: the Small Enterprise Development Agency (aiding SMMEs with financing opportunities, training opportunities, marketing opportunities and franchising opportunities), the National Empowerment Fund (assisting black-owned SMMEs with funding) and the National Small Business Advisory Council (promoting SMME support at government level). In addition, the Department of Economic Development administers Khula Finance Limited (providing funding to SMMEs), the Industrial Development Corporation (providing funding to SMMEs), and the South African Micro Finance Apex Fund (providing funding to SMMEs) (Timm, 2011:98-99).

[160] Support programmes include, but are not limited to, the Co-operative Incentive Scheme, the Incubation Support Programme, the Support Programme for Industrial Innovation and the Technology and Human Resources for Industry Programme (DTI, 2015).

South African SMMEs are primarily governed by the *National Small Business Act No. 102 of 1996*[161] and, in addition, this Act defines a South African SMME as a separate and distinct business entity, whether incorporated or not, that is managed by at least one owner or more, while conducting its respective business in South Africa, regardless of the industry it operates in (South Africa, 1996:2). Furthermore, SMMEs are demarcated in terms of their size (i.e. micro, very small, small and medium) based on their number of employees, annual turnover and gross asset value as core criteria. The categorisation of South African SMMEs is summarised in Table 3.8.

Table 3.8*: Summary of South African SMMEs' sizes*[162] *(****Source****: South Africa, 1996:15)*

Size	Number of employees	Annual revenue earned	Assets and/or Investments
Micro	1 – 5 employees	R0 – R150 000	R0 – R100 000
Very small	6 – 10 employees	R151 001 – R5 000 000	R100 001 – R500 000
Small	11 – 50 employees	R5 000 001 – R25 000 000	R500 001 – R4 000 000
Medium	51 – 100 employees	R25 000 001 – R50 000 000	R4 000 001 – R8 000 000

Based on the aforementioned, the inference can be made that SMMEs are supported by the South African government, serving as an indication that SMMEs are of great importance to the South African economy. Not only do SMMEs add value to the national GDP[163] through their revenue-generation abilities, but these business entities also stimulate the national economy by providing employment opportunities to many South African citizens to keep the national unemployment rate[164] and national poverty levels as low as possible.

- Vietnam: In Vietnam, SMMEs account for 97% of all existing business entities and are responsible for providing up to an estimated 88% of all national employment opportunities (Nguyen & Ramachandran, 2006:192; Cuong et al., 2008:324; ADB, 2012:2; Tran & Santarelli, 2014:830). These SMMEs are supported by the Vietnamese government, particularly through means of the Agency for Enterprise Development under the Ministry of Planning and Investment, the SME Development Council, Technical Assistance Centers, and the Vietnam Chamber of Commerce and Industry (Inoue & Obirin, 2008:204).

[161] The *National Small Business Amendment Act No. 26 of 2003* did not make any changes and/or repeals to the previous Act in relation to SMMEs.

[162] As this research study was based on SMMEs that operate in the FMCG industry, the sizes in the table are only representative of South African SMMEs that operate in the FMCG industry.

[163] In December 2013, the South African GDP was estimated at US$351 billion (Trading Economics, 2015e), of which South African SMMEs are believed to have contributed 57% of (NCR, 2011:7).

[164] The South African unemployment rate for the second quarter of 2015 was estimated at 26.4% (Trading Economics, 2015e).

In relation to legislation, the *Decree No. 56/2009/ND-CP*[165] is mainly used to govern SMMEs, and is also used to define a Vietnamese SMME as a business entity that is registered in accordance with the *Enterprise Law*, owned by one or more person, employing fewer than 300[166] Vietnamese citizens, while operating within the borders of Vietnam (Vo et al., 2011:152). Furthermore, SMMEs are categorised in terms of their size (i.e. micro, small and medium), based on their number of employees and their gross asset value as core criteria. The categorisation of Vietnamese SMMEs is summarised in Table 3.9.

***Table 3.9**: Summary of Vietnamese SMMEs' sizes*[167] *(**Sources**: Vo et al., 2011:152; Hai, 2015:176)*

Size	Number of employees	Assets and/or Investments[168]
Micro	1 – 10 employees	N/A
Small	11 – 50 employees	VND 0 - VND 20 000 000 000
Medium	51 – 100 employees	VND 20 000 000 001 – VND 50 000 000 000

Based on the aforementioned, one can infer that Vietnamese SMMEs do receive support from national government. In essence, SMMEs add value to the national GDP[169] through generating revenue, while concurrently stimulating the national economy by providing employment opportunities to a vast number of Vietnamese citizens, all with the intent to keep the national unemployment rate[170] and poverty levels at bay.

- India: In an Indian dispensation, an estimated 95% of all business entities in operation are regarded as SMMEs (Kumta & Mukherjee, 2010:117), assuming the responsibility for providing approximately 45% of all local employment opportunities (Singh et al., 2012:85). These business entities are predominantly supported by the Indian Ministry of MSMEs through the enactment of the *Micro, Small and Medium Enterprises Development Act of 2006* which promotes the development of SMMEs while also enhancing the competitiveness of these business entities in the national economy (India, 2006:1; Sen & Ray, 2015:17).

  In addition, this same Act defines an Indian SMME as any business entity that strives towards the employment of Indian citizens while concomitantly generating an income to enhance the national economy, operating within the borders of India (Lokhande, 2011:87;

[165] Previously, *Decree No. 90/2001/ND-CP* was used to govern SMMEs.

[166] The number of employees depends on the sector in which SMMEs operate. In general, the maximum number of employees that Vietnamese SMMEs may employ is 300.

[167] Since this research study placed emphasis on SMMEs that operate in the FMCG industry, in this table, these sizes are only representative of Vietnamese SMMEs that operate in the trading and services sector.

[168] Vietnam makes use of the Dong (VND) as currency – VND 1 is equivalent to R0.00073 (at 27 January 2016).

[169] In December 2013, the Vietnamese GDP was estimated at US$171 billion (Trading Economics, 2015f) – Vietnamese SMMEs contributed approximately 39% (Tran & Santarelli, 2014:830).

[170] The Vietnamese unemployment rate for the second quarter of 2015 was estimated at 2.22% (Trading Economics, 2015f).

Sharma et al., 2012:120; Bhattacharjee & Bhattacharjee, 2015:15). Moreover, SMMEs are categorised in terms of their size (i.e. micro, small and medium) based purely on their gross asset value as criterion. The categorisation of Indian SMMEs is summarised in Table 3.10.

***Table 3.10**: Summary of Indian SMMEs' sizes*[171] *(**Source**: Shihabudheen, 2013:11-12)*

Size	Assets and/or Investments[172]
Micro	Rs0 – Rs10 000 000
Small	Rs10 000 001 – R2 000 000 000
Medium	Rs2 000 000 001 – Rs5 000 000 000

Based on the above, the inference can be made that the Indian government promotes SMMEs, indicative that these business entities are important in relation to the stimulation of the national economy. This is further substantiated by these business entities' contribution to the GDP[173] through generating income and providing a substantial number of employment opportunities to Indian citizens.

Taking this into account, the assumption can be made that SMMEs in developing countries are well supported by their governments, especially since these business entities add socio-economic value to their countries' national economies. The value these business entities add predominantly stems from their income-generating abilities and potential to create employment opportunities.

Hence, because of the importance of SMMEs in developing countries, one can surmise these business entities have sound sustainability. As previously mentioned though (see Section 3.1.2.1), regardless of the country in which SMMEs operate, and no matter the government support provided to SMMEs, a large proportion of newly established SMMEs are likely to fail within their first 36 months of operation (Wagner, 2013; Herath, 2014:61; Mwangi & Gachunga, 2014:586). This view is reiterated in previous research studies (Rao & Omnamasivayya, 2013:27; Kemp et al., 2015:3) indicating that: 1) approximately 76% of South African SMMEs fail after being in operation for only three years, and 2) an estimated 60% of SMMEs in India are believed to fail after being in operation for only a few months.

[171] As this research study placed emphasis on SMMEs that operate in the FMCG industry, the table only contains the sizes of SMMEs that operate in the Indian services sector.

[172] India makes use of the rupee (Rs) as currency – Rs 1 is equivalent to R0.24 (at 27 January 2016).

[173] SMMEs are believed to contribute up to 8% to the Indian GDP (Das, 2013:11). The Indian GDP was estimated at US$ 1.86 trillion as at 31 December 2014 (Trading Economics, 2015k).

As with SMMEs in developed countries, the failure rate of SMMEs in developing countries is alarmingly high, despite the support these business entities receive from their respective governments. As that the overall sustainability of any business entity is greatly influenced by, inter alia, the economic environment in which it has to operate (Moore & Manring, 2009:279; Adelakun, 2014:18), it is important to elaborate on the economic environment in which these business entities have to operate.

3.1.2.4 The economic environments of developing countries

In this section, the underpinning theory surrounding the term "economic environment" (see Section 3.1.2.2) was used to make sense of the economic environments of developing countries. In Table 3.11, relevant statistics pertaining to the six core economic indicators of South Africa, Vietnam and India for 2011 to 2014 are shown.

Table 3.11*: Economic indicators of South Africa, Vietnam and India from 2011 to 2014 (****Sources****: Swart, 2011:10-12; IndexMundi, 2014; Statistics South Africa, 2014a; Statistics South Africa 2014b; Statistics South Africa, 2014d; Trading Economics, 2014; Trading Economics, 2015k; Trading Economics, 2015l)*

SOUTH AFRICA				
Economic Indicator	**2011**	**2012**	**2013**	**2014**
GDP (nominal)	US$ 365.21 billion	US$ 403.89 billion	US$ 382.32 billion	US$ 350.63 billion
GDP per capita (nominal)	US$ 5 694.23	US$ 5 820.96	US$ 5 885.22	US$ 5 916.46
Gini index	0.67	0.69	0.63	0.68
Inflation rate	4.88%	5.66%	7.89%	6.21%
Population size	49.9 million	50.5 million	52.9 million	54.0 million
Unemployment rate (narrow)	25.0%	24.9%	25.1%	25.5%
VIETNAM				
Economic Indicator	**2011**	**2012**	**2013**	**2014**
GDP (nominal)	US$ 115.93 billion	US$ 135.54 billion	US$ 155.82 billion	US$ 171.22 billion
GDP per capita (nominal)	US$ 900.49	US$ 946.80	US$ 986.01	US$ 1 028.62
Gini index	N/A	N/A	0.36	N/A
Inflation rate	18.64%	8.11%	6.60%	4.10%
Population size	86.96 million	87.84 million	88.78 million	89.71 million
Unemployment rate (narrow)	2.30%	1.95%	2.20%	2.08%
INDIA				
Economic Indicator	**2011**	**2012**	**2013**	**2014**
GDP (nominal)	US$ 1.71 trillion	US$ 1.84 trillion	US$ 1.83 trillion	US$ 1.86 trillion
GDP per capita (nominal)	US$ 1 031.56	US$ 1 086.05	US$ 1 126.9	US$ 1 189.78
Gini index	0.34	0.34	0.34	N/A
Inflation rate	N/A	9.67%	10.07%	7.20%
Population size	1.17 billion	1.21 billion	1.21 billion	1.22 billion
Unemployment rate (narrow)	9.4%	6.3%	5.2%	4.9%

Before making generalised deductions from the statistics in Table 3.11, these statistics are first briefly analysed and interpreted for each country below:

- South Africa: From 2011 to 2014 the GDP (nominal) experienced a net decline of 3.04% (±US$ 14.58 billion) – an increase of 10.59% from 2011 to 2012, a decrease of 5.34% from 2012 to 2013, and a decrease of 8.29% from 2013 to 2014. It is important to note that a net decrease in the GDP (nominal) points to two probable scenarios: 1) the productivity of South African citizens decreased from 2011 to 2014, and/or 2) national unemployment increased from 2011 to 2014.

  When emphasis is placed on the GDP per capita (nominal), it appears that there was a net growth of 3.86% – an increase of 2.23% from 2011 to 2012, an increase of 1.10% from 2012 to 2013, and an increase of 0.53% from 2013 to 2014. Otherwise stated, in 2014 the average South African citizen contributed roughly US$ 493.04 to the South African GDP (nominal) on a monthly basis. The net increase of the GDP per capita (nominal) also serves as an indication of an increase in productivity of the average South African between 2011 and 2014, eliminating the identified first scenario pertaining to a decreased productivity of the average South African citizen. It is highly plausible that the net decrease in the GDP (nominal) was caused by an increase in national unemployment.

  The average annual inflation (cost of living) between 2011 and 2014 was 6.16%. To explain the influence of this particular inflation, the following scenario is provided:

  > During 2010, a single product (Product E) could be purchased in South Africa for R10.00 from a manufacturer. Owing to inflation, Product E had a purchase price of R10.49 at the end of 2011, R11.08 at the end of 2012, R11.96 at the end of 2013, and a purchase price of R12.70 at the end of 2014.

  Since 2011 the Gini index score has ranged between 0.63 and 0.69, serving as an indication that money was unequally divided among South African citizens between 2011 and 2014. One can also fairly infer that poverty was a major problem in South Africa during this timeframe.

  The population increased from 49.9 million in 2011 to 54 million in 2014 (an increase of ±4.1 million people), while the unemployment rate increased by 0.50% from 2011 to 25.50% in 2014. Although the latter statistics may seem immaterial, they may also be viewed in the sense that the estimated number of unemployed South African citizens increased from 12.48 million people in 2011 to 13.77 million people in 2014 (an increase of ±1 295 000 people) – substantiating the second scenario pertaining to an increase in the national unemployment rate.

- Vietnam: From 2011 to 2014 the GDP (nominal) increased by 41.76% – an increase of 16.92% from 2011 to 2012, an increase of 14.96% from 2012 to 2013, and an increase of 9.88% from 2012 to 2014. The net increase in the GDP (nominal) amounted to a net growth of ±US$ 55.29 billion. With this in mind, it is important to note that a net increase in the GDP (nominal) points to two probable scenarios: 1) the productivity of Vietnamese citizens increased from 2011 to 2014, and/or 2) national unemployment decreased from 2011 to 2014.

  The GDP per capita (nominal) experienced a net 13.61% increase between 2011 and 2014, with a reported increase of 5.14% from 2011 to 2012, an increase of 4.14% from 2012 to 2013, and an increase of 4.32% from 2013 to 2014. Alternatively these statistics mean that from 2011 to 2014 the average Vietnamese citizen contributed ±US$ 128.13 more to the GDP (nominal) on an annual basis in 2014, while the average Vietnamese citizen made a monthly contribution to the GDP (nominal) of US$ 85.72. Stemming from the statistics pertaining to the GDP per capita (nominal), it is evident that the first scenario pertaining to the increased productivity of Vietnamese citizens between 2011 and 2014 is valid.

  On average, the annual inflation increased by 9.36% between 2011 and 2014. The following scenario is used to depict the influence of the inflation on the national economy:

  > During 2010, a single product (Product F) could be purchased in Vietnam for R10.00 from a manufacturer. Owing to inflation, Product F had a purchase price of R11.86 at the end of 2011, R12.83 at the end of 2012, R13.67 at the end of 2013, and a purchase price of R14.23 at the end of 2014.

  The reported 2013 score was 0.36, meaning that money was relatively equally divided among Vietnamese citizens during this particular year. Moreover it also serves as an indicator that poverty was not a major problem in Vietnam during 2013.

  Although the population increased from 86.96 million in 2011 to 89.71 million people in 2014 (a net increase of ±2.75 million people), the unemployment rate decreased from 2.30% to 2.08% during the same timeframe. Fundamentally, the latter translates that the estimated number of unemployed citizens decreased by ±134 000 people over these four years, from roughly 2 million people in 2011 to 1.87 million people in 2014. The latter statistics validate the second scenario regarding the decrease of national unemployment in Vietnam.

- India: Between 2011 and 2014 the GDP (nominal) experienced a net increase of 8.70% (±US$ 150 billion) – an increase of 7.60% from 2011 to 2012, a decrease of 0.54% from 2012 to 2013, and an increase of 1.64% from 2013 to 2014. The latter net increase in the GDP (nominal) gives rise to two probable scenarios: 1) the productivity of Indian citizens increased from 2011 to 2014, and/or 2) national unemployment decreased from 2011 to 2014.

  The GDP per capita (nominal) experienced an increase of 5.28% from 2011 to 2012, an increase of 3.76% from 2012 to 2013, and an increase of 5.58% from 2013 to 2014 – amounting to a net increase of 14.62% (± US$ 158.22) during this timeframe. The aforementioned statistics can alternatively be viewed that in 2014 the average Indian citizen contributed US$ 99.15 to the GDP (nominal) on a monthly basis. These statistics justify the first scenario that the productivity of Indian citizens increased between 2011 and 2014.

  The cost of living between 2012 and 2014 showed an average annual increase of 8.98%. To demonstrate the influence of this inflation statistic, the following scenario is provided:

  > During 2011, a single product (Product G) could be purchased in India for R10.00 from a manufacturer. Owing to inflation, Product G had a purchase price of R10.97 at the end of 2012, R12.07 at the end of 2013, and a purchase price of R12.94 at the end of 2014.

  From 2011 to 2013, the reported score was 0.34, indicating that money was fairly equally divided among Indian citizens over these three years. In addition, one can also fairly assume that poverty was not a major issue in India during this timeframe.

  The Indian human population grew from 1.17 billion people in 2011 to 1.22 billion people in 2014 (an increase of ±5%), while the unemployment rate decreased from 9.40% in 2011 to 4.90% in 2014. In other words, the estimated number of unemployed Indian citizens decreased from 109 million people in 2011 to 60 million people in 2014 (a net decrease of ±50 million people). Moreover, this supports the second scenario pertaining to the decrease in national unemployment.

Based purely on the analogy that was previously drawn in relation to *the more developed a country is, the more conducive its economic environment will be* (see Section 3.1.2.3), from the three selected developing countries, South Africa (118th most developed country) should have had the most conducive economic environment for SMMEs to operate in, followed by Vietnam (121st most developed country), and India (135th most developed country). Stemming from the statistics pertaining to the respective economic environments of these three developing countries above, the above analogy is challenged to a great extent.

To compare the economic environments of South Africa, Vietnam and India with one another, Table 3.12 is used.

***Table 3.12**: Comparison of the economic environments of South Africa, Vietnam and India*

ECONOMIC INDICATOR	COUNTRY		
	South Africa	Vietnam	India
GDP (nominal)	US$ 350.63 billion (2014) 2nd	US$ 171.22 billion (2014) 3rd	US$ 1.86 trillion (2014) 1st
GDP per capita (nominal)	US$ 5 916.46 (2014) 1st	US$ 1 028.62 (2014) 2nd	US$ 1 189.78 (2014) 3rd
	0.63 (2013) 3rd	0.36 (2013) 2nd	0.34 (2013) 1st
Average annual inflation rate	6.59% (2012 – 2014) 2nd	6.27% (2012 – 2014) 1st	8.98% (2012 – 2014) 3rd
Unemployment rate (narrow)	25.5% (2014) 3rd	2.08% (2014) 1st	4.9% (2014) 2nd

Stemming from the statistics in Table 3.12, the following synopsis can be made in respect of the economic environments of South Africa, Vietnam and India:

- Only India has a GDP (nominal) of greater than US$ 351 billion (2014).
- Only South Africa has a GDP per capita (nominal) above US$ 1 190.00 (2014).
- Only Vietnam and India have scores lower than 0.40 (2013).
- Only South Africa and Vietnam have average annual inflation rates of less than 6.60% (2012–2014).
- Only Vietnam and India have unemployment rates (narrow) less than 5.00% (2014)

Although South Africa has the best GDP per capita (nominal) among the three selected developing countries, it has an average annual inflation rate of 6.59% (2012–2014), a score of 0.63 (in 2013), as well as a 25.5% unemployment rate (narrow). Hence, the inference can be made that although the average South African citizen is very productive, South Africa experiences large-scale problems in relation to poverty. This view is supported by previous research studies where it was found that although the average South African citizen should have earned an average salary of US$ 493.04 per month (in 2014), approximately 60% of South African citizens are reported to be living below the poverty line – an amount equivalent to US$ 450.00 per annum (Kehler, 2001:42; Posel & Rogan, 2011:2-3; Govender et al., 2014:13; Van Der Ree et al., 2015:445).

When focus is shifted to the economic environments of Vietnam and India (see Table 3.12), it appears that although their GDP per capita (nominal) was far less than that of South Africa, both their scores were below 0.40 (in 2013) and each had a very low unemployment rate, especially when compared with that of South Africa (also taking into account their average population size). Thus the inference can be made that poverty is not as severe in Vietnam and India as in the case of South Africa (Imai et al., 2015:49-50).

With this in mind, it is important to note that poverty limits the citizens of a country from participating in economic activities (see Section 3.1.1). Hence, the assumption can be made that the economic environment of South Africa is not very conducive for SMMEs to operate in to achieve relevant socio-economic objectives, especially when compared with the economic environments of Vietnam and India. Notwithstanding the above, it appears that the economic environments of developing countries are far less conducive for SMMEs to operate in when compared with the economic environments of developed countries (an avenue for further research which should be explored).

3.1.3 Conceptualising Small, Medium and Micro Enterprises

Based on what was discussed in Section 3.1.2.1 and Section 3.1.2.3, it is apparent that SMMEs receive government support in at least four developed countries and three developing countries across the globe. Based on the wide-ranging support that these business entities receive from their respective governments, the inference can be made that SMMEs are of paramount importance to their respective countries' national economies – the importance of these business entities to their relevant countries' economies is directly relative to the socio-economic value they add by means of: 1) providing employment opportunities to local citizens, 2) reducing national poverty levels by disseminating wealth, and/or 3) increasing the GDP (nominal) through means of generating income.

Therefore, within the ambit of this research study, an SMME is conceptualised as follows:

> An SMME is any business entity that is owned by at least one natural person, while operating within the borders of a country. This business entity should add socio-economic value to the country in which it operates by means of employing between one and a selected number[174] of national citizens and/or generating a certain amount of revenue,[175] all with the intent to: 1) positively impact the national GDP, 2) alleviate national poverty levels, and/or 3) decrease the national unemployment rate.[176]

Stemming from the conceptualised definition above, it is important to note that the manner in which SMMEs achieve their socio-economic objectives will largely be influenced by the economic environments they operate in. Based on the discussions in Section 3.1.2.2 and Section 3.1.2.4, SMMEs around the globe operate in different types of economic environments. Stemming from the discussion (in Section 3.1.2.2 and Section 3.1.2.4), it may be assumed that the economic environments of developed countries (which have HDI scores greater than 0.700) are more conducive for SMMEs to operate in than the economic environments of developing countries (which have HDI scores lower than 0.700). This view is largely supported by the following statistics (stemming from Table 3.6 and Table 3.11):

- The scores of Australia (0.33 in 2012), Canada (0.33 in 2013) and Germany (0.28 in 2013) serve as evidence that poverty is not a major economic problem in these developed countries when compared with the score of South Africa (0.68 in 2014).
- The unemployment rate (narrow definition) of Australia (6.06% in 2014), Canada (6.92% in 2014), Germany (5.00% in 2014) and Brazil (4.84% in 2014) serves as evidence that most citizens in these developed countries are actively involved in adding value to their respective economies' GDP (see GDP per capita), especially when compared with the unemployment rate (narrow definition) of South Africa (25.50% in 2014).
- The GDP per capita of Australia (US$ 37 497.07 in 2014), Canada (US$ 37 753.63 in 2014), and Germany (US$ 39 208.76 in 2014) serve as evidence that the average citizen in these developed countries added more value to their respective countries' economies when compared with the GDP per capita of South Africa (US$ 5 916.46 in 2014), Vietnam (US$ 1 028.62), and India (US$ 1 187.78 in 2014).
- The average annual inflation of Australia (2.50% per annum from 2011 to 2014), Canada (1.81% per annum from 2011 to 2014), and Germany (1.62% per annum from 2011 to 2014) serve as evidence that the cost of living in these developed countries is very

[174] This selected number depends on the country of choice.

[175] The amount of revenue that should be generated depends on the country of choice.

[176] As the majority of SMMEs require different types of infrastructure and/or resources (assets) to operate, the criteria of minimum and maximum assets and/or investments were excluded from the conceptualised definition of SMMEs.

reasonable when compared with the average annual inflation of South Africa (6.16% per annum from 2011 to 2014), Vietnam (9.36% per annum from 2011 to 2014), and India (8.98% per annum from 2011 to 2014).

Regardless of the above, it is important to take into consideration that governments around the globe, in both developed countries and developing countries, provide support to SMMEs through legislation, policies, procedures and government bodies (see Section 3.1.2.1 and Section 3.1.2.3). However, irrespective of the country in which SMMEs operate, research shows that a large proportion of newly established SMMEs are likely to fail within their first three years of existence (Wagner, 2013; Herath, 2014:61; Mwangi & Gachunga, 2014:586). This view is substantiated by the following statistics pertaining to SMMEs in both developed and developing countries (Monk, 2000:12-14; Ahmad & Seet, 2009:99; Oduyoye et al., 2013:73; Rao & Omnamasivayya, 2013:27; Kemp et al., 2015:2):

- 76% of South African SMMEs fail after being in operation for three years.
- 60% of Indian SMMEs fail after being in operation for a few months.
- 48% of Canadian SMMEs fail after being in operation for five years.
- 43% of Brazilian SMMEs fail after being in operation for three years.
- 23% of Australian SMMEs fail after being in operation for five years.

Stemming from the above, two assumptions can be made: 1) although government support is provided to SMMEs in both developed and developing countries, the support provided by government to SMMEs is as effective as it should be (an avenue for further research which should be explored), and 2) the economic environment of the countries in which SMMEs operate has a significant influence on the sustainability of these business entities.

In respect of South Africa, it is interesting to note that although it is a developing country, its economic environment is not as conducive for SMMEs to operate in when compared with the economic environments of Vietnam and India, also developing countries (see Section 3.1.2.4). This is supported by the following statistics:

- The score of South Africa (0.63 at 2013) is greater than the Gini index score of India (0.34 in 2013) and Vietnam (0.36 in 2013), serving as evidence that poverty is a major economic concern in South Africa as opposed to India and Vietnam.

- The unemployment rate (narrow definition) of South Africa (25.5% at 2014) is greater than the unemployment rate (narrow definition) of Vietnam (2.08% at 2014) and India (4.9% in 2014), serving as evidence that fewer South African citizens contribute to the national GDP when compared with the number of Indian and Vietnamese citizens that contribute to their national GDP.

When taking the above into consideration, it becomes apparent that the economic environment of South Africa, as a developing country, is not very conducive for SMMEs to effectively attain core socio-economic objectives, even with the support that these business entities receive from the national government. This view is placed in perspective by the statistics pertaining to South African entrepreneurial activity[177] that declined between 2011 and 2014 by 19.78% between 2011 and 2012, by 9.59% between 2012 and 2013, and by 34% between 2013 and 2014 (Herrington and Kew, 2013:9; 27; GEM, 2015). Hence, it is reasonable to assume that South African SMMEs operate in a "harsh" economic environment.

It is also important to take note that regardless of how the economic environment of a country appears, risks are inevitable[178] (see Section 2.1.4); in essence, the worse the economic environment of a country is, the more likely it will serve as a type of breeding ground for risks to realise (Bruwer et al., 2013:1006).

Therefore, since this research study was conducted on SMMEs operating within the borders of South Africa, it is important to understand where the "harsh" economic environment of South Africa stems from.

3.2 SMALL, MEDIUM AND MICRO ENTERPRISES IN A SOUTH AFRICAN ECONOMIC CONTEXT

As previously discussed (see Section 3.1.2.4 and Section 3.1.3), the South African economic environment can be regarded as "harsh", since it is neither conducive for SMMEs to operate in nor to achieve their relevant socio-economic objectives. The

[177] Entrepreneurial activity is the enterprising human action in pursuit of the generation of value through the creation or expansion of economic activity, through making use of innovation (Ahmad & Seymour, 2008:9). In 2014, entrepreneurial activity in South Africa stood at 7% (GEM, 2015).

[178] This serves as one reason why it is necessary for South African SMMEs to have sound systems of internal control in place to adequately and effectively manage risks which stem from the harsh economic environment in which they have to operate to, in turn, provide reasonable assurance surrounding the attainment of organisational objectives in the foreseeable future (See Section 2.2.4).

economic environment of South Africa has a significant influence on all economic activities taking place in South Africa (Lazzeretti & Petrillo, 2006:47; Vawda et al., 2013:954), including the economic sustainability of South African SMMEs.

In addition to the above, the economic environment of South Africa is directly impacted by an array of economic factors (macro-economic and micro-economic factors) which have an extensive influence on the South African economy; hence it is not surprising that prior research studies have pinned the blame for the “harsh” South African economic environment on economic factors (Van Eeden et al., 2003:14; Radas & Božić, 2009:439-440). Moreover, economic factors are also believed to adversely influence the economic sustainability of South African SMMEs (Kunene, 2008:12) as a large percentage of these business entities have to close their doors after being in operation for a relatively short period of time.

For the remainder of this section, discussion takes place under the following headings: 1) economic factors influencing the South African economy, and 2) the economic sustainability of South African SMMEs.

3.2.1 Economic factors influencing the South African economy

Economic factors are those factors that have a direct impact (positive or negative) on the economic environment of a country, including its citizens and business entities which, in turn, directly and holistically impact on the economic activities of the particular country (Wessels, 2000:8; Cant & Wiid, 2013:708). Because of the extent of economic factors, these factors are generally demarcated into two categories: 1) macro-economic factors, and 2) micro-economic factors. These two categories of economic factors are briefly explained below (Brink et al., 2003:3; Mohr & Fourie, 2004:11-12):

- <u>Macro-economic factors</u>: Those economic factors that have a significant influence on the economic environment of a country (and its citizens and business entities) that cannot be managed and/or controlled to a great extent. Macro-economic factors predominantly stem from global, national, regional and/or local economies and have a significant influence on countries’ economic environments, which, in turn, have a direct influence on their citizens, business entities and relevant economic activities.

- Micro-economic factors: Those economic factors that have a less significant influence on the economic environment of a country that can be managed and/or controlled to some extent at least. Micro-economic factors mainly stem from customers, buyers, vendors and business entities alike, in a national dispensation, and impact more on countries' citizens and business entities as opposed to the economic environment.

Prior research studies (Kunene, 2008:12; Swart, 2011:10-12; Statistics South Africa, 2014a; Statistics South Africa, 2014b; Trading Economics, 2014; SAICA, 2015b) have identified an array of macro-economic and micro-economic factors that independently and/or interdependently influence the South African economy as a whole. Some of these identified economic factors are presented in Table 3.13.

***Table 3.13**: Summary of economic factors that influence the South African economy*

Macro-economic factors	Micro-economic factors
Economic uncertainty	Bad business infrastructure
Extensive red tape	Bad pricing strategies
Frequent electricity outages	High levels of internal/external competition
High costs of credit	High overhead costs
High disruption rates in public transportation services	Inability to deal with red tape
High electricity costs	Incompetent human resources
High inflation rates	Lack of business infrastructure
High interest rates	Lack of business knowledge
High levels of crime	Lack of business planning
High levels of external competition	Lack of business skills
High taxation rates	Lack of customer relations
High water costs	Lack of external funding
Rapid changes to government legislation	Lack of financial knowledge
Rapid technological advancements	Lack of internal financial resources
Strict government legislation	Lack of mentoring
Volatile demands for products/services	Lack of proper marketing strategies
Volatile exchange rates	Limited knowledge of markets
Volatile market conditions	Non-payment of debtors/customers
Volatile supplies of products/services	Poor cash flow management
Weak service delivery by government	Substitute products/services
	Weak business location(s)

It should be noted that Table 3.13 does not contain all economic factors that influence the South African economy and South African SMMEs alike; however clear tangent planes do start to emerge when the listed economic factors are paralleled with the economic environment of South Africa (see Section 3.1.2.4). Otherwise stated, it makes more sense why the economic environment of South Africa can be regarded as "harsh". The associations between the economic factors above and the economic environment of South Africa are shown in Table 3.14.

The associations in Table 3.14 support the root causes for the "harsh" economic environment of South Africa. Purely on a macro-economic level, it appears that the economy of South Africa is adversely influenced by, inter alia, irregular supplies of electricity, high overhead costs, high inflation rates, high interest rates, high crime levels, high taxation rates, rapid changes in legislation, strict legislation and weak service delivery by government, all negatively impacting on the South African economic environment and its potential for successful SMMEs.

***Table 3.14**: The associations between the South African economic environment and the economic factors that influence South African SMMEs (**Source**: Swart, 2011:10-12; IndexMundi, 2014; Statistics South Africa, 2014a; Statistics South Africa 2014b; Trading Economics, 2014)*

Adverse change in the economic environment of South Africa	Macro-economic factors	Micro-economic factors
Net decline of 3.04% in the GDP (nominal) from 2011 to 2014	Economic uncertainty, frequent electricity outages, high disruption rates in public transportation services, high interest rates, high inflation rates, rapid changes in government legislation, volatile demands of goods/services, volatile supplies of goods/services, volatile market conditions, weak service delivery by government.	Bad business infrastructure, high overhead costs, bad pricing strategies, incompetent human resources, lack of business infrastructure, lack of skills, weak business locations.
Gini-index scores ranged between 0.63 and 0.69 from 2011 to 2014	Economic uncertainty, frequent electricity outages, high costs of credit, high disruption rates in public transportation services, high electricity costs, high inflation rates, high interest rates, high levels of crime, high levels of external competition, high taxation rates, high water costs, strict government legislation, volatile exchange rates, volatile market conditions, weak service delivery by government.	High levels of internal competition, high overhead costs, incompetent human resources, lack of skills, substitute products/services, weak business locations.
An approximate increase of ±1.3 million unemployed citizens from 2011 to 2014	Economic uncertainty, high disruption rates in public transportation services, high inflation rates, high interest rates, high levels of external competition, high taxation rates, rapid changes to government legislation, strict government legislation, volatile demands for products/services, volatile exchange rates, volatile market conditions, weak service delivery by government.	Bad business infrastructure, bad pricing strategies, high levels of internal competition, high overhead costs, incompetent human resources, lack of skills, substitute products/services, weak business locations.

The micro-economic factors evident in the South African economy (e.g. bad business infrastructure, bad pricing strategies, high levels of internal competition, etc.) are also believed to have a negative influence on the economic environment of South Africa, but not to the extent of the negative influence caused by the above macro-economic factors (Hart, 2014).

The discussion above provides additional insight into the economic environment in which South African SMMEs have to operate, together with relevant constraints that these business entities have to face on a daily basis. Using the above as basis, the analogy can be drawn that owing to the "harsh" economic environment of South Africa, which is adversely influenced by an array of economic factors, South African SMMEs have great difficulty in attaining economic sustainability. This analogy is supported by the fact that although these business entities receive government support (see Section 3.1.2.3), a large proportion of South African SMMEs discontinue their business operations after being in existence for only three years (Fatoki, 2014b:27). It is therefore important to investigate the economic sustainability of South African SMMEs.

3.2.2 The economic sustainability of South African Small, Medium and Micro Enterprises

Before elaborating on the economic sustainability of South African SMMEs, it is important to first conceptualise the term within the ambit of this research study.

In a general sense, the economic sustainability of a business entity is strongly associated with its respective economic responsibilities.[179] From a business viewpoint however, research studies suggest that the term "economic sustainability" has to do with a business entity's ability to attain sound levels of economic performance[180] with the main intent to remain in operation for the foreseeable future (Van Calker et al., 2005:55; Jeon et al., 2010:236; Lebacq et al., 2013:314).

Therefore, taking the above into account, for the sake of this research study, the term "economic sustainability" is conceptualised as follows:

> It is the ability of a business entity to achieve sound economic performance for it to achieve a sound economic position that in turn will allow it to remain in operation for the foreseeable future (become a going-concern entity).

Since the economic performance of one business entity will almost always differ from that of another business entity, the economic sustainability of business entities is usually measured in terms of their ability to remain in operation for the foreseeable future (going-concern status). As such, for the sake of this research study, and for the remainder of this section, the economic sustainability of South African SMMEs is discussed in relation to their going-concern status.

As previously inferred (see Section 3.1.2.4, Section 3.1.3 and Section 3.2.1), South African SMMEs do not have sound levels of economic sustainability, particularly owing to the "harsh" economic environment in which they operate, and stemming

[179] Examples of economic responsibilities include, inter alia, the minimisation of wastage, providing investment stability, attaining optimum financial performance, and possessing optimal financial position. Economic responsibilities form part of sustainability – refer to Section 2.2.2.

[180] Economic performance, for the sake of this section, is strongly associated with performance in a financial dispensation and measured in terms of profitability, liquidity, solvency and efficiency (Bruwer & Holtzhausen, 2014:124-128).

from the influence of an array of economic factors. This placed in perspective by previous research studies that indicate that although SMMEs do add socio-economic value to the South African economy to a large extent, over the years the economic sustainability of South African SMMEs has been regarded as among the worst in the world (Bruwer, 2010:1; Kabiawu, 2013:1; Wiese, 2014:4-5). To place the economic sustainability of South African SMMEs in context, it is important to place emphasis, in brief, on their historic development from 1996 to the early 2010s.

During the mid-1990s, many business entities were already in operation in South Africa prior to the adoption of the *National Small Business Act No. 102 of 1996* (South Africa, 1996). By the implementation of the Act, SMMEs were officially sanctioned by the South African government, thereby allowing and encouraging these business entities to become actively involved in national economic activities (Rogerson, 1997:14; Visagie, 1997:661). A few years after the implementation of the Act, by the late 1990s, reports indicated that between 1.6 million and 3 million SMMEs were actively operating within the borders of South Africa (Berry et al., 2002:13).

By the early 2000s research studies had been conducted on the economic sustainability of South African SMMEs. It was found that between 70% and 80% of South African SMMEs had to close their doors after being in operation for only three years (Cant & Ligthelm, 2002:1; Van Eeden et al., 2003:13). As a result of the dismal economic sustainability of these business entities, the South African economy was adversely impacted by the large-scale failure of South African SMMEs, resulting in the loss of millions of rands in lost economic opportunities (Steyn & Steyn, 2006:325).

Although the circumstances surrounding the economic sustainability of South African SMMEs were disconcerting, they did not change for the better, as by the late 2000s approximately 75% of these business entities were reported to have closed their doors after being in operation for a period of only 42 months (Fatoki & Odeyemi, 2010:128; Mutezo, 2013:153); in other words, by the late 2000s, an estimated 10 000 South African SMMEs were failing monthly (Biyase, 2009).

During the early 2010s the economic sustainability of South African SMMEs still did not show any improvement as research studies found that approximately 63% of South African SMMEs had to close their doors after being in operation for a period of only two years (Cant & Wiid, 2013:707), while a total of 75% of these business entities had to close their doors after being in operation for only three years (Moloi, 2013:15).

When taking into account the extent of support that South African SMMEs have received from national government (see Section 3.1.2.3) since 1996, it is fair to have expected an improvement in the economic sustainability of these business entities over the years. Unfortunately the economic sustainability of South African SMMEs did not improve between the early 2000s and 2010s – in more recent times up to 75% of these business entities have failed after being in operation for only three years. Therefore, it is reasonable to assume that the disconcerting economic sustainability of South African SMMEs is directly associated with: 1) the "harsh" economic environment of South Africa, and 2) an array of economic factors that influence the South African economy. It is therefore concluded that the economic environment of South Africa can be labelled as "high risk" for any business, especially in the case of SMMEs, since it serves as a breeding ground for an array of risks to realise (Bruwer et al., 2013:1006).

Although risks are inevitable and evident in any economic environment of any country, it is imperative that such risks are appropriately managed with the intent to minimise any potential adverse impact such risks may have on the overall sustainability of business entities. In the same vein, especially in relation to South African SMMEs, it is important to take cognisance that the manner in which risks are managed will largely be influenced by, inter alia: 1) the managerial conduct of management in an organisation (see Section 2.6.3), and 2) the implemented internal control activities in an organisation (see Section 2.5.2). Hence, stemming from the above, it is important to investigate the managerial conduct of management and the internal control activities that are evident in South African SMMEs.

It is important to take into account that a large proportion of South African SMMEs – an estimated 42.99% (Berry et al., 2002:15) – are believed to operate in the FMCG industry (Wamba et al., 2008:619; Miles, 2010:31; Reisch et al., 2013:9; Phulia & Sharma, 2014:157). For this reason, discussion in the next section takes place on the managerial conduct of management and the implemented internal control activities evident in South African FMCG SMMEs.

3.3 THE MANAGERIAL CONDUCT OF MANAGEMENT AND INTERNAL CONTROL ACTIVITIES EVIDENT IN SOUTH AFRICAN FAST-MOVING CONSUMER GOODS SMALL, MEDIUM AND MICRO ENTERPRISES

Before elaborating on the managerial conduct of management in South African FMCG SMMEs and the implemented internal control activities in these business entities, it is important to first conceptualise the term “FMCG” as well as what constitutes the FMCG industry within the ambit of this research study.

More often than not, the term “FMCG” relates to non-durable products[181] that are frequently consumed by customers and that have a lifespan of less than three years (Bose & Pekny, 2000:329; Housgard et al., 2010:1; Nagarajan & Sheriff, 2013:43; Investorwords, 2015). In addition, FMCG have high inventory turnover rates as insignificant mark-ups are placed on these products when sold and profits are predominantly earned on these products through means of volume-based sales (Majumdar, 1998:29; Ashraf, 2014:21).

Hence, stemming from the aforementioned, the term “FMCG”, for the sake of this research study, is conceptualised as follows:

> A mixture of necessity and non-necessity products, on which marginal mark-ups are placed, which have a lifespan of less than three years and that are: 1) regularly consumed by customers, and 2) sold by business entities, regardless of their form, on a frequent basis.

In South Africa, a large proportion of trading business entities sell FMCG (Tustin & Strydom, 2006:54; Mbhele, 2012:141); as a result the competition that exists among business entities that sell FMCG is very high and extremely intense (Dixit, 2006:194; Ratanachote, 2011:11; Craggs, 2012:14; Montandon, 2013:126). Moreover, owing to the nature of FMCG[182] and the stiff competition that exists among business entities which sell such products, these business entities frequently place a great deal of focus on customer satisfaction (Ji et al., 2013:3484).

[181] Such products may be necessity products (relative to basic human needs) or non-necessity products (not relative to basic human needs).

[182] Examples of FMCG include, inter alia: confectionary, detergents, pharmaceuticals, tobacco products, groceries and cleaning products (Vaishanani, 2011:2).

In a South African dispensation, business entities that sell FMCG are predominantly based in the wholesale and retail industry[183] (Statistics South Africa, 2015). The South African wholesale and retail industry comprises four sub-sectors, namely: 1) wholesale and commission trade, except motor vehicles and motorcycles, 2) retail trade, except motor vehicles and motorcycles; repairs of personal household goods, 3) sale, maintenance and repair of motor vehicles and motorcycles, and 4) catering and accommodation (South African Reserve Bank, 2011).

Taking the above characteristics and description of South African FMCG SMMEs into account, for the sake of this research study, the South African FMCG industry is conceptualised as follows:

> It is an industry that is characterised by high levels of competition relating to the selling of FMCG, predominantly situated within the wholesale and retail industry, operating in at least one of the following two sub-sectors: 1) retail trade, except motor vehicles and motorcycles, repairs of personal household goods, and 2) catering and accommodation.

As previously mentioned (refer to Section 2.2.4 and Section 3.2.2) it is important for any organisation to manage its risks appropriately, providing reasonable assurance on the achievement of its relevant objectives in the foreseeable future. When focus is placed on South African SMMEs (see Section 3.2.2), the assumption can be made that the manner in which risks are addressed by management is largely influenced by: 1) the managerial conduct of management, and 2) the implemented internal control activities evident in these business entities. Since this research study was conducted on South African FMCG SMMEs, the latter two phenomena need to be discussed from a South African FMCG SMME perspective.

After a thorough investigation of various research databases, no research studies were identified conducted on the managerial conduct of management in South African FMCG SMMEs. According to international research studies however, the managerial conduct of management in FMCG SMMEs, in general, is often described as very flexible (Mc Cartan-Quinn & Carson, 2003:203; Tresca, 2013:69). This flexibility is believed to stem primarily from the managerial philosophy of management, which in most cases, revolves around satisfying the needs of customers, while simultaneously outperforming competitor business entities (Bhagchi

[183] The full name for this industry is the wholesale and retail trade; repair of motor vehicles, motorcycles, and personal and household goods; and catering and accommodation industry.

et al., 2012:4; Copley, 2014:4-5). In addition, owing to the nature of the industry in which these business entities operate, research studies suggest that management of FMCG SMMEs do not have a fixed managerial operating style but rather a customised managerial operating style (Nkulu, 2012:67-68; Mellor, 2014:82-83).

Using the above as foundation, the inference can be made that since the managerial conduct of management of FMCG SMMEs (in general) is described as “very flexible”, the control environment in FMCG SMMEs will most probably also be very flexible. Hence, since the managerial conduct of management forms a major part of the control environment of any organisation (see Section 2.6.1), the following two assumptions can be made:

- The flexibility of the managerial conduct of management of FMCG SMMEs may have an influence on the adequacy and/or effectiveness of implemented internal control activities[184] in these business entities.
- Implemented internal control activities in FMCG SMMEs are more customised and informal as opposed to standardised and formal – uniquely designed.

Although the latter assumptions appear undesirable, previous research studies (Christ et al., 2010:1913-1914; Christ et al., 2012:437) note that customised and informal control activities generally add value to the overall internal control of a business entity as they place emphasis on corporate culture, corporate values and trust.

In relation to the above, after a thorough investigation of an array of research databases, only one research study was identified that investigated the adequacy and effectiveness of implemented internal control activities in South African FMCG SMMEs. Based on this research study, management of South African FMCG SMMEs viewed the adequacy and/or effectiveness of their implemented internal control activities as “reasonable” in relation to preventing and detecting risks (Siwangaza, 2013:120). It is important to note that this research study only emphasised the views of management pertaining to the adequacy and effectiveness of implemented internal control activities. It is

[184] As previously mentioned (see Section 2.5.2), although one of the characteristics of adequate and effective internal control activities is its adaptability (flexibility) to changes in relevant environments that directly impact on an organisation, the adequacy and/or effectiveness of internal control activities are also characterised by, inter alia*,* their: 1) robustness, 2) relevance to policies, rules and procedures as set by management, and 3) suitability in relation to the industry in which the business entity operates.

therefore fair to assume that the views of management could be biased, as the study did not take into account the opinions of other relevant stakeholders.

In conclusion, by taking all relevant discussion into consideration, it appears that the managerial conduct of management in FMCG SMMEs, in general, is very flexible and influenced strongly by the nature of their respective business entities: 1) being focused on customer satisfaction (and customer retention) while, 2) simultaneously outperforming competitor business entities. Hence, since the managerial conduct of management in FMCG SMMEs is a major part of the control environment of an organisation, its flexibility can either have a positive influence (e.g. by placing emphasis on corporate culture, corporate values and trust) or a negative influence (e.g. management override can take place easily) on the adequacy and effectiveness of implemented systems of internal control in these business entities.

3.4 CONCLUSION AND RELEVANCE TO THE RESEARCH STUDY

Throughout this chapter, a thorough literature review was conducted on how the need for SMMEs was cultivated, how SMMEs are supported by government in developed and developing countries, as well as the economic environments of developed countries and developing countries, thereby providing a glimpse of the economic conditions in which SMMEs have to operate in a global context.

Although the concept of SMMEs is relatively new (SMMEs started to gain popularity worldwide only in the late 1980s), these business entities are regarded as the driving force of many economies around the world because of the socio-economic value they add. The value which SMMEs add to their relevant countries' economies pertains to: 1) provision of employment opportunities to local citizens, 2) reducing national poverty levels by helping with the dissemination of wealth, and/or 3) increasing the GDP (nominal) through means of generating income. Owing to the value that SMMEs add to their relevant countries' national economies, they are well supported by their respective governments, both in developed and developing countries. Nonetheless, in a global sense, the economic sustainability of these business entities is regarded as "weak", as a large proportion of SMMEs fail after being in existence for only 36 months.

The view above is especially true in South Africa, as approximately 76% of South African SMMEs fail after being in operation for only three years. The economic sustainability of South African SMMEs is regarded as among the worst in the world. For the sake of clarity, in this research study, “economic sustainability” pertains to the ability of a business entity to remain in operation for the foreseeable future by achieving a sound economic performance (such as profitability) to, in turn, achieve a sound economic position (such as liquidity and solvency). The weak economic sustainability of South African SMMEs is believed to be attributable to the economic environment in which these entities have to operate, which in turn is greatly impacted by macro-economic factors (e.g. high crime rates, high interest rates, weak service delivery by government, etc.) and micro-economic factors (e.g. lack of skills, incompetent human resources, high overhead costs, etc.).

To shed more light on the above, the economic environments of developed countries (particularly Australia, Canada, Germany and Brazil) were compared with the economic environments of developing countries (particularly South Africa, Vietnam and India). It was found that developed countries, in most cases, had economic environments that were more conducive for SMMEs to operate in than the economic environments in developing countries. Using this finding as basis, the economic environment of South Africa was compared with the economic environments of India and Vietnam. It was found that the economic environment of South Africa is far less conducive for SMMEs to operate in when compared with the economic environments of both India and Vietnam. Hence, the assumption was that the economic environment of South Africa is “harsh”

It is important to note that regardless of the conduciveness of a country’s economic environment for SMMEs to operate in, all economic environments are subject to risks, which are inevitable. It is therefore important for business entities, especially in the case of SMMEs, to address risks adequately. In a South African SMME dispensation, the manner in which risks are managed by these SMMEs will largely be influenced by, inter alia: 1) the managerial conduct of their management (a major part of the control environment), and 2) their implemented internal control activities (responsible for preventing and detecting risks).

To address the third investigative question pertaining to the current status surrounding the managerial conduct of South African FMCG SMMEs’ management and the implemented internal control activities evident in these business entities, a literature review was conducted. Despite a search of many research databases, very few research studies were found on these phenomena. Stemming from the paucity of research studies, it was concluded that the managerial conduct of management of FMCG SMMEs, in general, is very flexible and because of this flexibility, it should have an influence on the adequacy and effectiveness of implemented internal control activities (whether good or bad) – at least from a theoretical point of view. Stemming from the literature reviewed, the following assumptions were made surrounding the current status of the managerial conduct of management in South African FMCG SMMEs and the internal control activities evident in South African FMCG SMMEs:

- Management makes use of a variety of operating styles.
- These operating styles are very flexible.
- These operating styles are aligned to “customer satisfaction”.
- These operating styles are aligned to “beating the competition”.
- These operating styles are aligned to “making profit”.
- Management makes use of suitable managerial philosophies.
- These philosophies are aligned to “customer satisfaction”.
- These philosophies are aligned to “beating the competition”.
- These philosophies are aligned to “making profit”.
- The overall managerial conduct of management is very flexible.
- Internal control activities evident are customised.
- Internal control activities evident are informal in nature.

It is imperative that management takes responsibility for managing the risks in it with the main intent to attain organisational objectives. This is best done by management’s promotion of internal control (sound control environment) through their actions (appropriate managerial conduct) by implementing a sound internal control system to mitigate the potential impact of risks in their respective organisations to, in turn, provide reasonable assurance surrounding the attainment of organisational objectives in the foreseeable future.

In the next chapter, the research design, research methodology and research methods pertaining to this research study are discussed in depth.

CHAPTER 4: RESEARCH DESIGN, METHODOLOGY AND METHODS

SYNOPSIS

Throughout this thesis a methodical process is followed whereby each chapter builds on the previous one. This methodical process is provided below while also placing this particular chapter in context with all other chapters:

Chapter 1: Introduction to the research study

Chapter 2: Literature review - Internal control, the elements of an internal control system and the managerial conduct

Chapter 3: Literature review - South African fast-moving consumer goods in Small, Medium and Micro Enteprises

Chapter 4: Research design, methodology and methods

4.1) Introduction
4.2) Ethical considerations
4.3) Research assumptions
4.4) Limitations of the research study
4.5) Research design and methodology
4.6) Research methods
4.7) Questionnaire
4.8) Conclusion and relevance to the study

Chapter 5: Data analyses, results and discussion

Chapter 6: Conclusion

4.1 INTRODUCTION

The primary research objective pertaining to this research study (see Section 1.2.2) reads:

> To explore the relationship that exists between the managerial conduct of management (a major part of the control environment) in South African FMCG SMMEs and the implemented internal control activities in these business entities. This relationship should provide guidance, through means of a framework, as to how management of South African FMCG SMMEs can enhance the appropriateness of their managerial conduct and the adequacy and effectiveness of their internal control activities. By attaining the latter, it should enhance the internal control systems in South African FMCG SMMEs to provide more assurance surrounding the attainment of their organisational objectives in the foreseeable future, enhancing their overall continuation rates.

To achieve the aforementioned primary research objective, this research study required, inter alia, an adequate research design based on a sound research methodology, supported by relevant research methods. Hence, throughout the remainder of this chapter, the ethical considerations, research assumptions and limitations, the research design, including the research methodology that forms the basis of the design, the specific research methods used to address the research objectives, and the questionnaire deployed in this research study are discussed.

4.2 ETHICAL CONSIDERATIONS

The term “ethical considerations” can be viewed as a collection of morals and/or values that bind a society together (Rodgers, 2010:83) and that should be taken into account by a researcher when conducting research, with the intent to provide assurance that the manner in which the particular research study will be conducted, will be in line with the principle of *uberrima fides* (Remenyi et al., 1998:227,282; Blumberg et al., 2011:114). In other words, when a researcher takes ethical considerations into account, it serves as a reasonable pledge that his/her research study will be conducted in a fair, unbiased and humane manner (Collis & Hussey, 2009:45; Leedy & Ormrod, 2010:100).

For this research study, data were collected through means of a questionnaire (see Annexure B) from two targeted human populations (see Section 4.6). Therefore, the following ethical considerations were taken into account for this research study (Remenyi et al., 1998:229-230; Collis & Hussey, 2009:46-47; Leedy & Ormrod, 2010:101-104; Blumberg et al., 2011:116-119):

- Protection from physical harm: Since each respondent had to complete a questionnaire, all respondents were completely safeguarded from physical harm.
- Informed consent: Before agreeing to participate in this research study, respondents were informed of what the research study entailed. This was done through means of: 1) an introductory paragraph, briefly describing what the research study entailed on the first page of the questionnaire, and 2) a short oral explanation (face-to-face) as to what the research study entailed.
- Right to privacy: Before agreeing to participate in this research study, respondents were informed of their right to privacy. Similar to *informed consent*, respondents were informed through means of: 1) an introductory paragraph, briefly describing their right to privacy on the first page of the questionnaire, and 2) a short oral explanation (face-to-face) of their right to privacy. Moreover, respondents were guaranteed anonymity both during the conduct of the research study and after completion of the research study, as well as the confidential treatment of all information[185] provided by them.
- Voluntary participation: Before any respondent could take part in this research study, each respondent had to agree to voluntarily participate in it. This was done through means of asking a mandatory yes/no question on the front page of the questionnaire which read: "I, the respondent, voluntarily agree to participate in this research study". In addition, respondents were informed that once they had agreed to participate in the research study, they were able to withdraw from it at any time, for whatever reason, without recrimination.

4.3 RESEARCH ASSUMPTIONS

Research assumptions refer to aspects a researcher might take for granted which, if not clarified, may cause misunderstanding of elements and/or misunderstanding of the sum of the research study (Leedy & Ormrod, 2010:59). More often than not, research assumptions, from a pure research perspective, relate to ontological assumptions, epistemological assumptions, assumptions concerning human nature

[185] Respondents were also informed that all information provided by them would only be used for research purposes.

and methodological assumptions (Burrell & Morgan, 1979:1-37; Remenyi et al., 1998:102-103). In addition, research assumptions can also assume a personal stance as they can relate to, *inter alia*, particular theories, prior experiences and/or personal insights of a researcher (Simon, 2010:1). For this research study, the following research assumptions were relevant:

- <u>Ontological assumptions</u>: These assumptions pertain to how a person views and/or makes sense of the world and its surroundings – the nature of his/her reality (objective versus subjective). Although this research study fell within the social realm (data were collected from respondents from two populations), it fell predominantly within the positivistic research paradigm and also had to do with the testing of a plausible relationship that exists between two phenomena. Hence the ontological assumption of the researcher pertained to that of "realism" – the researcher viewed the world as: 1) separate of individual consciousness, and 2) something that contains a collection of invariant existing structures, waiting to be discovered.
- <u>Epistemological assumptions</u>: These assumptions pertain to the relationship that exists between a person and how he/she views the world and its surroundings (positivism versus interpretivism) – otherwise expressed, the nature of a person's thinking. As this research study had to do with the testing of a plausible relationship that exists between two phenomena, it was important to obtain empirical data quantitative in nature (more objective than subjective). As a result, the researcher's way of thinking was relative to "positivism". The researcher: 1) viewed the objects and the subjects of the research study as objective/separate from one another, and 2) believed that relationships can be identified among phenomena to determine laws that govern reality.
- <u>Assumptions concerning human nature</u>: Assumptions that are linked to human nature serve as basis to how a person views the relationship between human beings and their surroundings. Building forth from the previous two assumptions, the researcher's assumption concerning human nature was strongly relative to "determinism" – the experiences and/or interactions between human beings and their surroundings are completely determined by the situations in which they find themselves.
- <u>Methodological assumptions</u>: These assumptions have to do with the process that is followed by a person when conducting research. Based purely on the chosen research design, research methodology and research methods, a large proportion of this research study had to be conducted by empirical research (survey research), while a lesser portion had to be conducted by non-empirical research (literature reviews). Owing to the logical nature of this research study, the methodological assumptions of the researcher were "nomothetic" – the researcher believed that: 1) research should be conducted by means of a systematic protocol and/or technique, 2) research is explained by the approaches

and methods employed in natural sciences, 3) research is focused on the process of testing a perception in accordance with the rules and directives pertaining to scientific rigour, and 4) research is pre-occupied with the construction of scientific tests and the use of quantitative techniques for the analysis of data.

- Sampling assumptions: Since the size of the two targeted human populations was unknown,[186] and cognisant of the limitations pertaining to this research study (see Section 4.4), the researcher made use of non-probability sampling methods. For this research study, the sample size selected comprised 120 members of management of South African FMCG SMMEs and 120 employees of South FMCG SMMEs, of whom all had to adhere to a strict list of delineation criteria (see Section 4.6). To reduce researcher bias, a contracted data-collection organisation was used to collect data on behalf of the researcher. Using the above as basis, the assumption was that the envisaged samples (which satisfied all the relevant delineation criteria) would be representative of the two targeted human populations within the ambit of this research study.
- Rational assumptions: Although some terms used in this research study are commonly used in day-to-day parlance (e.g. “internal control”, “management conduct” and “internal control activities”), the researcher assumed that all respondents viewed these terms in a similar way[187] as they were conceptualised throughout this thesis – not necessarily in the same detail, but fundamentally at least.

4.4 LIMITATIONS OF THE RESEARCH STUDY

Limitations can be regarded as potential weaknesses in a research study that will have a direct influence on the manner in which results are interpreted which, in turn, are mostly beyond the control of a researcher (Remenyi et al., 1998:68-69). This research study was subject to the following two limitations:

- The research study was solely based in the Cape Metropole, situated in the Western Cape province. It should however be noted that the Western Cape province is regarded as the second largest contributing province to the South African economy (Statistics South Africa, 2011), which provides some form of justification for the selection of the geographical area in which this research study was conducted.
- The size of the two targeted human populations (management and employees) and the number of existing South African FMCG SMMEs was unknown to the researcher. Hence,

[186] The *Protection of Personal Information Act No. 4 of 2013* prohibited the researcher from access to formal and/or informal databases which contained contact information of members of the two targeted human populations.

[187] All terms in the questionnaire were clarified as per the conceptualised views of the researcher.

envisaged sample sizes of 120 members of management of South African FMCG SMMEs and 120 employees of South African FMCG SMMEs were chosen (through non-probability sampling methods) which, in turn, were personally collected through face-to-face visits (not by means of e-mail or internet-based surveys) by a contracted data-collection organisation. The collected data can be described as “rich” (and predominantly quantitative) as it elicited the attainment of intimate knowledge of a social situation or phenomenon of interest (Schultze & Avital, 2011:3).

4.5 RESEARCH DESIGN AND METHODOLOGY

To achieve the primary research objective of this research study (see Section 4.1), a sound research design and research methodology had to be chosen (Hair et al., 2011:156) – the cornerstone of any research study (Srivastava & Rego, 2011:43). Before elaborating on both the research design and research methodology deployed, the aforementioned terms are defined below:

- Research design: It can be viewed as a detailed plan (“blueprint”) for conducting a research study (Collis & Hussey, 2009:340; Blumberg et al., 2011:147). The research design considers four aspects, namely: 1) empirical research versus non-empirical research, 2) the collection of primary data versus the collection of secondary data, 3) the collection of numerical data versus the collection of textual data, and 4) the degree of control in the data collection tools deployed (Remenyi et al., 1998:44; Mouton, 2001:146).
- Research methodology: It is the actual process that should be followed to realise (execute) the research design (Remenyi et al., 1998:28). The research methodology normally takes one of three forms: 1) quantitative research, 2) qualitative research, or 3) mixed-methods research (Mouton, 2001:56; Collis & Hussey, 2009:7; Leedy & Ormrod, 2010:94-95).

This research study incorporated both non-empirical research and (predominantly) empirical research. In core, non-empirical research was conducted in the form of two literature reviews (see Chapter 2 and Chapter 3) mainly to answer the first three investigative research questions[188] (see Section 1.2.3), through the collection of secondary data (mainly consisting of textual data). The answering of the first three investigative research questions was crucial in the description of various phenomena relative to the identified research problem which, in turn, were used as basis to

[188] These three investigative questions each had one secondary research objective (see Section 1.2.3).

answer the fourth investigative research question (see Section 1.2.4). A literature review can be explained as follows:

- Literature review: It is a type of investigation conducted on findings, opinions, facts and conclusions, on phenomena that are relative to an identified research problem (Remenyi et al., 1998:75). Such an investigation is normally done by consulting various literature sources to assist with the theoretical underpinning of the phenomena that are relative to the identified research problem (Leedy & Ormrod, 2010:66).

Moreover, the fourth investigative research question[189] (see Section 1.2.3) was answered through means of conducting empirical research, taking the form of survey research. In essence, primary data (quantitative in nature) were collected from relevant respondents by a questionnaire (see Annexure B) that primarily consisted of closed-ended questions. The answering of the fourth investigative research question was of paramount importance as it was relevant to the testing of a relationship or relationships which existed between: 1) the managerial conduct of management and the internal control activities evident in South African FMCG SMMEs, and 2) the views of management and employees in relation to the aforementioned phenomena (see Section 1.2.4). Survey research can be described as follows:

- Survey research: It is a type of research that involves the acquisition of information, mostly pertaining to characteristics, opinions, attitudes and/or perceptions, about one or more groups of people, in large quantities about an identified research problem (Remenyi et al., 1998:290). This is generally done through means of asking questions in a textual format (written questionnaire) and/or oral format (structured interview), while tabulating the relevant responses of respondents for the purposes of data analysis (Leedy & Ormrod, 2010:187).

Based on the research design, the selected research methodology for this research study was quantitative research, falling largely within the positivistic[190] research paradigm. Despite very little information existing on the identified research problem (see Section 3.3) and since the researcher wanted to obtain new information on the identified research problem (see Section 1.1 and Section 1.3), the reason for choosing a quantitative research methodology was that the primary research objective (see Section 4.1) of this research study could only be attained by means of conducting research in a tangible, observable social reality (Remenyi et al., 1998:32-

[189] This one investigative question had two secondary research objectives (see Section 1.2.3).

[190] Positivism pertains to the belief that reality is independent of a researcher (Collis & Hussey, 2009:56).

33). In principle, quantitative research entails the collection and analysis of quantitative data (numerical data) from a tangible, observable social reality, through means of appropriate research methods and suitable statistical methods (Collis & Hussey, 2009:7).

4.6 RESEARCH METHODS

Stemming from the chosen research design and research methodology above, sound research methods had to be identified, developed and implemented to support the achievement of the identified primary research objective relative to this research study (see Section 4.1). Before elaborating on the research methods deployed in this research study, it is important to first define the term:

- Research methods: They can be deemed the "tasks" which should be completed, in conjunction with the research methodology, to help answer the relevant posed research question(s), with the main intent to mitigate and/or solve the identified research problem(s) (Newman & Benz, 1998:24). In core, the research methods of any research study are relevant to, inter alia: 1) sampling methods deployed, 2) measurement methods used, 3) data-collection methods used, and 4) data-analysis methods used (Collis & Hussey, 2009:67,73).

To achieve the primary research objective, primary data (quantitative in nature) were collected from two targeted human populations, namely: 1) South African FMCG SMME management, and 2) South African FMCG SMME employees. Since the actual sizes of these two populations were unknown to the researcher, representative sample sizes of these populations were chosen on the basis of non-probability sampling methods consisting of a mixture of purposive sampling (judgemental sampling) and convenience sampling (accidental sampling). These sampling methods used are explained below:

- Purposive sampling: A sampling method whereby respondents are selected based on certain delineation criteria, as determined by a researcher, prior to the collection of primary data from respondents (Collis & Hussey, 2009:213). All respondents are chosen for a specific purpose; more often than not this sampling method is appropriate for research studies where the size of the population is generally unknown (Leedy & Ormrod, 2010:212-213).

- Convenience sampling: A sampling method whereby respondents are selected by a researcher when respondents are in close proximity to the researcher and/or conveniently accessible by the researcher, all with the intent to collect primary data (Remenyi et al., 1998:193; Leedy & Ormrod, 2010:212).

Although the size of the two targeted human populations was unknown, relevant delineation criteria were developed for this research study, specifically since: 1) South African FMCG SMMEs include a great number and diversity of business entities, 2) South African FMCG SMME management is extremely broad, 3) South African FMCG SMME employees are diverse, and 4) this research study had certain limitations (see Section 4.4). The delineation criteria that were developed for this research study are listed below:

- A South African FMCG SMME should have:
  - adhered to the definition of an SMME as per relevant legislation;
  - been a sole proprietor, partnership, close corporation or a private company;
  - been classified as a non-franchised business entity;
  - operated in the FMCG industry;
  - employed between one[191] and 100 employees; and
  - operated in the geographical area of the Cape Metropole.
- A South African FMCG SMME member of management should have:
  - been regarded as owner and/or manager of his/her respective business entity;
  - been in an authoritative position, within his/her business entity; and
  - had experience (in years) as owner and/or manager.
- A South African FMCG SMME employee should have:
  - been employed (permanently or temporarily) by the relevant business entity;
  - been in a non-managerial position within the business entity; and
  - had work-related experience (in years) in the business entity.

A contracted data-collection organisation (Organisation X)[192] assisted with the collection of data from a targeted 120 members of management of South African FMCG SMMEs and a targeted 120 employees of South African FMCG SMMEs over the course of three weeks. Members of management and employees had to be based in the same FMCG SMMEs where possible. Despite data collection by

[191] If any South African SMME employs only its owner(s) – zero formal employees – it is still regarded as a South African SMME based on the *National Small Business Act No. 102 of 1996* (South Africa, 1996:2).

[192] As a contracted data-collection organisation collected data from respondents on behalf of the researcher, to ensure the anonymity of respondents and the confidentiality of respondents' information (see Section 4.2), the name "Organisation X" is used as pseudonym for the contracted data-collection organisation (Ogden, 2008:693-694).

Organisation X, it is important that the approach followed by Organisation X in relation to the collection of data is explained.

A questionnaire was first developed by the researcher in Microsoft Word format, later converted to an electronic format which was compatible with the electronic tablets[193] of Organisation X. Thereafter, five qualified fieldworkers were identified and temporarily recruited by Organisation X, and briefed by a fieldwork supervisor on the content of the questionnaire and the expectations of the client (the researcher). After the briefing, all five qualified fieldworkers commenced with the collection of data from respondents through means of face-to-face visits. All responses were directly captured via electronic tablets, automatically uploaded and saved on a single, stable cloud storage device secured through encryption software and protected by a firewall. Each uploaded response was personally validated (100%) by the fieldwork supervisor by telephone or e-mail.

After three weeks the researcher received data (via Organisation X) from a total of 119 members of management of South African FMCG SMMEs (from an envisaged sample of 120, translating to a 99.17% response rate) and 78 employees of South African FMCG SMMEs (from an envisaged sample of 120, translating to a 65% response rate). All data obtained were cleaned and prepared for data analysis and analysed through statistical software (SPSS). Both descriptive statistics and inferential statistics were used to analyse data.

Taking into account the quantitative nature of this research study, almost all questions asked in the questionnaire were closed-ended in nature. Therefore the researcher decided to use the following five measurement scales in the questionnaire:

- Scale A: 1 = Yes, 2 = No.
- Scale B: 1 = Strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly agree.
- Scale C: 1 = Very bad, 2 = Bad, 3 = Neutral, 4 = Good, 5 = Very good.
- Scale D: 1 = Very inadequate, 2 = Inadequate, 3 = Neutral, 4 = Adequate, 5 = Very adequate, 6 = N/A.

[193] Electronic tablets were used by qualified fieldworkers to collect data from relevant respondents through face-to-face visits with respondents.

- Scale E: 1 = Very ineffective, 2 = Ineffective, 3 = Neutral, 4 = Effective, 5 = Very effective, 6 = N/A.

All the measurement scales above were coded in accordance with the questions asked in the questionnaire, mainly for the sake of optimising consistency and enhancing construct validity (see Section 5.2). In core, specifically for scales B to E, low scores were indicative of strong “negative” responses, while high scores (with the exclusion of the code “6”) were indicative of strong “positive” responses.

Using the above as basis, while also taking into account that most questions throughout the questionnaire were Likert-scale questions (80.83%), as well as the fact that the responses for each Likert scale had comparative positions (e.g. 1= Strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly agree), it could not be assumed that participants would have similar (equal) perceptions pertaining to the differences between each of these responses. Since every respondent would have a unique perception, the data obtained in relation to Likert-scale questions were treated as ordinal data (Remenyi et al., 1998:153-154; Wegner, 2012:11-12), necessitating the use of non-parametric methods where applicable (Leedy & Ormrod, 2010:265).

As previously mentioned (see Section 4.5), the questionnaire was primarily developed to answer the fourth investigative research question to, in turn, address the final two secondary research objectives. The questionnaire covered the following sections:

- Section A: Demographic information pertaining to South African FMCG SMMEs.
- Section B: The position of respondents in South African FMCG SMMEs.
- Section C: Demographic information pertaining to employees of South African FMCG SMMEs.
- Section D: Demographic information pertaining to management of South African FMCG SMMEs.
- Section E: The economic environment of South African FMCG SMMEs.
- Section F: The internal control systems evident in South African FMCG SMMEs.
- Section G: The internal control activities evident in South African FMCG SMMEs.
- Section H: The managerial conduct of management in South African FMCG SMMEs.

Firstly, collected data were analysed through descriptive statistics with the intent to summarise collected data in a more compact manner, presented in tables, charts and/or graphs (Collis & Hussey, 2009:221). The descriptive statistics provided a better understanding of: 1) the demographics pertaining to South African FMCG SMMEs, 2) the demographics pertaining to employees of South African FMCG SMMEs, 3) the demographics pertaining to management of South African FMCG SMMEs, 4) the economic sustainability of South African FMCG SMMEs, 5) the internal control systems used in South African FMCG SMMEs, 6) the internal control activities used in South African FMCG SMMEs, and 7) the managerial conduct of management in South African FMCG SMMEs. All descriptive statistics appear in Annexure C and Annexure D.

In addition, inferential statistics were used to test statistically the relationship between two phenomena (the managerial conduct of management in South African FMCG SMMEs and the internal control activities evident in these business entities) and to draw conclusions on the two targeted populations (the views of management and employees of South African FMCG SMMEs in respect of the relationship between the managerial conduct of management and the internal control activities evident in these business entities), based on a particular sampling distribution (Collis & Hussey, 2009:222; Leedy & Ormrod, 2010:31). For this research study, the following inferential statistics were performed (Cooper & Schindler, 2001:216-217, 499):

- Mann–Whitney *U* test: A non-parametric test for assessing whether two samples (the views of management of South African FMCG SMMEs and the views of employees of South African FMCG SMMEs) of observations come from the same distribution. The null hypothesis is that the two samples are drawn from a single population, and therefore it infers that their probability distributions are equal. In essence, for this test to be conducted, the two samples need to be independent from one another. Alternatively stated, this test is conducted to determine whether the probability (p-value) of an observation of one population to exceed the observation from the second population is 0.05 (95% level of confidence).
- Spearman rank correlation: This is a non-parametric test used to summarise both the strength and direction (positive or negative) of a relationship that exists between two variables (e.g. the managerial conduct of management in South African FMCG SMMEs and the internal control activities evident in South African FMCG SMMEs). The results produced by this test will always range between 1.00 (absolute positive) and -1.00

(absolute negative), and it is used to determine the coefficient that exists between the two respective variables.

To determine the universal relationship(s) that existed between the managerial conduct of management and the internal control activities evident in South African FMCG SMMEs (based on 198 responses), a Spearman rank correlation was performed (see Section 5.6). The results from the Spearman rank correlation made it possible to achieve the first of the two last-remaining secondary research objectives (see Section 1.2.3). Thereafter, one Mann–Whitney U test was performed to test the significant differences between the views of employees (based on 78 responses) and those of management (based on 120 responses) of South African FMCG SMMEs on the managerial conduct of management, internal control activities, and the relationships they perceived to exist between the two aspects (see Section 5.7). In addition, two separate Spearman rank correlations were performed on the views of the two groups of respondents to identify statistically significant similarities between their views. The results from these tests made it possible to achieve the second of the two last-remaining secondary research objectives (see Section 1.2.3)

Moreover, the validity of the questionnaire was also tested in depth. The term "validity" can be defined as a phenomenon concerned with whether what is measured is what was intended to be measured (Collis & Hussey, 2009:64-65). For this research study, the following aspects of validation were taken into account (Leedy & Ormrod, 2010:92):

- Face validity: The extent to which a questionnaire measures what the researcher intends to measure, at face value.
- Content validity: The extent to which a questionnaire represents all facets of a content area (phenomena).
- Construct validity: The extent to which a questionnaire measures a characteristic that cannot be directly observed as it is assumed to exist based on patterns in people's behaviour.

The questionnaire was piloted by three academics (with PhDs) and one qualified statistician before it was disseminated to relevant respondents. Regardless of its subjective nature, the face validity of the questionnaire was reasonably assured through the piloting.

The questionnaire was developed only after the two literature reviews (Chapter 2 and Chapter 3) had been conducted, which made it possible to achieve content validity as "current aspects" and "valid aspects" – all pertaining to the primary research problem (see Section 1.2.1) – could be covered by the questions asked in the questionnaire. In particular, apart from obtaining demographic information, the questionnaire placed emphasis on the topics of "economic sustainability", "internal control systems", "internal control activities", and "managerial conduct". Content validity was further enhanced by piloting the questionnaire.

The construct validity of the questionnaire was assured by ensuring that all questions asked were as clear as possible, as simply stated as possible, unambiguous, non-threatening and not misleading. Moreover, construct validity was also assured by piloting the questionnaire, while simultaneously making use of unbiased measurement scales. In addition to the above, to test the construct validity of the questionnaire statistically, relevant hierarchical cluster analyses, on a variable level, were performed (see Section 5.2).

A hierarchical cluster analysis is a statistical method whereby distance (dissimilarity) is measured among collected data, based solely on a measurement scale, to help identify "clusters" of items in the measurement scale that share sufficient variation (Buttigieg & Ramette, 2014:543-544). For this research study, hierarchical cluster analyses were performed on a variable level on only certain questions evident in Section E, Section G and Section H[194] of the questionnaire as: 1) these questions covered a broad spectrum of characteristics on various concepts directly relevant to the identified research problem, 2) these questions were primarily used to answer the fourth investigative research question and attain its applicable two secondary research objectives, and 3) these questions contained at least six variables at any given time. Therefore as the questionnaire assisted in the collection of data necessary to answer the identified research problem (see Section 1.2.1), it was important that the questionnaire had to measure what was intended.

Additionally, the hierarchical cluster analysis for each relevant question was supported by a dendrogram – a tree diagram representing the hierarchy of structures

[194] Section F was not included in the hierarchical structure analysis as the data pertaining to relevant questions were not directly used to achieve the primary research objective of this research study.

existing within some data (Colombo et al., 2015:2069). Each dendrogram was used to illustrate: 1) the number of identified clusters (grouped per variable), 2) where clusters (grouped per variable) were joined at each stage of the hierarchical cluster analysis, and 3) the distance between clusters (grouped per variable) at the time of joining of the hierarchical cluster analysis. The between-groups Unweighted Pair Group Method with Arithmetic Mean (UPGMA) was used to perform hierarchical cluster analyses as it was considered to be a fairly robust method (Khalid, 2011:50).

It is also important for any research study to take reliability into account – the replicability of a research study (Remenyi et al., 1998:288). As mentioned previously in this section, since most of the questions asked in the questionnaire were Likert-scale questions (80.83%), the data collected from these questions were classified as ordinal data. Unfortunately, because of the nature of ordinal data, such data cannot be fairly tested for reliability, as they will provide biased results (Bonanomi et al., 2013:1-2). Hence, no reliability tests were performed in relation to the questionnaire used in this research study[195].

4.7 QUESTIONNAIRE

The developed questionnaire (see Annexure B) had to answer the fourth investigative research question (see Section 1.2.3) to, in turn, help achieve the primary research objective of this research study (see Section 4.1). The developed questionnaire therefore underwent various "pre-testing" measures before it was used for obtaining data from relevant respondents (Remenyi et al., 1998:151; Collis & Hussey, 2009:193-195; Leedy & Ormrod, 2010:194-195; Blumberg et al., 2011:397-398):

- The questionnaire was piloted (see Section 4.6).
- The questionnaire was checked that it contained:
  - clear sentences, questions and instructions;
  - simple sentences, questions and instructions;
  - unambiguous sentences, questions and instructions;
  - unbiased sentences, questions and instructions;
  - non-threatening sentences, questions and instructions;

[195] Although the questionnaire could not be statistically tested for reliability, it does not mean that the questionnaire had a weak reliability (Lydeard, 1991:85-86).

- no double-negative sentences and questions; and
- no sentences and questions based on unsporting or misleading assumptions.

- The questionnaire was proofread by a qualified language editor.

As previously mentioned (see Section 4.6), Organisation X assisted the researcher in the collection of data by using a face-to-face distribution method (Collis & Hussey, 2009:193). Each respondent was presented with an electronic version of the questionnaire displayed on an electronic tablet for completion. The questionnaire consisted mostly of closed-ended classification questions[196] (Sections A, B, C and D) and closed-ended specific questions relating to the identified research problem (Sections E, F, G and H), taking the form of yes/no questions, multiple- choice questions and, predominantly, Likert-scale questions. The questions included in the questionnaire, placed within the context of the study, are presented and discussed below, per section.

It was important to first obtain information about core demographic aspects of each targeted South African FMCG SMME. Essentially, all the questions asked in Section A (see Table 4.1) were classification questions, with the main intent to test whether respondents were based in South African FMCG SMMEs as described in the developed delineation criteria of this research study (see Section 4.6). A total of 10 questions were asked in Section A, of which nine were multiple-choice questions and one was a ratio question.

Table 4.1: *Questions asked in the questionnaire: Section A*

Question no.	Question type	Question
A1	Multiple choice	How would you classify the business?
A2	Multiple choice	How would you describe the products sold by the business?
A3	Multiple choice	How would you describe the geographical nature of the customers of the business?
A4	Multiple choice	How would you describe the selling policy of the business relating to the products sold?
A5	Multiple choice	How would you describe the reach of the business apart from this outlet?
A6	Multiple choice	What type of business is this?
A7	Multiple choice	What is the business' modus operandi?
A8	Multiple choice	Is the business franchised or non-franchised?
A9	Multiple choice	How many employees does the business employ?
A10	Ratio	How long has the business been in existence (in years)?

Secondly, it was imperative to determine the position of each targeted respondent in his or her relevant South African FMCG SMME. A single multiple-choice question

[196] Classification questions were asked to collect data about the characteristics/demographics of the respondents (Collis & Hussey, 2009:198).

was asked in Section B (see Table 4.2) – also serving as a classification question – with the main intent to test whether respondents were employees or part of management in their South African FMCG SMMEs, as per the developed delineation criteria (see Section 4.6).

Table 4.2: *Question asked in the questionnaire: Section B*

Question no.	Question type	Question
B1	Multiple choice	What is your position in the business?

For Section C, the core demographics of members of management of South African FMCG SMMEs were determined. Again, mostly classification questions were asked (see Table 4.3) to test whether the targeted members of management of South African FMCG SMMEs satisfied the relevant developed delineation criteria (see Section 4.6). Throughout Section C, five multiple-choice questions, one open-ended (numerical) question, and one-open ended (text) question were asked.

Table 4.3: *Questions asked in the questionnaire: Section C*

Question no.	Question type	Question
C1	Multiple choice	What is your exact position in the business?
C2	Ratio	How long have you been in this position (in years)?
C3	Multiple choice	Are you a South African citizen?
C4	Multiple choice	What is your highest qualification?
C5	Multiple choice	Do you have decision-making power in the business?
C6*	Open-ended**	Based on your answer in C5, you indicated that you do not have decision-making power in the business. Why is this the case?
C7*	Multiple choice	Based on your answer in C5, would you rather say that you regard yourself as an employee?

* These questions were only answerable if respondents answered “no” to question C5.

** This question was optional.

In Section D, the core demographics of respondents who were employees in South African FMCG SMMEs were determined. Most questions asked (see Table 4.4) were classification questions, asked with the intent to test whether the targeted employees of South African FMCG SMMEs satisfied the relevant developed delineation criteria (see Section 4.6). Seven questions were asked in Section D: five multiple-choice questions, one ratio question, and one-open ended (text) question.

Table 4.4: *Questions asked in the questionnaire: Section D*

Question no.	Question type	Question
D1	Multiple choice	What is your exact position in the business?
D2	Ratio	How long have you been in this position (in years)?
D3	Multiple choice	Are you a South African citizen?
D4	Multiple choice	What is your employment status?
D5	Multiple choice	What is your highest qualification?
D6	Multiple choice	Do you have decision-making power in the business?
D7*	Open-ended**	Based on your answer in D6, you indicated that you do have decision-making power in the business. Why is this the case?

* This question was only answerable if respondents answered "no" to question C5.

** This question was optional.

For Section E, it was important to understand how respondents viewed the overall economic sustainability of their relevant South African FMCG SMMEs. The questions asked in Section E (see Table 4.5) were particularly significant since economic sustainability is highly relevant to the attainment of organisational objectives (operational objectives, reporting objectives and compliance objectives) to allow the respective organisation to become a going-concern entity in the foreseeable future (see Section 3.2.2). When an organisation attains its objectives in the foreseeable future, essentially the inference can be made that the organisation has sound internal control initiatives in place (see Section 2.1.3). To shed light on this, two Likert-scale questions were asked in Section E.

Table 4.5: *Questions asked in the questionnaire: Section E*

Question no.	Question type	Question
E1	Likert scale	For each statement, indicate your level of agreement. The base sentence reads: "The business ... "
E2	Likert scale	Based on your answers in E1, how would you describe the overall economic sustainability of the business?

For Section F, respondents were asked to provide their personal views on the adequacy and effectiveness of the implemented internal control systems in their respective South African FMCG SMMEs. The questions asked in Section F (see Table 4.6) were of importance since a sound system of internal control should greatly assist with both the establishment and enhancement of internal control in an organisation (see Section 2.3.4). Therefore, the inference can be made that if the implemented internal control system in an organisation is sound, it would serve as evidence of sound internal control existing in the relevant organisation. For Section F, a total of two multiple-choice questions and three Likert-scale questions were asked.

Table 4.6: *Questions asked in the questionnaire: Section F*

Question no.	Question type	Question
F1	Multiple choice	Does the business have a system of internal control?
F2	Multiple choice	How would you describe the business' system of internal control?
F3	Likert scale	For each statement, indicate your level of agreement. The base sentence reads: "The business' system of internal control is ... "
F4	Likert scale	The term "adequacy" relates to whether something is "good enough". How would you rate the adequacy of the business' internal control system based on your answers in F2?
F5	Likert scale	The term "effectiveness" relates to whether something is "working as intended". How would you rate the effectiveness of the business' internal control system based on your answers in F2?

For Section G it was imperative to understand what internal control activities were evident in South African FMCG SMMEs and how respondents viewed these activities in relation to their adequacy and effectiveness. In essence, internal control activities should prevent and detect risks in an organisation (see Section 2.5.2) and if these control activities are both adequate and effective, they serve as an indicator that such an organisation may have sound internal control (see Section 2.2.3 and Section 2.3.1) which, in turn, will help the organisation to attain economic sustainability (see Section 3.2.2).

In layman's terms, the segregation of duties, proper authorisation activities, adequate document usage and design, safeguarding of assets, and independent checks in an organisation serve as indicators of sound internal control. Four Likert-scale questions (see Table 4.7) were asked in Section G.

Table 4.7: *Questions asked in the questionnaire: Section G*

Question no.	Question type	Question
G1	Likert scale	For each statement, indicate your level of agreement. The base sentence reads: "In the business' ... "
G2	Likert scale	For each statement, indicate your level of agreement. The base sentence reads: "The control activities above are ... "
G3	Likert scale	The term "adequacy" relates to whether something is "good enough". How would you rate the adequacy of the business' internal control activities based on your answers in G1 and G2?
G4	Likert scale	The term "effectiveness" relates to whether something is "working as intended". How would you rate the effectiveness of the business' internal control activities based on your answers in G1 and G2?

For Section H, respondents were asked to provide their personal views surrounding the appropriateness and overall influence of the managerial conduct of management within their respective South African FMCG SMMEs. Because the managerial conduct of management will have a distinct influence on, inter alia, the soundness of an organisation's control environment (see Section 2.6.1), the productivity of employees, and the effectiveness and efficiency of operations in an organisation (see

Section 2.6.2), it is of vital importance for the managerial conduct of management to be appropriate. Five questions were asked, all of which were Likert-scale questions.

Table 4.8: *Questions asked in the questionnaire: Section H*

Question no.	Question type	Question
H1	Likert scale	For each statement, indicate your level of agreement. The base sentence reads: "The business' management ... "
H2	Likert scale	For each statement, indicate your level of agreement. The base sentence reads: "I associate the business' management with the following values ... "
H3	Likert scale	For each statement, indicate your level of agreement. The base sentence reads: "The business' management's operating style is best described by ... "
H4	Likert scale	Taking into account the nature of the business, how appropriate is the managerial conduct of management?
H5	Likert scale	For each statement, indicate your level of agreement. The base sentence reads: "The managerial conduct of the business' management has a direct influence on the ... "

The questionnaire used in this research study may be viewed in Annexure B of this thesis.

4.8 CONCLUSION AND RELEVANCE TO THE STUDY

In this chapter, focus was placed on the ethical considerations, research assumptions, research design, research methodology, research methods and the questionnaire deployed in this research study – all with the intent to aid in the attainment of the primary research objective (see Section 1.2.2).

The research design employed a non-empirical approach whereby two literature reviews were conducted to help answer the first three investigative research questions of this research study (see Section 1.2.3), as well as an empirical approach whereby primary quantitative data were collected by a questionnaire (survey research) to help answer the final investigative research question of this research study (see Section 1.2.3). Moreover, this research study adopted a quantitative research methodology since a large portion of the study pertained to the collection of primary quantitative data collected by a questionnaire and analysed by statistical software (see Chapter 5).

Stemming from the above, emphasis was also placed on the applicable research methods used to collect quantitative data from two targeted human populations, namely: 1) South African FMCG SMME management, and 2) South African FMCG SMME employees. Because of the size of the two selected human populations, as well as the scope of South African FMCG SMMEs, relevant delineation criteria were developed for the latter which, in turn, were used as basis to determine the following envisaged sample sizes:

- 120 South African FMCG SMME members of management.
- 120 South African FMCG SMME employees.

Data were collected by a contracted data-collection organisation (Organisation X) and relevant ethical considerations were taken into account both during and after data were collected, supported by relevant research assumptions. Data were collected from a total of 119 members of management of South African FMCG SMMEs and 78 employees of South African FMCG; all satisfied the developed delineation criteria for this research study. The manner in which collected data were analysed was also briefly discussed.

Lastly, all the questions asked in the questionnaire (per section) were briefly elaborated on. In the questionnaire, particularly for Section A, Section B, Section C, and Section D, mostly closed-ended questions were asked (multiple-choice questions) as classification questions to help test whether respondents (and their respective South African FMCG SMMEs) adhered to the relevant developed delineation criteria in this research study. For Section E, Section F, Section G and Section H, mostly closed-ended questions (multiple-choice questions and Likert-scale questions) were asked which pertained to the identified research problem, particularly the final investigative research question (see Section 1.2.3). The questionnaire covered the following aspects (see Section 2.1.3, Section 2.2.4, Section 2.5.1, Section 2.5.2, Section 2.6.3, Section 3.1.3, Section 3.2.2, and Section 3.3):

- <u>Section A</u>: The delineation criteria developed for a South African FMCG SMME.
- <u>Section B</u>: Determining whether respondents were part of: 1) South African FMCG SMME management, or 2) South African FMCG SMME employees.
- <u>Section C</u>: The delineation criteria developed for South African FMCG SMME management.
- <u>Section D</u>: The delineation criteria developed for South African FMCG SMME employees.
- <u>Section E</u>: The perception of respondents surrounding the overall economic sustainability of their respective South African FMCG SMMEs, particularly in relation to these business

entities': 1) profitability, 2) solvency, 3) liquidity, 4) reputation among relevant stakeholders, and 5) ability to remain in operation for the foreseeable future.

- Section F: The perception of respondents surrounding the soundness of their respective South African FMCG SMMEs' implemented internal control systems. This was addressed by placing emphasis on their internal control systems': 1) description, 2) foundation (frameworks used to develop them), 3) adequacy, and 4) effectiveness.
- Section G: The perception of respondents surrounding the adequacy and effectiveness of their respective South African FMCG SMMEs' implemented internal control activities. This was addressed by placing emphasis on: 1) what internal control activities are evident in their respective business entities, 2) how adaptable their internal control activities are to change, 3) how robust their internal control activities are, 4) how suitable their internal control activities are in relation to the FMCG industry, 5) how well their internal control activities are supportive of relevant policies and procedures, 6) how their internal control activities are supportive of relevant risk-management strategies, 7) how adequate their internal control activities are, and 8) how effective their internal control activities are.
- Section H: The perception of respondents surrounding both the appropriateness and influence of respective South African FMCG SMMEs' managerial conduct of management. This was addressed by placing emphasis on: 1) the manner in which management executes their respective responsibilities (values), 2) management's utilisation of a suitable managerial philosophy to make decisions, 3) management's utilisation of a suitable operating style to manage, and 4) the potential influence of management's managerial conduct.

All questions asked in the questionnaire were relevant to the literature reviews conducted in Chapter 2 and Chapter 3. These questions, in turn, were essential for performing both descriptive and inferential statistics to determine the relationships existing between the managerial conduct of management in South African FMCG SMMEs and the internal control activities evident in these business entities.

In the next chapter the data analysis and results are provided, together with relevant discussion.

CHAPTER 5: DATA ANALYSIS, RESULTS AND DISCUSSION

SYNOPSIS

Throughout this thesis a methodical process is followed whereby each chapter builds on the previous one. This methodical process is provided below while also placing this particular chapter in context with all other chapters:

Chapter 1: Introduction to the research study

Chapter 2: Literature review - Internal control, the elements of an internal control system and the managerial conduct

Chapter 3: Literature review - South African fast-moving consumer goods in Small, Medium and Micro Enteprises

Chapter 4: Research design, methodology and methods

Chapter 5: Data analyses, results and discussion

5.1) Introduction
5.2) Validity of data
5.3) Background information
5.4) Internal control
5.5) Managerial conduct
5.6) Relationship(s) between managerial conduct and internal control activitites
5.7) Test of relationship(s) between managerial conduct and internal control activities
5.8) Conclusion and relevance to the study

Chapter 6: Conclusion

5.1 INTRODUCTION

The primary research question that was asked within the ambit of this research study (see Section 1.2.2) read as follows:

> To what extent does the managerial conduct of management, in South African FMCG SMMEs, as a major part of the control environment, influence the adequacy and effectiveness of implemented internal control activities in these business entities?

To answer the primary research question in this research study, the following four investigative research questions were asked (see Section 1.2.3):

- What constitutes a sound control environment in relation to the managerial conduct of management?
- What constitute adequate and effective internal control activities?
- In a theoretical dispensation, what is the current status surrounding the managerial conduct of management in South African FMCG SMMEs and their implemented control activities?
- What relationship exists between the managerial conduct of management in South African FMCG SMMEs and the implemented internal control activities in these business entities?

As previously mentioned (see Section 4.5), the first three investigative research questions were answered by deploying non-empirical research methods in the form of literature reviews (see Chapter 2 and Chapter 3), while the fourth investigative research question was answered by making use of empirical research methods in the form of survey research. It should however be noted that the answers to the first three investigative research questions were used as foundation in the development of the questionnaire which was used in this research study (see Annexure B). This questionnaire, in turn, was used to obtain primary quantitative data (see Section 4.5) with the main intent to help answer the fourth investigative research question and achieve its applicable two secondary research objectives (see Section 1.2.3), namely:

- To determine the relationship that exists between the managerial conduct of management and the internal control activities evident in South African FMCG SMMEs.
- To determine the relationship that exists between the views of management and employees in relation to the relationship perceived to exist between the managerial conduct of management and the internal control activities evident in these business entities.

In addition, owing to the fact that this research study fell within the positivistic research paradigm (see Section 4.5) and since the identified research problem, the primary research objective and the final two secondary research objectives, concerned the enquiry about the relationship among variables pertaining to certain phenomena (see Section 4.6), the primary quantitative data collected through the questionnaire was analysed by applicable descriptive and inferential statistics (Creswell, 2014).

For the remainder of this chapter, relevant discussion takes place under the following headings: 1) validity of data, 2) background information, 3) internal control, 4) managerial conduct of management, 5) relationship between the managerial conduct of management and internal control activities, and 6) test of relationship between the managerial conduct of management and internal control activities.

5.2 VALIDITY OF DATA

When conducting empirical research, it is imperative that the validity of the data-collection tools used is reasonably assured by assessing, inter alia, their face validity, content validity and construct validity prior to the collection of primary data (Remenyi et al., 1998:291). Although relevant measures were put in place to reasonably assure the validity of the questionnaire used in this research study (see Section 4.6), validity is mostly subjective in nature since it cannot be directly observed and/or measured (Leedy & Ormrod, 2010:92-93).

In an attempt to strengthen the construct validity of the questionnaire, applicable hierarchical cluster analyses (on a variable level) were performed on the data collected for questions E1, G1, G2, H1, H2, H3, and H5 (see Annexure B), with the main intent to measure the distance (dissimilarity) among separate concepts which, in turn, were depicted through means of dendrograms. As previously mentioned (see

Section 4.6), the three major reasons why only these seven questions were tested were that: 1) these questions covered a broad spectrum of characteristics on various concepts that were directly relevant to the identified research problem, 2) these questions were primarily used to answer the fourth investigative research question and attain its applicable two secondary research objectives, and 3) these questions contained at least six variables at any given time.

When analysing the hierarchical cluster of the variables in Question E1 (see Figure 5.1), a total of three clusters were identified: 1) variables E1_1 to E1_3 (financial performance and financial position), 2) variables E1_4 to E1_6 (reputation), and 3) variable E1_7 (going-concern status).

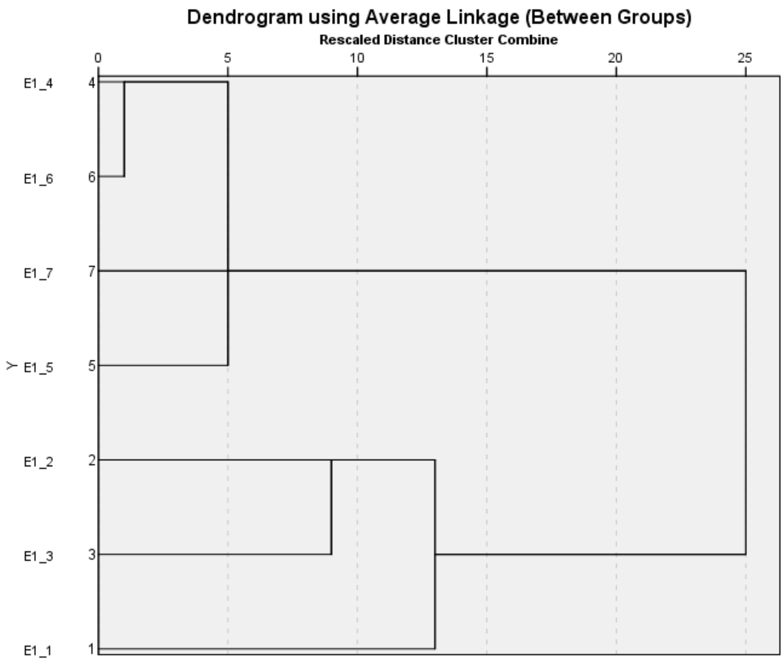

Figure 5.1: Dendrogram using average linkages between variables for Question E1

A specific clustering of variables was expected as the variables covered in this question were greatly consistent with relevant aspects evident in the conceptualised definition of the term "economic sustainability" (see Section 3.2.2) that reads:

> It is the ability of a business entity to achieve a sound economic performance for it to achieve a sound economic position, which, in turn, will allow it to remain in operation for the foreseeable future (become a going-concern entity).

Although only the two clusters of "financial performance and financial position" and "going-concern status" were expected, the cluster "reputation" does indirectly fit into the conceptualised definition of the term "economic sustainability" – if an organisation is deemed as a going-concern entity, then it must have a sound relationship with its applicable stakeholders. Hence, the inference can be made that the three identified clusters confirm the validity of the data in relation to the variables for Question E1.

Based on the hierarchical cluster analysis of the variables in Question G1, many clusters were identified, as shown in Figure 5.2.

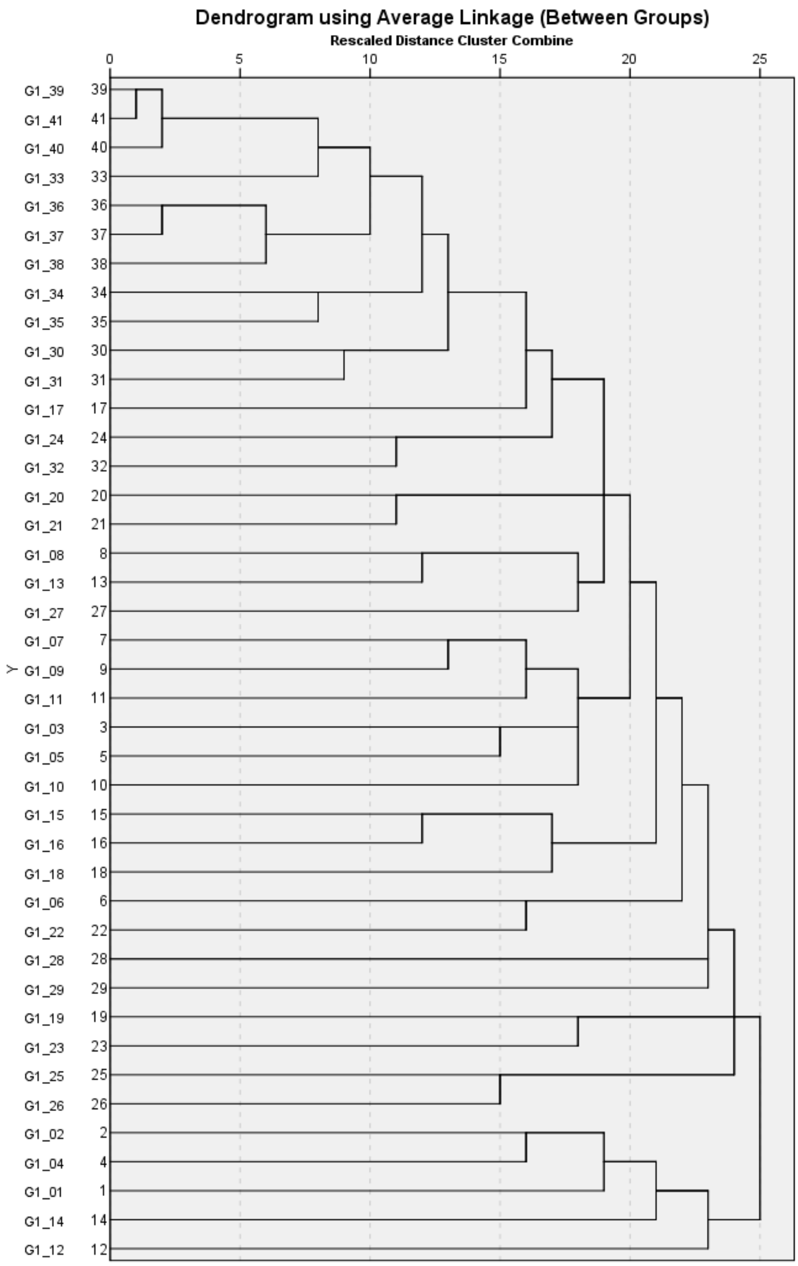

Figure 5.2: Dendrogram using average linkages between variables for Question G1

The magnitude of identified clusters for this question is not a strange phenomenon, especially when taking into account the conceptualised definition of internal control activities (see Section 2.5.2). For the sake of clarity, internal control activities are regarded as those activities outlined below:

- Based on established policies, procedures, rules and guidelines as implemented by management.
- Helpful in the mitigation of strategic risks, operational risks, reporting risks and compliance risks.
- Preventive and detective in nature.
- Manual and/or automatic in nature.
- Deemed to be associated with the segregation of duties, the safeguarding of assets, proper authorisation, adequate document usage and design, and/or independent checks.

All variables included in this question were directly associated with the conceptualised definition of internal control activities (see list of characteristics above), and for this very reason, no specific clustering of variables was expected. Otherwise stated, the scope of internal control activities directly attributed to the number of identified clusters for this question. All clades in the dendrogram (see Figure 5.2) were linked to one another from the 25^{th} interval on the x-axis. The meaning of this is that all variables, in this question, were directly associated with the description of internal control activities as per the conceptualised definition (see Section 2.5.2). Hence, taking this into account, the multiple identified clusters confirm the validity of the data in relation to the variables for Question G1.

Based on the hierarchical cluster analysis of the variables in Question G2 (see Figure 5.3), a total of four clusters were identified: 1) variable G2_1 (adaptability), 2) variable G2_3 (robustness), 3) variables G2_2 and G2_6 (management support), and 4) variables G2_4 to G2_5 (suitability). Although it is possible to identify fewer clusters, it is important to take note that all variables listed in this question were directly associated with the conceptualised view as to what constitute adequate and effective internal control activities (see Section 2.5.2).

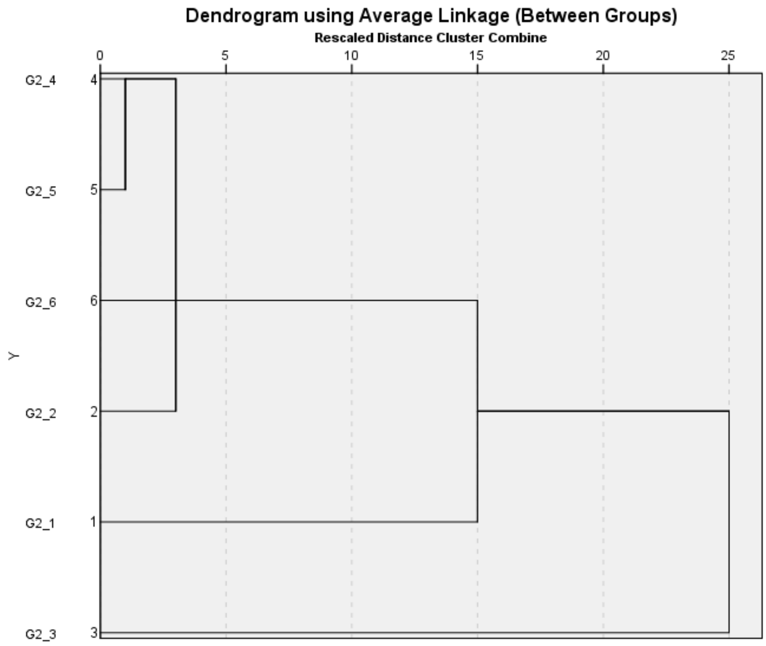

Figure 5.3: Dendrogram using average linkages between variables for Question G2

For the sake of reference, adequate and effective internal control activities should:

- relate to an organisation's risk management strategies;
- assist management with the execution of their responsibilities;
- take the nature of an organisation into account;
- be associated with applicable organisational objectives;
- be robust in relation to preventing and detecting risks; and
- be adaptable to changes in an organisation's direct environments.

Hence, with the above in mind, a specific clustering of variables was expected. The four identified clusters of "adaptability", "robustness", "management support", and "suitability" confirm this expectation as they were directly related to the conceptualised view of what constitute adequate and effective internal control activities (see Section 2.5.2). Therefore, the four identified clusters serve as confirmation that the data in relation to the variables for Question G2 were valid.

When analysing the hierarchical cluster of the variables in Question H1 (see Figure 5.4), six clusters were identified: 1) variables H1_01, H1_02, and H1_08 (best practices), 2) variable H1_09 (responsibility), 3) variable H1_11 (solving problems), 4) variable H1_04 (leadership), 5) variables H1_06, H1_07, and H1_10 (ethical conduct), and 6) variables H1_03 and H1_05 (knowledge).

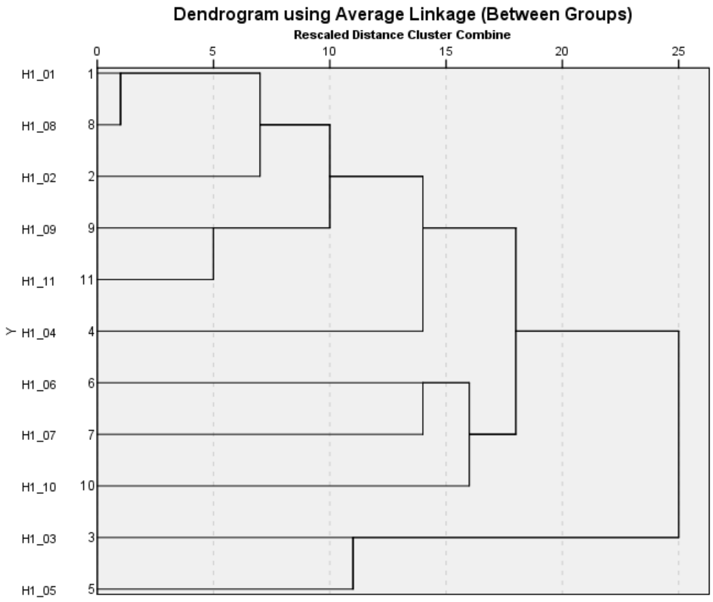

Figure 5.4: Dendrogram using average linkages between variables for Question H1

Since all variables evident in this question were directly associated with the conceptualised definition of appropriate managerial conduct (see Section 2.6.3), a specific clustering of variables was expected. For the sake of clarity, the conceptualised definition of appropriate managerial conduct (within the ambit of this research study) reads as follows:

> It pertains to the manner in which management executes their respective responsibilities, through making use of a suitable managerial philosophy and a suitable operating style built on the characteristics of good corporate governance, namely: 1) discipline, 2) transparency, 3) independence, 4) accountability, 5) responsibility, and 6) fairness.

Although fewer clusters could be identified in the dendrogram (see Figure 5.4), the four identified clusters of “best practices”, “responsibility”, “leadership”, and “ethical conduct” were directly associated with the conceptualised definition of appropriate managerial conduct, while the two identified clusters “solving problems” and “knowledge” were indirectly related to the aforesaid conceptualised definition. Therefore, with the above in mind, the identified six clusters confirm the validity of the data in relation to the variables in Question H1.

For the hierarchical cluster analysis of the variables in Question H2 (see Figure 5.5), a variety of clusters were identified. It should be noted that all variables included in this question were unique values and hence no expected clustering of variables was expected for this question.

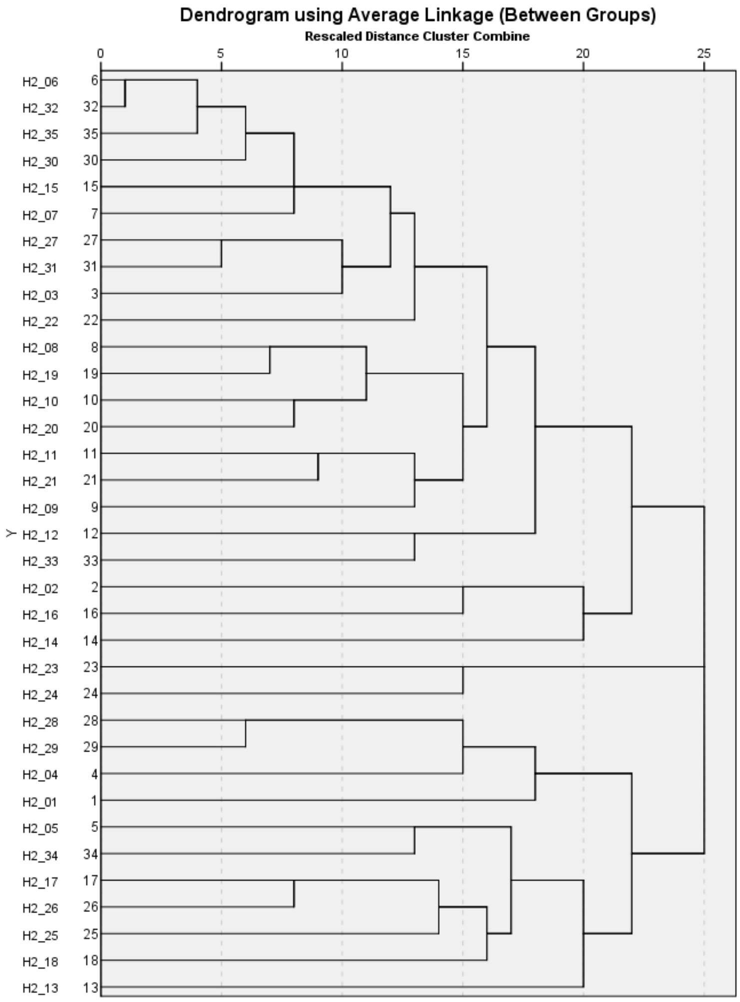

Figure 5.5: Dendrogram using average linkages between variables for Question H2

Because each respondent had a unique perception (see Section 4.6), it is not surprising that respondents had different views surrounding the values of management of sampled South African FMCG SMMEs. Hence, the assumption can be made that the diverse nature of each value directly contributed to the number of identified clusters for this question. All clades in the dendrogram (see Figure 5.5) were linked to one another from the 25^{th} interval on the x-axis. The meaning of this linkage is that all variables, in this question, were classified as values – unique in their own right. Hence, the multiple identified clusters confirm the validity of the data in relation to the variables for Question H2.

The hierarchical cluster analysis of the variables in Question H3 (see Figure 5.6) identified a total of three clusters: 1) variables H3_01 and H3_06 (employees took direct action), 2) variables H3_02 and H3_07 (management took direct action), and 3) variables H3_03 to H3_05 (employees had a say before management took action).

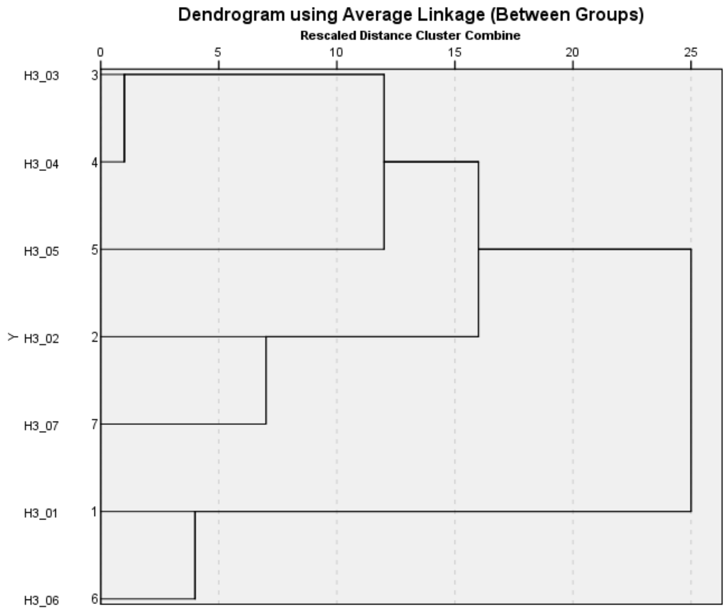

Figure 5.6: Dendrogram using average linkages between variables for Question H3

It should be noted that the variables covered in this question were relative to the different managerial operating styles that management could use (see Section 2.6.2). As management of South African FMCG SMMEs were believed to make use of an array of operating styles to manage their respective business entities – strongly relative to their flexible managerial conduct (see Section 3.3) – no specific clustering of variables was expected for this question.

Although the three identified clusters of "employees took direct action", "management took direct action", and "employees had some say before management took action" were directly relative to different operating styles which exist in business, the fact that more than one cluster was identified supports the view that management of South African FMCG SMMEs had flexible managerial operating styles. Hence, the three identified clusters confirm the validity of the data in relation to the variables for Question H3.

Lastly, for the hierarchical cluster analysis of the variables in Question H5 (see Figure 5.7), a total of six clusters were identified: 1) variables H5_05, and H5_06 (effectiveness of internal control activities and internal control systems), 2) variables H5_01, H5_02, and H5_08 (adequacy of internal control activities and internal control systems and going-concern status), 3) variables H5_07 and H5_09 (efficiency and effectiveness of business operations and morale), 4) variable H5_04 (economic sustainability), 5) variable H5_10 (productivity), and 6) variable H5_03 (business decisions).

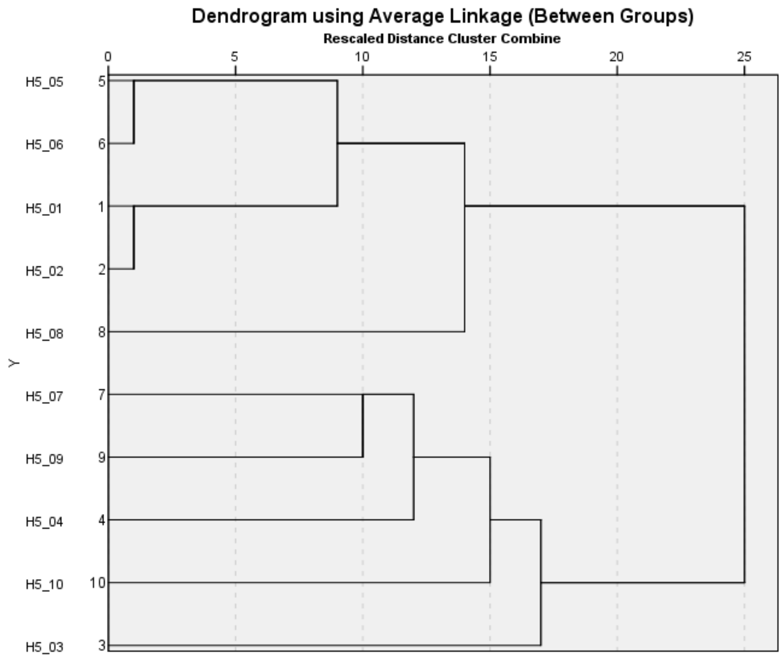

Figure 5.7: Dendrogram using average linkages between variables for Question H5

As previously mentioned (see Section 2.6.3), the managerial conduct of management is believed to have a direct influence on a wide spectrum of aspects in an organisation. Hence, owing to the scope of the this phenomenon, the variables listed in this question were specifically relative to only some economic aspects pertaining to South African FMCG SMMEs – resulting in a specific expected clustering of variables for this question.

Although fewer clusters could be identified, the six identified clusters of “effectiveness of internal control activities and internal control systems”, “adequacy of internal control activities and internal control systems and going-concern status”, ”efficiency and effectiveness of business operations and morale”, “economic sustainability”, “productivity”, and “business decisions” were directly relative to the economic aspects that were listed in the relevant question, as well as what was covered by popular literature (see Section 2.6.3). Hence, the identified six clusters confirm the validity of the data in relation to the variables in Question H5.

Stemming from the hierarchical cluster analyses of the variables evident in Questions E1, G1, G2, H1, H2, H3, and H5, as supported by relevant dendrograms, it may be concluded that the construct validity of these questions was sound. This view is sustained by the fact that: 1) variables in questions E1, G2, and H5 had specific expected clusters, which were confirmed by relevant dendrograms (see Figure 5.1, Figure 5.3, and Figure 5.7), and 2) the variables in Questions G1, H1, H2, and H3 did not have specific expected clusters, which were substantiated by relevant dendrograms (see Figure 5.2, Figure 5.3, Figure 5.4, Figure 5.5, and Figure 5.6).

5.3 BACKGROUND INFORMATION

Although the actual number of operating South African FMCG SMMEs was unknown to the researcher (see Section 4.4), this research study placed emphasis on South African FMCG SMMEs based in the Cape Metropole. Throughout this section relevant results and discussion pertaining to descriptive statistics performed in relation to sampled South African FMCG SMMEs (see Section 4.6) in this research study are covered in depth under the following headings:

- Demographic information of members of management.
- Demographic information of employees.
- Demographic information of South African FMCG SMMEs.
- Economic sustainability of South African FMCG SMMEs.

5.3.1 Demographic information of members of management

When members of management were asked what position they hold in their respective South African FMCG SMMEs, a total of 40.34% of respondents indicated that they were the "owner", while 32.77% of respondents indicated that they were the "manager", and 26.89% of respondents indicated that they were the "owner and manager" (see Figure 5.8).

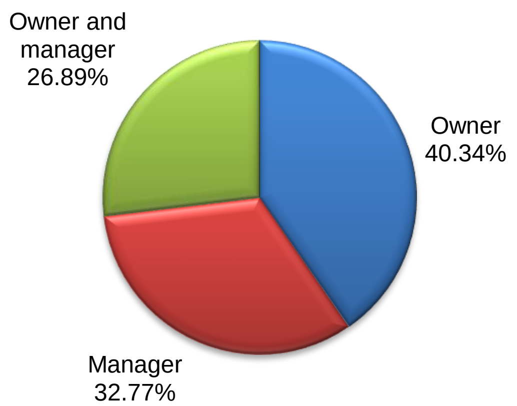

Figure 5.8: Position of management

Members of management were also asked how long they have been in a “managerial position” in their respective South African FMCG SMMEs. A total of 62.15% of respondents had between zero and five years’ experience, while the remaining 37.85 of respondents had at least six years’ experience (see Figure 5.9).

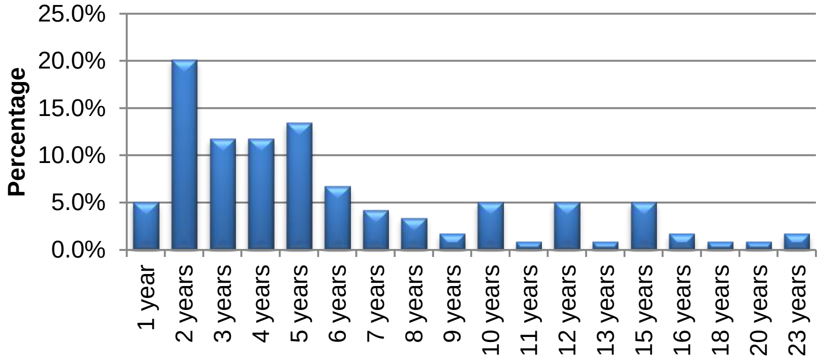

Figure 5.9: The number of years in a managerial position

The aforementioned statistics are quite disconcerting since they indicate the possibility that members of management had a lack of managerial experience, which, in turn, may have had an adverse influence on the overall sustainability of South African FMCG SMMEs (avenue for further research). This is particularly the case since most members of management of South African FMCG SMMEs are directly involved with the day-to-day activities of their respective business entities (Krüger et al., 2015:463). Notwithstanding, it is important to take into account that the statistics pertaining to the number of years of managerial experience may have been influenced by the fact that 45% of sampled South African FMCG SMMEs have only been in existence for zero to five years (see Section 5.3.3).

When members of management were asked about their highest qualification, a total of 48.74% of respondents indicated that they had “Grade 12”, while 32.77% of respondents indicated that they had a qualification higher than Grade 12, and 18.49% of respondents indicated that they had a qualification “lower than Grade 12”. A summary of the responses received is shown in Figure 5.10.

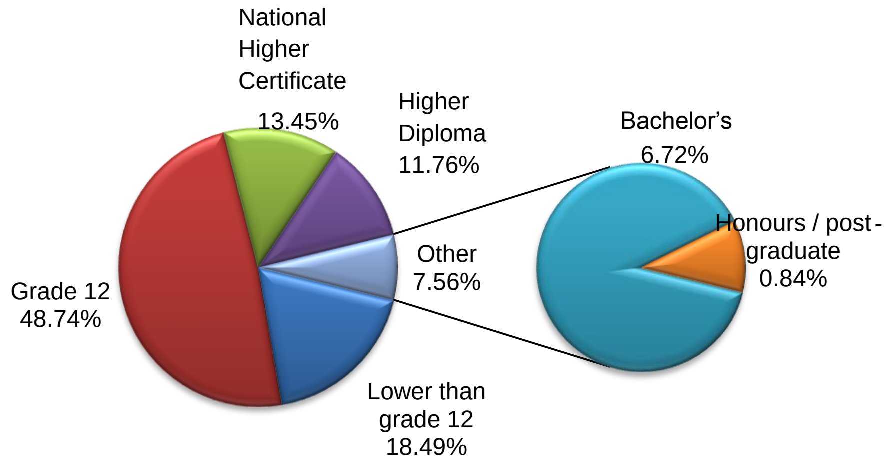

Figure 5.10: Highest qualification of members of management

As members of management need to take the lead in their respective South African FMCG SMMEs, one would expect these individuals to have not only a practical understanding of business and management sciences (years of experience), but also a fundamental, theoretical understanding of the same sciences. Since 67.23% of respondents had a highest qualification of Grade 12 or lower, while simultaneously taking into account that 62.15% of respondents had between zero and five years of practical experience, the inference can be made that members of management of sampled South African FMCG SMMEs had a limited theoretical understanding of business and management sciences. However it should be noted that (business) intelligence cannot be measured by formal qualifications (Schroeder, 1993:21-22), especially when taking cognisance of the fact that many entrepreneurs have become successful over the years without a tertiary qualification (Smale, 2015).

Alternatively, the statistic that 67.23% of respondents had a highest qualification of Grade 12 or lower could also have been directly attributable to the "harsh" economic environment of South Africa, particularly the high unemployment rate (see Section 3.1.2.4 and Section 3.2.1). It could be that respondents could not secure a job and that the only manner in which respondents could make a living was by starting their own businesses – becoming necessity entrepreneurs (avenue for further research).

Members of management were also asked about their nationality, with 96.64% of respondents identified as South Africans, while 3.36% of respondents were identified as non-South Africans.

Taking the above into account, the following logical inferences can be made surrounding the average member of management of South African FMCG SMMEs included in the sample:

- Regarded as the “owner” of his/her establishment (40.34% of the time).
- Had between zero and five years’ managerial experience (62.15% of the time).
- Highest qualification was Grade 12 (48.74% of the time).
- Was South African (96.64% of the time).

In essence, stemming from the listed characteristics above, the deduction can be made that respondents had a limited practical understanding (based on their years of managerial experience) and a limited theoretical understanding (based on their highest qualifications) of business and management sciences. Nevertheless, it is important to note that the statistics pertaining to the demographic information of members of management may have been directly influenced by: 1) the fact that most respondents (40.34%) were regarded as “owners” and 45% of sampled South African FMCG SMMEs have only been in existence for between zero and five years (see Section 5.3.3), and 2) the “harsh” economic environment of South Africa, specifically in respect of high unemployment rates (see Section 3.2.1).

5.3.2 Demographic information of employees

Employees were asked about the status of their employment in their respective South African FMCG SMMEs. Stemming from the results, 83.54% of respondents were employed on a full-time basis, while the remaining 16.46% of respondents were employed on a part-time basis (see Figure 5.11).

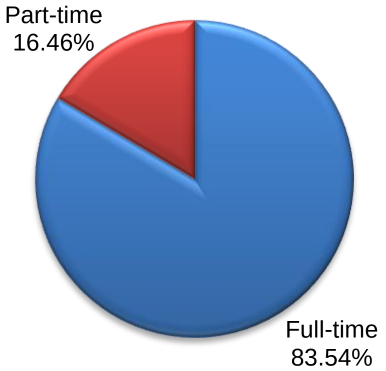

Figure 5.11: Status of employment

When employees were asked how long they had been employed by their respective South African FMCG SMMEs, a total of 81.00% of responded “between zero and five years” while only 19.00% responded “six years or longer”. A summary of the statistics is graphically depicted in Figure 5.12.

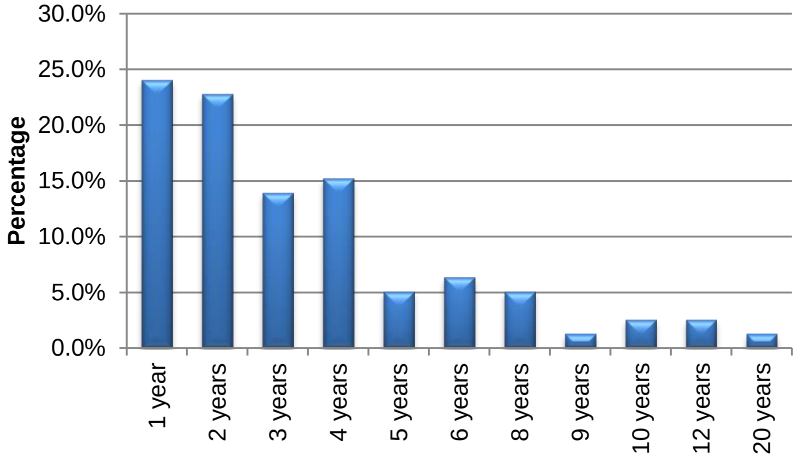

Figure 5.12: The number of years employed

From the statistics above, it appears that employees of sampled South African FMCG SMMEs had very limited work-related experience. This dispensation is quite disconcerting since inexperienced employees will, more often than not, have an adverse influence on, inter alia, the overall productivity of an organisation, adversely influencing the sustainability of the relevant organisation (Solomons, 2014:32). In essence, the limited work-related experience of employees may have been directly attributable to the fact that 45% of sampled South African FMCG SMMEs have only been in existence for between zero and five years (see Section 5.3.3).

Alternatively, the statistics pertaining to the limited work-related experience of employees may also have been directly influenced by the “harsh” South African economic environment, particularly by the high unemployment rate (see Section 3.1.2.4 and Section 3.2.1). In particular, employees may not have been able to secure a job at larger (and better established) organisations in order to make a living. Hence, it may have been that the best immediate option to make a living was to be employed by South African FMCG SMMEs (avenue for further research).

In relation to employees' highest qualifications, 45.57% of respondents had "Grade 12", while 41.77% of respondents had a qualification "lower than Grade 12". Only 12.66% of respondents had a qualification "higher than Grade 12" (see Figure 5.13).

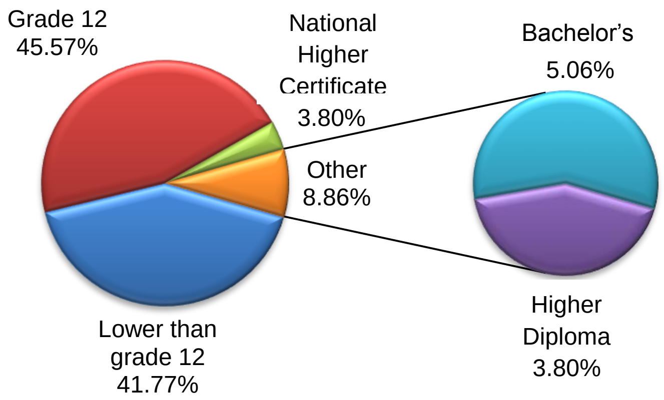

Figure 5.13: Highest qualification of employees

The statistics relating to the highest qualification of employees are very concerning. Not only did 87.34% of employees have a highest qualification of Grade 12 or lower but overall employees were only marginally less qualified (in terms of their highest qualifications) than members of management (see Section 5.3.1). The following inferences can be made:

- Members of management of sampled South African FMCG SMMEs did not want to employ staff more educated than they were (avenue for further research).
- Members of management of sampled South African FMCG SMMEs could not afford to employ staff that had a highest qualification greater than Grade 12 (avenue for further research).
- Employees had a limited theoretical understanding of business and management sciences.
- Because of the high unemployment rate in South Africa (see Section 3.1.2.4 and Section 3.2.2), employees could not secure a job at a larger (and more established) organisation in order to make a living. Hence the only immediate option was to be employed by South African FMCG SMMEs (avenue for further research).

When employees were asked about their nationality, 98.70% of respondents identified themselves as South Africans, while 1.30% of respondents were non-South Africans.

Taking the above into account, the following logical inferences can be made surrounding the average employee of South African FMCG SMMEs included in the sample:

- Employed on a "full-time basis" (83.54%).
- Has been employed between zero and five years (81.00%).
- Highest qualification of "Grade 12" (45.57%).
- Was a South African (98.70%).

From the listed characteristics above, the deduction can be made that respondents had a limited practical understanding (based on their years of managerial experience) and a limited theoretical understanding (based on their highest qualifications) in relation to business and management sciences. It is however important to note that the practical understanding of respondents may have been directly influenced by the fact that 45% of sampled South African FMCG SMMEs have only been in existence for between zero and five years (see Section 5.3.3). Moreover, the theoretical understanding of respondents may have been influenced by: 1) the personal prerogatives of members of management to not employ employees who had a highest qualification greater than Grade 12, 2) the inability of members of management to appoint (afford) employees who had a highest qualification greater than Grade 12, and 3) the high South African unemployment rate (see Section 3.1.2.4 and Section 3.2.2).

5.3.3 Demographic information of South African fast-moving consumer goods Small, Medium and Micro Enterprises

Respondents were asked to classify the "type of business" their respective South African FMCG SMMEs were. Stemming from the results, 68.86% of these business entities were classified as "sole traders" while the remaining 32.32% were classified as "partnerships", "close corporations" or "private companies" (see Figure 5.14).

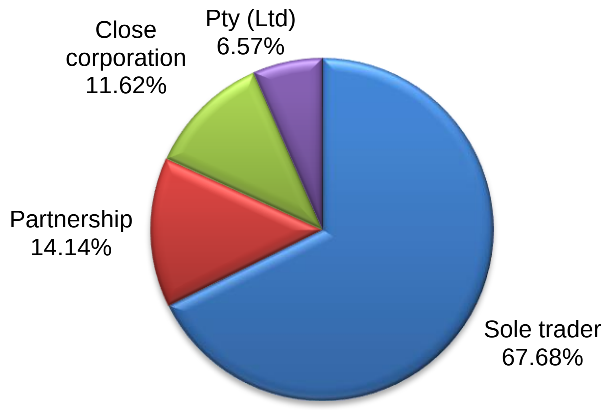

Figure 5.14: Classification of type of business entities

Respondents were asked to describe the products their respective South African FMCG SMMEs sold. The results show that 80.30% of respondents agreed that products were "frequently consumed by customers", while 19.7% of respondents agreed that products "sold frequently". In addition, 26.3% of respondents agreed that products could be described as "necessity products", 9.1% of respondents agreed that products sold could be described as "non-necessity products", and 17.7% of respondents agreed that products sold could be described as "fast-moving consumer goods". A summary of these results is graphically depicted in Figure 5.15.

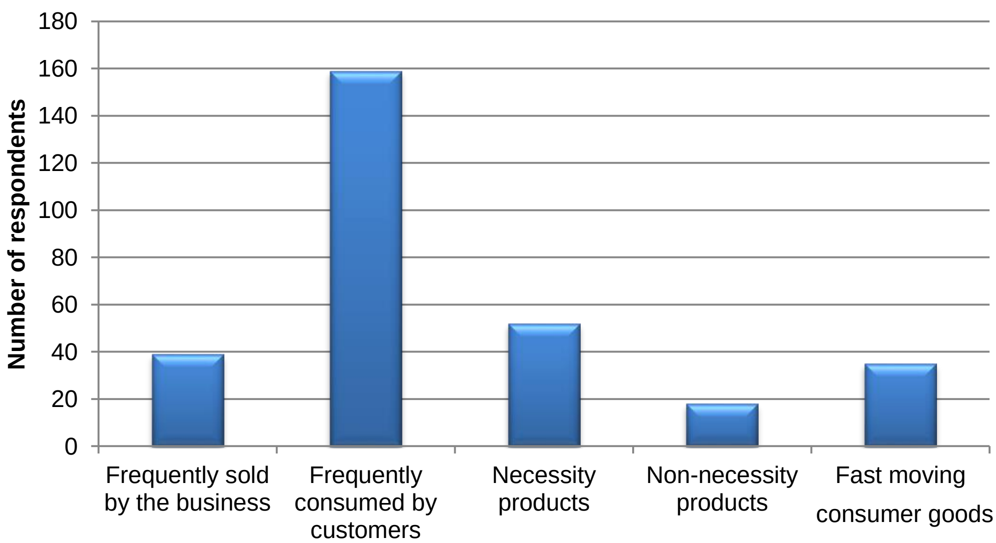

Figure 5.15: Description of products sold

Although all sampled South African FMCG SMMEs operated within the FMCG industry (situated in the Cape Metropole), it is possible that respondents may have had different views pertaining to the terms "frequently", "necessity products" and "non-necessity products". This view is substantiated by the fact that although 80.30%

of respondents agreed that their products were “frequently consumed by customers”, these same respondents indicated that: 1) 19.7% of the time their products were “frequently sold”, 2) 26.26% of the time their products were regarded as “necessity products”, and 3) 9.09% of the time their products were regarded as “non-necessity products”. Moreover, it is also highly plausible that the views of respondents may have been influenced by a recent change (decline) in sales figures – both in rands and in quantity – in their respective business entities.

The statistics above also provide evidence of the competitive nature of the South African FMCG industry (see Section 3.3), since the products sold by sampled South African FMCG SMMEs were frequently consumed by customers 80.30% of the time, while these same products were frequently sold by these business entities only 19.7% of the time.

When respondents of sampled South African FMCG SMMEs were asked about how sales transactions take place, a total of 81.82% of respondents agreed that sale transactions take place on a cash-only basis. This statistic is shown in Figure 5.16.

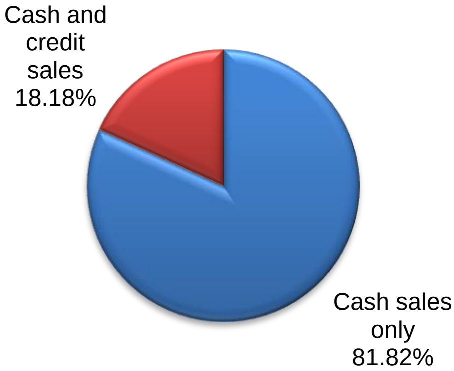

Figure 5.16: How sale transactions are conducted

Although a large majority of sampled South African FMCG SMMEs conducted sale transactions on a cash-only basis, it is worth noting that this statistic accords with the expected norm for South African SMMEs (Ngary et al., 2014:917), especially when taking into account the “harsh” economic environment of South Africa (see Section 3.2.2). Regardless of the manner in which sales transactions were conducted by these business entities, it is important that appropriate source documents are used for control purposes when relevant transactions are conducted (see Section 5.4.2.1).

When respondents were asked where their respective South African FMCG SMMEs’ customers were based, a total of 92.42% of respondents agreed that their customers were “based in Cape Town only”, while the remaining 7.58% agreed that customers were “based in the greater Western Cape” or “based in the greater South Africa” (see Table 5.1). Moreover, respondents were asked about the number of outlets their respective South African FMCG SMMEs had. Stemming from the results, 76.26% of respondents agreed that their respective business entities had only one outlet, based in the Cape Metropole (see Table 5.2).

Table 5.1: *Geographical location of customers*

Location	*N*	%
Based in Cape Town only	183	92.42
Based in the greater Western Cape	14	7.07
Based in the greater South Africa	1	0.51

Table 5.2: *Number of outlets*

Outlets	*N*	%
This is the only outlet	151	76.26
Another outlet in Cape Town	40	20.20
Another outlet in the greater Western Cape	6	3.03
Another outlet in the greater South Africa	1	0.51

To make more sense of the nature of these business entities, respondents were asked to describe their respective South African FMCG SMMEs. A summary of the results is shown in Figure 5.17.

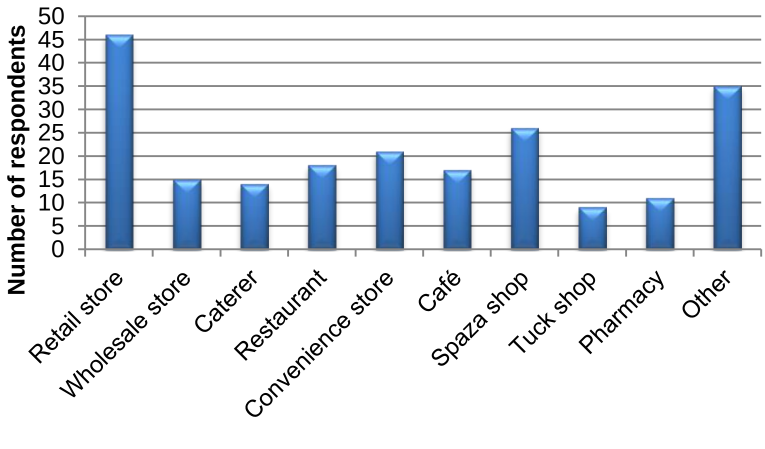

Figure 5.17: Nature of business entities

The nature of sampled South African FMCG SMMEs can be summarised as follows:

- 23.23% of respondents regarded their business entities as retail stores.
- 13.13% of respondents regarded their business entities as spaza shops.[197]
- 10.61% of respondents regarded their business entities as convenience stores.

Most respondents indicated that their business entities were “hair salons”, “liquor stores” and “taverns”, with a total of 17.68% of respondents indicating “other”.

When respondents were asked why their respective business entities purchased products (FMCG), a total of 98.99% of respondents agreed that products were bought to resell to customers (retailers), while 9.09% of respondents agreed that products were bought to resell to other business entities (wholesalers) – see Table 5.3.

Table 5.3: *Retailers versus wholesalers*

Reason for buying products	*N*
Buy products to sell to customers	196
Buy products to sell to businesses	18

Respondents were asked to indicate the number of persons employed by their respective South African FMCG SMMEs. A total of 58.59% of these business entities employed between zero and five staff members, while the remaining 42.41% of these business entities employed between six and 50 staff members (see Figure 5.18).

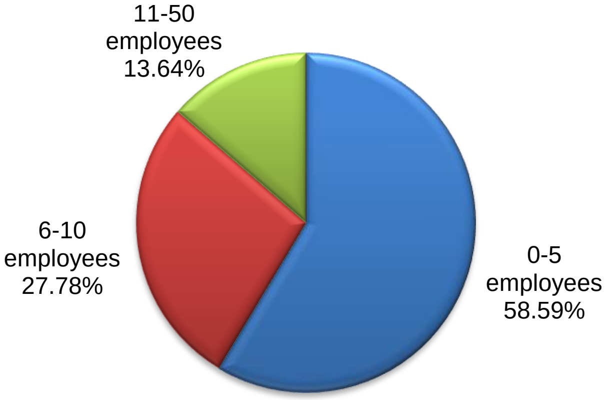

Figure 5.18: Number of employees

[197] A spaza shop is defined as a small informal convenience shop in a township (Collins English Dictionary, 2015c).

When respondents were asked how long their respective South African FMCG SMMEs had been in existence, the results show that 45% of these business entities had been in existence for between zero and five years, while 55% of these business entities had been in existence for six years or longer (see Figure 5.19).

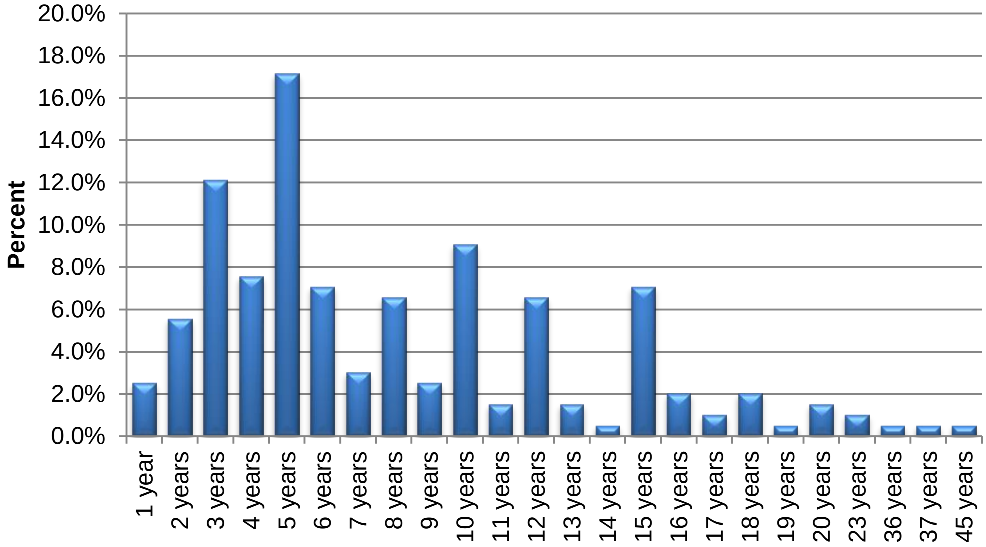

Figure 5.19: Number of years in existence

Despite the fact that 45% of sampled South African FMCG SMMEs have been in operation for between zero and five years, it is important to note that according to popular literature approximately 75% of South African SMMEs only exist for 42 months (see Section 3.2.2). The following statistical averages were calculated based on these statistics:

- Total mean score of 8.33 years.
- Total median score of 6 years.
- Total mode score of 5 years.

From the these calculated averages, the inference can be made that the average sampled South African FMCG SMME had been in existence for more than 42 months.

Taking the above into account, the following logical inferences can be made surrounding the average South African FMCG SMME included in this study:

- Classified as a sole trader (67.68%).
- Sold products that were frequently consumed (80.3%).
- Conducted business on a cash-only basis (81.82%).

- Had only one outlet in the Cape Metropole (76.26%).
- Operated in the FMCG industry (100%).
- Classified as a non-franchised business entity (100%).
- Purchased products to resell to customers (98.99%).
- Employed between zero and five employees (58.59%).
- Existed for six years or longer (55%).

Based on the list of characteristics above, the inference can be made that the average sampled South African FMCG SMME was a retailer that predominantly sold its products on a cash-only basis. Using this as basis, the assumption can also be made that the average sampled business entity had many sales transactions on a monthly basis (see Section 3.3) that had to be strictly controlled and monitored through appropriate internal control activities. Hence, it is highly probable that the average South African FMCG SMME had a need for internal control – particularly through the establishment of a sound system of internal control (see Section 5.4.1).

Of these sampled business entities, 58.59% employed between zero and five employees at a given time, and therefore the assumption can be made that a minority of individuals (members of management and/or employees) were responsible for the day-to-day tasks of these business entities. It is also highly likely that sampled South African FMCG SMMEs: 1) did not make use of formal internal control systems (see Section 2.3.1, Section 2.3.2, Section 2.3.3), and/or 2) did not make use of formal internal control activities – particularly those relative to the "segregation of duties" and "independent checks" (see Section 3.3).

Nevertheless, since 45% of sampled South African FMCG SMMEs have existed for between zero and five years, it is very possible that these business entities were direct influenced by the statistics pertaining to the managerial experience of members of management (predominantly owners) (see Section 5.3.1) and the work-related experience of employees (see Section 5.3.2).

5.3.4 Economic sustainability

All respondents (members of management and employees) were asked about the economic sustainability of their respective South African FMCG SMMEs. This was particularly done by asking respondents to rate their overall level of agreement, on certain statements, on a five-point Likert scale (see Section 4.6). A summary of the results pertaining to the rated statements is depicted in Figure 5.20 and further clarified in Table 5.4.

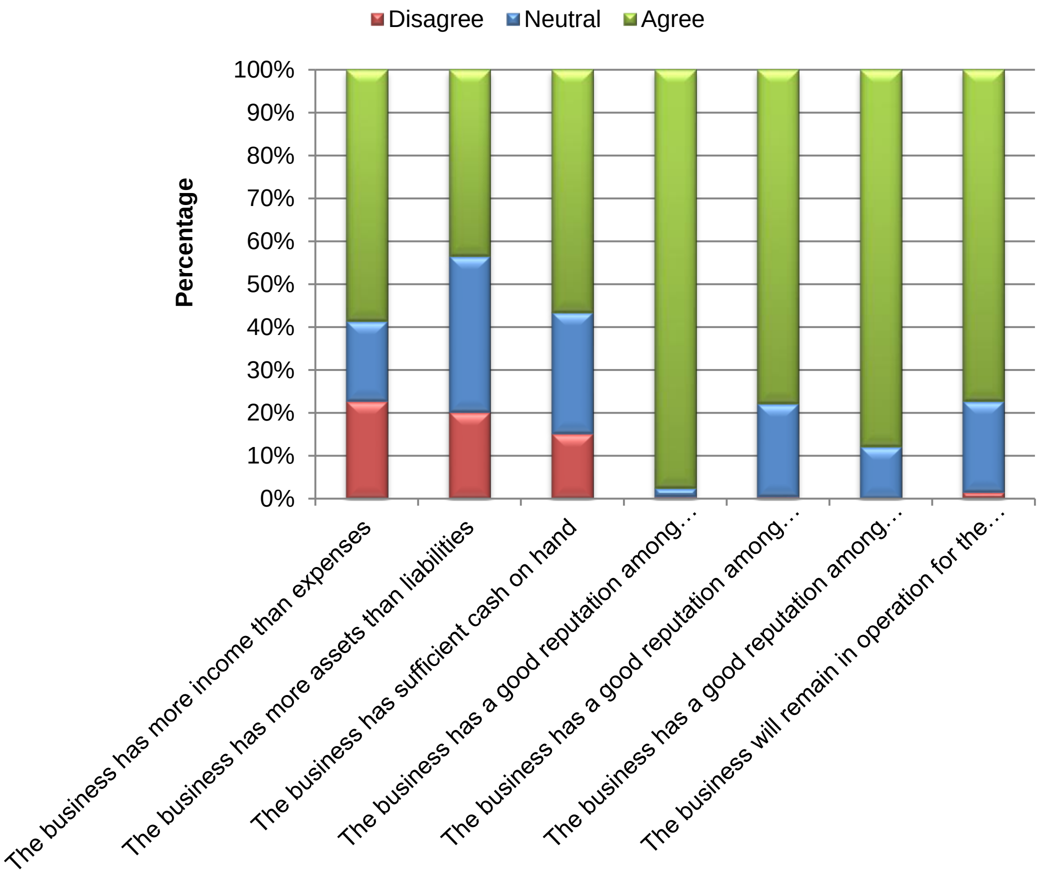

Figure 5.20: The perception of respondents pertaining to the economic sustainability of their business entities

Table 5.4: *The perception of respondents pertaining to the economic sustainability of their business entities*

Statement	Total sample		Management		Employees	
	Mean	Median	Mean	Median	Mean	Median
The business has more income than expenses	3.53	4.00	3.66	4.00	3.34	4.00
The business has more assets than liabilities	3.31	3.00	3.45	4.00	3.10	3.00
The business has sufficient cash on hand	3.47	4.00	3.72	4.00	3.10	3.00
The business has a good reputation among customers	4.56	5.00	4.58	5.00	4.52	5.00
The business has a good reputation among competitors	4.05	4.00	4.08	4.00	4.00	4.00
The business has a good reputation among suppliers	4.26	4.00	4.34	4.00	4.15	4.00
The business will remain in operation for the foreseeable future	4.06	4.00	4.13	4.00	3.95	4.00

Stemming from the results in Figure 5.20 and Table 5.4, the views of members of management and employees pertaining to the statements in relation to the economic sustainability of sampled South African FMCG SMMEs, did not differ substantially. As such (based on the total mean scores), the following conclusions were made in relation to the economic sustainability of sampled South African FMCG SMMEs, based on the views of all respondents:

- <u>Profitability</u>: Although these business entities were profitable (earned more income than expenses), their overall profitability was rated as slightly above average (see total sample mean score of 3.53). In essence, although it was not specifically tested in this research study, it is highly probable that the profitability of sampled South African FMCG SMMEs could have been better – especially taking into account the “harsh” economic environment of South Africa (see Section 3.2.2) and the competitive nature of the FMCG industry (see Section 3.3 and Section 5.3.3). In addition to the aforesaid, since the total sample mean score of this statistic ranged between 3 and 4, it serves as an indication that these business entities were managing to keep afloat by earning more income than incurring expenses (in most cases), even in a “harsh” South African economic environment. The slightly above-average rating of these business entities’ profitability may also be a reason why only a certain number of employees, with a specific highest qualification, could be employed by these business entities (see Section 5.3.2).
- <u>Solvency</u>: The solvency of sampled South African FMCG SMMEs was marginally above average (see total mean score of 3.31). Although most of these business entities possessed more assets than liabilities, the possibility exists that the solvency of sampled South African FMCG SMMEs was adversely influenced by the “harsh” economic environment of South Africa – particularly through inflation rates; the average annual increase in the South African inflation rate was 6.16% between 2011 and 2014 (see

Section 3.1.2.4 and Section 3.2.2). In addition, the total sample mean score is only marginally greater than 3, serving as an indicator that many of these business entities may have started to take on liabilities (e.g. through contractual obligations with creditors or loans) to keep afloat in future. Unfortunately this could become even worse if the South African economic environment does not become more conducive for these business entities to operate in (see Section 3.2.2).

- Liquidity: These business entities had a cash-on-hand situation rated as slightly above average (see total mean score of 3.47). Since 81.82% of sampled South African FMCG SMMEs made use of cash-only transactions for sales (see Section 5.3.2.3), it would have been expected that the liquidity of these business entities were better than just slightly above average. The assumption can be made that the liquidity of sampled South African FMCG SMMEs was adversely influenced by: 1) the frequent spending of cash – be it through the investment of assets (e.g. FMCG and infrastructure, etc.), the payment of expenditure (e.g. rent, telephone expenses, etc.), or the withdrawal of cash by members of management and/or employees (avenue for further research), and/or 2) a decrease in sales figures – be it in rands or quantity (see Section 5.3.3). In addition, taking into account that the total sample mean score ranges between 3 and 3.5, the deduction can be made that these business entities were starting to experience (or have already started to experience) cash-flow problems as more liabilities are required to keep afloat (see "solvency" above). This may also be a reason why only a certain number of employees, with a specific highest qualification, were employed by these business entities (see section 5.3.2 and Section 5.3.4).
- Reputation among stakeholders: The reputation of sampled South African FMCG SMMEs among their stakeholders was rated as good (see total mean scores of 4.56 for "reputation among customers", 4.05 for reputation among competitors", and 4.26 for "reputation among suppliers"). These statistics indicate the possibility that these sampled business entities: 1) made frequent (cash) sales to customers (good reputation among customers), 2) were competitive in nature (good reputation among competitors), 3) had special arrangements (e.g. cheaper prices) with suppliers in relation to the supply of FMCGs (good reputation among suppliers), and 4) were reasonably sustainable in an economic sense (see "profitability", "solvency", and "liquidity" above).
- Going-concern status: Sampled South African FMCG SMMEs had a good going-concern status (see total sample mean score of 4.06). In layman's terms, this statistic means that if these business entities sustained their current financial performance (see "profitability" above) and their current financial position (see "solvency" and "liquidity") – with no drastic adverse changes influencing the South African economic environment – they would remain in operation for the foreseeable future.

Respondents were asked to evaluate the overall economic sustainability of their respective South African FMCG SMMEs. A summary of the results is shown in Figure 5.21 and Table 5.5.

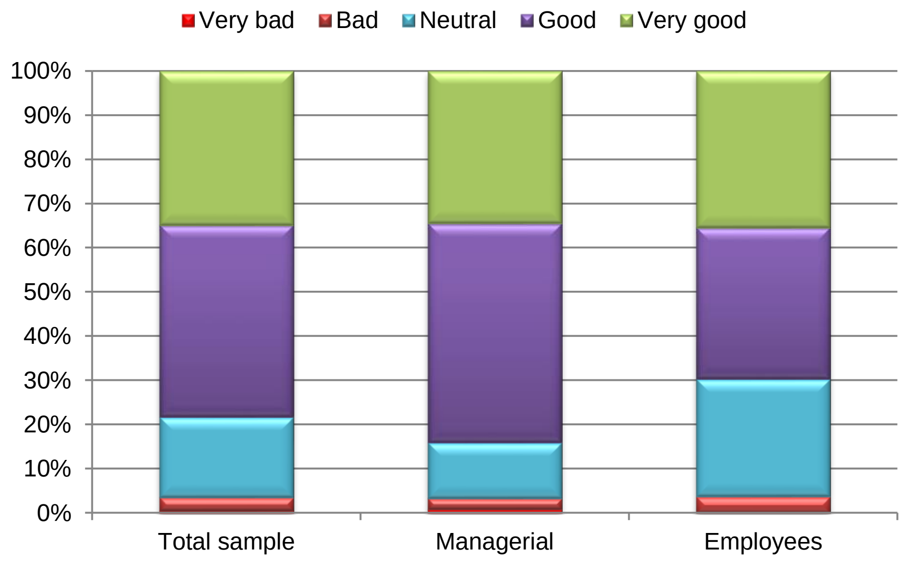

Figure 5.21: The overall economic sustainability

Table 5.5: *The overall economic sustainability*

Statement	Total sample		Managerial		Employee	
	Mean	Median	Mean	Median	Mean	Median
How would you describe the overall economic sustainability of your business?	4.09	4.00	4.14	4.00	4.01	4.00

The views of members of management and employees were not too disparate in relation to the evaluation of the overall economic sustainability of their respective South African FMCG SMMEs (see Table 5.5). Hence, based on the results evident in Figure 5.21 and Table 5.5, the inference can be made, based on the perceptions of respondents within this research study, that the overall economic sustainability of sampled South African FMCG SMMEs was good (see total sample mean score of 4.09). In essence, this inference is supportive of the previous conclusions drawn in relation to the statistics in Table 5.4 while simultaneously taking into account the conceptualised definition of the term “economic sustainability” (see Section 3.2.2), which pertains to *the ability of any business entity to achieve a sound economic performance in order to achieve a sound economic position, which in turn will allow it to remain in operation for the foreseeable future.*

In particular, when placing focus on the results in Table 5.4, the following total mean scores were calculated for the following aspects of economic sustainability of sampled South African FMCG SMMEs:

- 3.53 for profitability (financial performance).
- 3.31 for solvency and 3.47 for liquidity (financial position).
- 4.06 for going-concern status.

Since the total mean scores of the aspects (listed above) pertaining to the economic sustainability of these business entities ranged between 3.31 and 4.06, it serves as evidence that these business entities had a reasonably good economic sustainability (as rated by respondents in Table 5.5). It is important to note that the economic sustainability of these business entities can still be greatly improved. This is especially the case since 45% of sampled South African FMCG SMMEs have been in existence for between zero and five years (see Section 5.3.3), meaning that a large proportion of sampled South African FMCG SMMEs were (probably) still in their infancy stages which, in turn, may have had an influence on their current financial performance and financial position. If no drastic adverse changes take place in the South African economic environment in the foreseeable future, it is very possible that sampled South African FMCG SMMEs will remain in operation for the foreseeable future

Moreover, the views of respondents in relation to the rating of their business entities' overall economic sustainability may also have been influenced by their perceptions of the relationships which their respective South African FMCG SMMEs had with relevant stakeholders (total mean scores ranging between 4.05 and 4.56), which indirectly form part of the conceptualised definition of the term "economic sustainability" (see Section 3.2.2 and Section 5.2).

In summary, the following inferences can be made surrounding the economic sustainability of sampled South African FMCG SMMEs:

- Profitability levels were slightly above average (total mean score of 3.53).
- Solvency levels were marginally above average (total mean score of 3.31).
- Liquidity levels were slightly above average (total mean score of 3.47).
- Their reputations among stakeholders were sound (total mean scores ranging between 4.05 and 4.56).
- Their respective going-concern statuses were sound (total mean score of 4.06).

- Their overall economic sustainability can be viewed as reasonably good (total mean score of 4.09).

Though the overall economic sustainability of sampled South African FMCG SMMEs was reasonably good, it is important to keep in mind that 45% of these business entities had been in existence for between zero and five years (see Section 5.3.3) – meaning that a large proportion of sampled South African FMCG SMMEs could still have been in their infancy stages. This view is especially supported by the rating of respondents of their respective business entities' financial performance and financial position – most sampled South African FMCG SMMES are managing to keep afloat amid the "harsh" South African economic environment (see Section 3.2.2) and the competitive nature of the FMCG industry (see Section 3.3 and Section 5.3.3).

Stemming from the results, sampled South African FMCG SMMEs were deemed as going-concern entities, meaning that they would be in operation for the foreseeable future, given that no drastic and adverse changes take place in the South African economic environment in the foreseeable future. Therefore, since the overall economic sustainability of these business entities was rated as reasonably good, while also taking into account previous assumptions (see Section 5.3.3), the inference can be made that the average South African FMCG SMME did have a need for (and did make use of) internal control systems to attain its economic responsibilities (financial performance and/or financial position).

5.4 INTERNAL CONTROL

As previously mentioned (see Section 5.3.3 and Section 5.3.4), the assumptions were made that sampled South African FMCG SMMEs had a need for: 1) informal internal control systems and, 2) informal internal control activities, since: 1) 81.82% of these business entities had frequent cash-only sales transactions on a monthly basis (see Section 5.3.3), 2) 58.59% of these business entities employed between zero and five employees (members of management and/or employees) at any given time who were responsible for fulfilling day-to-day activities (see Section 5.3.3), 3) the financial performance and financial position of these business entities were regarded as slightly above-average (see Section 5.3.4), and 4) the overall economic sustainability of these business entities was regarded as reasonably good (see Section 5.3.4).

Nevertheless, owing to the nature of these business entities, popular literature supports these inferences, specifically in the sense that many South African FMCG SMMEs are believed to make use of:

- Customised internal control systems (see Section 2.3 and Section 2.3.4).
- Customised internal control activities that may add value to the overall internal control of these business entities (see Section 3.3)

Since the control environment of any organisation forms the foundation of its implemented internal control system, it may be possible to make assumptions surrounding the managerial conduct of management (as a major component of the control environment) based on the descriptive statistics pertaining to the internal control systems and internal control activities of sampled South African FMCG SMMEs. It should be noted that customised internal control systems may not be as comprehensive in their coverage as formal internal control systems (see Section 2.3.4) and customised internal control activities may not be as comprehensive in their coverage as those internal control activities based on formal internal control frameworks (Section 2.4.2).

For this section, emphasis is placed on the following, in relation to sampled South African FMCG SMMEs:

- Internal control systems.
- Internal control activities.

5.4.1 Internal control systems

Respondents were asked whether their respective South African FMCG SMMEs made use of a system of internal control. Based on the results, a total of 74.75% of respondents agreed. With this in mind, respondents were asked to describe the characteristics of their systems of internal control in their respective business entities. A summary of the results is shown in Figure 5.22.

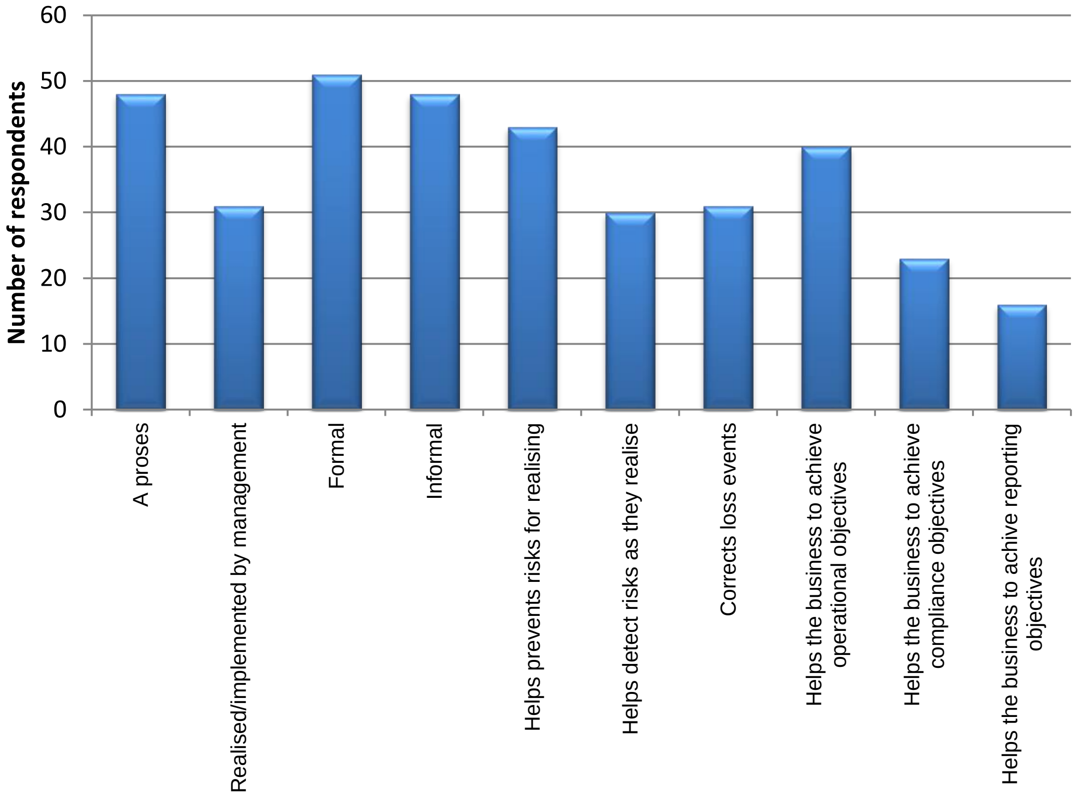

Figure 5.22: Characteristics of the systems of internal control

Stemming from the results in Figure 5.22, it appears that respondents' descriptions of the characteristics of the implemented systems of internal control evident in their respective South Africa FMCG SMMEs, were not strongly associated with the formal theoretical descriptions of an "internal control system" (see Section 2.1.2). In essence, although different views exist pertaining to the phenomenon of "internal control" (see Section 2.1.3), it is important to note that the description of a sound system of internal control – based on formal internal control frameworks – is strongly relative to the characteristics which had to be rated by respondents (see Section 2.3.1, Section 2.3.2, and Section 2.3.3). Hence, stemming from the results, the assumption can be made that sampled South African FMCG SMMEs make use of customised internal control systems (see Section 3.3) that are not necessarily based on best practices – substantiating the assumption earlier that sampled South African FMCG SMMEs made use of customised (informal) internal control systems (see Section 5.3.3, Section 5.3.4, and Section 5.4).

To understand how the implemented internal control systems in these business entities were developed, respondents were asked about the internal control frameworks that were used as foundation. A summary of the results is shown in Figure 5.23.

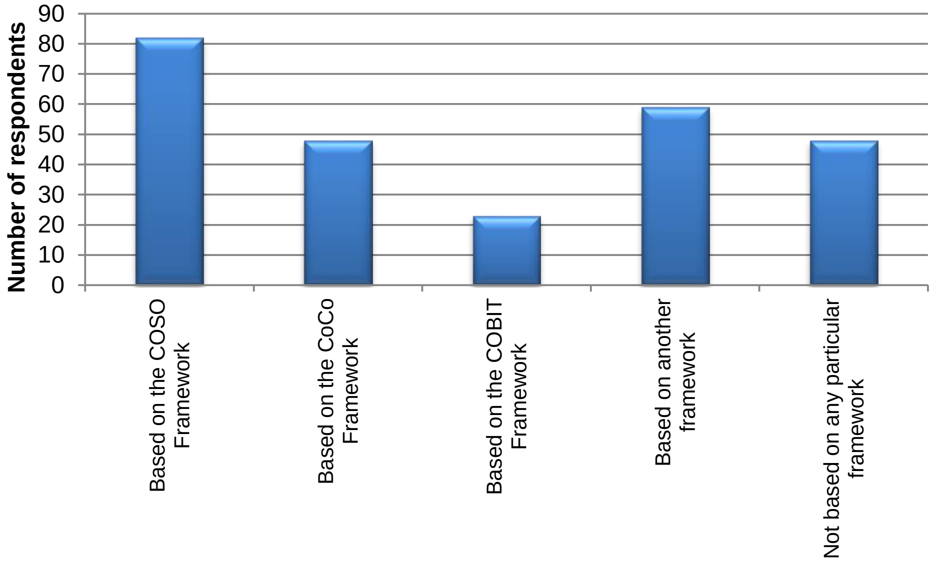

Figure 5.23: Internal control frameworks used to develop the existing systems of internal control

The results in Figure 5.23 also provide support of the assumption above that these business entities made use of customised internal control systems. Since an array of internal control frameworks were used as foundation for existing internal control systems, clear tangent planes start to emerge as to why respondents' descriptions of the characteristics of their implemented internal control systems were not strongly associated with the theoretical descriptions of an "internal control system" (see Section 2.1.2). In essence, the COSO Internal Control – Integrated Framework, the CoCo Framework and the COBIT Framework (among other internal control frameworks) clearly define, respectively, what "internal control" is, what a sound "system of internal control" is, and how it should appear (see Section 2.3.1, Section 2.3.2, and Section 2.3.3) – all relative to one another, yet unique in their own right.

Respondents were also asked about the adequacy and effectiveness of the implemented internal control systems in their respective South African FMCG SMMEs. A summary of the results is shown in Figure 5.24, Figure 5.25, and Table 5.6.

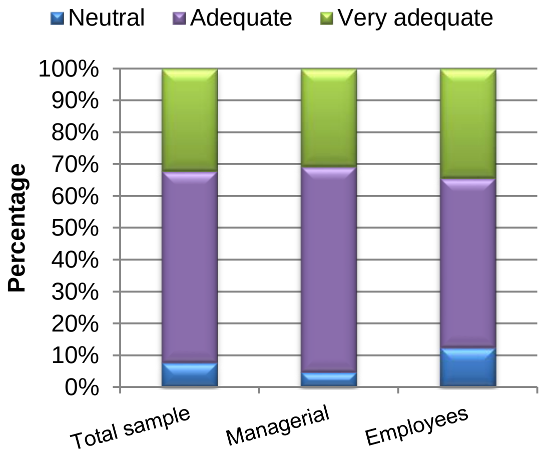

Figure 5.24: The adequacy of systems of internal control

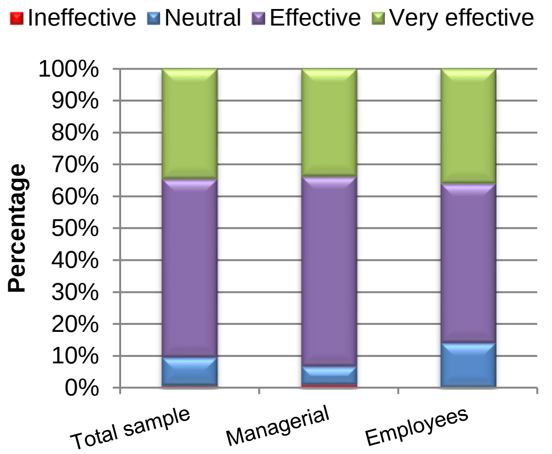

Figure 5.25: The effectiveness of systems of internal control

Table 5.6: *The adequacy and effectiveness of implemented internal control systems*

Statement	Total sample		Managerial		Employee	
	Mean	Median	Mean	Median	Mean	Median
The term "adequacy" relates to whether something is "good enough". How would you rate the adequacy of the business' internal control system?	4.24	4.00	4.26	4.00	4.22	4.00
The term "effectiveness" relates to whether something is "working as intended". How would you rate the effectiveness of the business' internal control system?	4.24	4.00	4.26	4.00	4.22	4.00

Stemming from the results in Figure 5.24, Figure 5.25, and Table 5.6, it is apparent that the views of management and employees in relation to the adequacy and effectiveness of implemented internal control systems were not too disparate. Hence, based on the total mean scores, the inference can be made that the perceptions of respondents surrounding the adequacy and effectiveness of implemented internal control systems in sampled South African FMCG SMMEs were sound. Although this inference may appear impressive, it is important note that the internal control systems used by sampled South African FMCGs SMMEs were customised. Alternatively stated, it is highly probable that these internal controls systems did not help provide reasonable assurance regarding the attainment of relevant organisational objectives in the foreseeable future, greatly supported by the slightly above-average financial performance and financial position of sampled South African FMCG SMMEs (see Section 5.3.4).

In summary, taking the above into consideration, the following inferences can be made surrounding the implemented internal control systems of sampled South African FMCG SMMEs:

- They were mainly classified as formal.
- They helped in the prevention of risks.
- They were systematic in their approach (part of a process).
- They were based on an array of internal control frameworks.
- They were perceived to be adequate.
- They were perceived to be effective.
- They were customised.

Stemming from the above, evidence is provided that sampled South African FMCG SMMEs did, in fact, make use of customised internal control systems. Although these internal control systems were regarded as both adequate and effective by respondents, it is important to note that these internal control systems are not necessarily based on best practice and not necessarily as comprehensive in their coverage as formal internal control systems (see Section 2.3.1, Section 2.3.2, Section 2.3.3, and Section 2.3.4). In the same vein, it may be inferred that sampled South African FMCG SMMEs made use of customised internal control activities (see Section 5.3.3, Section 5.3.4), and the managerial conduct of members of management of sampled South African FMCG SMMEs can be described as flexible (see Section 5.4).

5.4.2 Internal control activities

Respondents were asked about the internal control activities evident in their respective South African FMCG SMMEs – those activities that are preventive and detective in nature (whether manual and/or automatic) and strongly relative to the following five categories of control: 1) segregation of duties, 2) proper authorisation activities, 3) adequate document usage and design, 4) safeguarding of assets, and 5) independent checks (see Section 2.5.2). To do so, respondents were asked to rate their overall agreement with certain statements on a five-point Likert scale (see Section 4.6).

5.4.2.1 Documentation

A summary of the results pertaining to adequate document usage and design is shown in Figure 5.26 and Table 5.7.

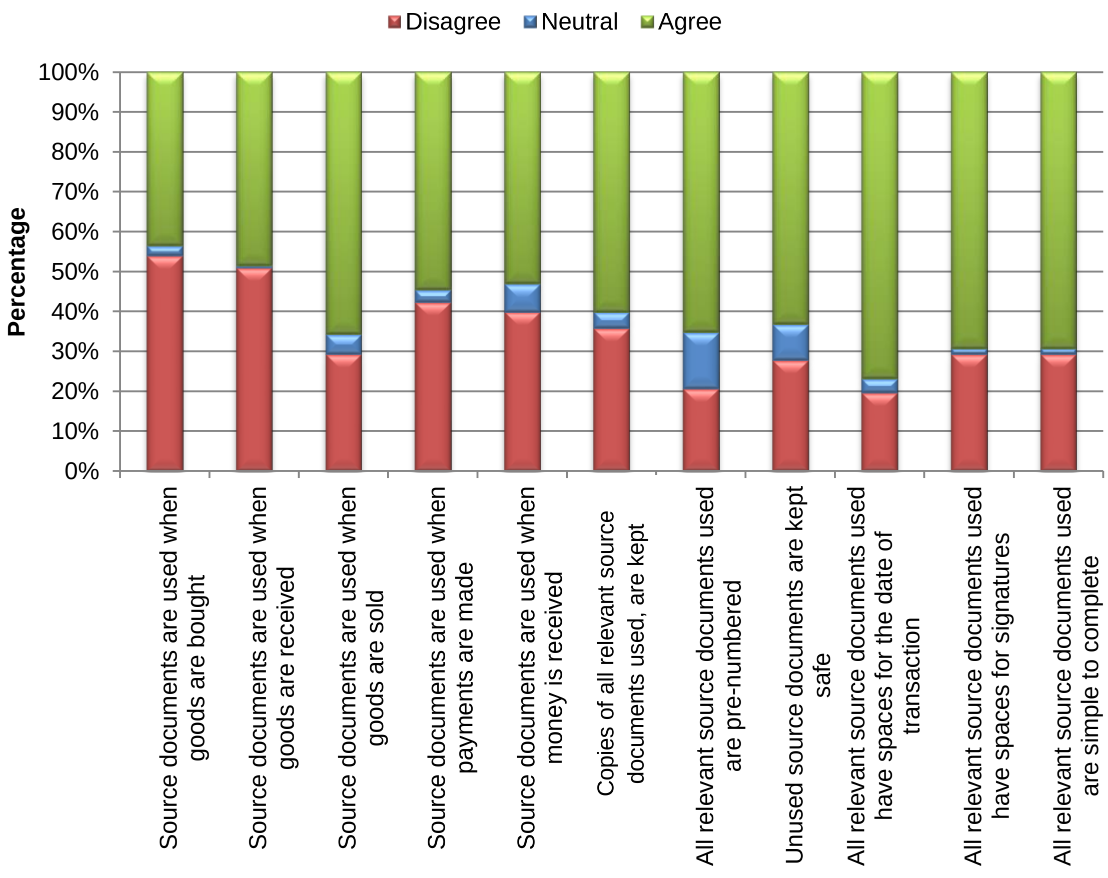

Figure 5.26: The adequacy of document usage and design

Table 5.7: *The adequacy of document usage and design*

In the business…	Total sample		Managerial		Employee	
	Mean	Median	Mean	Median	Mean	Median
Source documents are used when goods are bought	2.77	1.00	3.03	4.00	2.37	1.00
Source documents are used when goods are received	2.90	1.00	3.22	5.00	2.43	1.00
Source documents are used when goods are sold	3.61	5.00	3.76	5.00	3.38	4.00
Source documents are used when payments are made	3.14	4.00	3.34	4.00	2.84	3.00
Source documents are used when money is received	3.12	4.00	3.36	4.00	2.75	3.00
Copies of all relevant source documents used are kept	3.38	4.00	3.45	5.00	3.28	4.00
All relevant source documents used are pre-numbered	3.62	4.00	3.68	4.00	3.52	4.00
Unused source documents are kept safe	3.47	4.00	3.57	4.00	3.33	4.00
All relevant source documents used have spaces for the date of transaction	3.93	5.00	4.10	5.00	3.67	4.00
All relevant source documents used have spaces for signatures	3.65	5.00	3.82	5.00	3.39	4.00
All relevant source documents used are simple to complete	3.59	4.00	3.50	5.00	3.72	4.00

Based on the results in Table 5.6, it appears that the views of members of management and employees differed from one another in relation to the adequacy of document usage and design. One possible explanation for this is that employees were less informed than members of management surrounding the actual utilisation of different source documents. Another observation is that this discrepancy seems to narrow when information was asked surrounding the actual layout of source documents, providing evidence that both members of management and employees do, in fact, make use of source documents (when they are actually used) on an ongoing basis.

While taking the results of both Figure 5.26 and Table 5.7 into account, it may be deduced that although these business entities made use of source documents, they did so to a very limited extent since sampled South African FMCG SMMEs did not use source documents (see Annexure D):

- 56.0% of the time when goods are received;
- 54.0% of the time when goods are bought;
- 42.4% of the time when payments are made;
- 39.9% of the time when money is received; and
- 29.3% of the time when goods are sold.

The statistics above are further substantiated by low total mean scores regarding the utilisation of source documents when goods are bought (total mean score of 2.77) and when goods are received (total mean score of 2.90), including very average total mean scores pertaining to the utilisation of source documents when goods are sold (total mean score of 3.61), when payments are made (total mean score of 3.14), and when money is received (total mean score of 3.12). Therefore sampled South African

FMCG SMMEs did not make optimal use of source documents to control and monitor relevant transactions of these business entities.

In addition, the inference can be made that the source documents that were actually used by sampled South African FMCG SMMEs had a moderately adequate design. This view is supported by the average to above-average total mean scores calculated in relation to the pre-numbering of source documents (total mean score of 3.62), spaces for signatures on source documents (total mean score of 3.65), spaces for dates on source documents (total mean score of 3.93), and the simplicity of source documents (total mean score of 3.59).

Hence, stemming from the above, the inference can be made that although the source documents actually used by sampled South African FMCG SMMEs were moderately adequately designed, these business entities did not make adequate use of source documents to a large extent. This is quite disconcerting since these business entities' financial performance and financial position were not optimal (see Section 5.3.4), especially taking into account the "harsh" South African economic environment (see Section 3.2.2). Hence, it is very possible that limited proof existed for most transactions conducted by sampled South African FMCG SMMEs.

5.4.2.2 Authorisation

A summary of the results pertaining to proper authorisation activities is shown in Figure 5.27 and Table 5.8.

Using the mean scores as foundation in Table 5.8, the views of members of management and employees differed only slightly in relation to authorisation activities. Stemming from the results in Figure 5.27 and Table 5.8, it may be deduced that relevant authorisation activities in sampled South African FMCG SMMEs were neither proper nor improper. This view is supported by neutral total mean scores that only management may authorise transactions (total mean score of 2.95) and that employees may only authorise transactions with the approval of management (total mean score of 2.99). The results show that employees may authorise transactions based on formal policies and procedures (total mean score of 3.70).

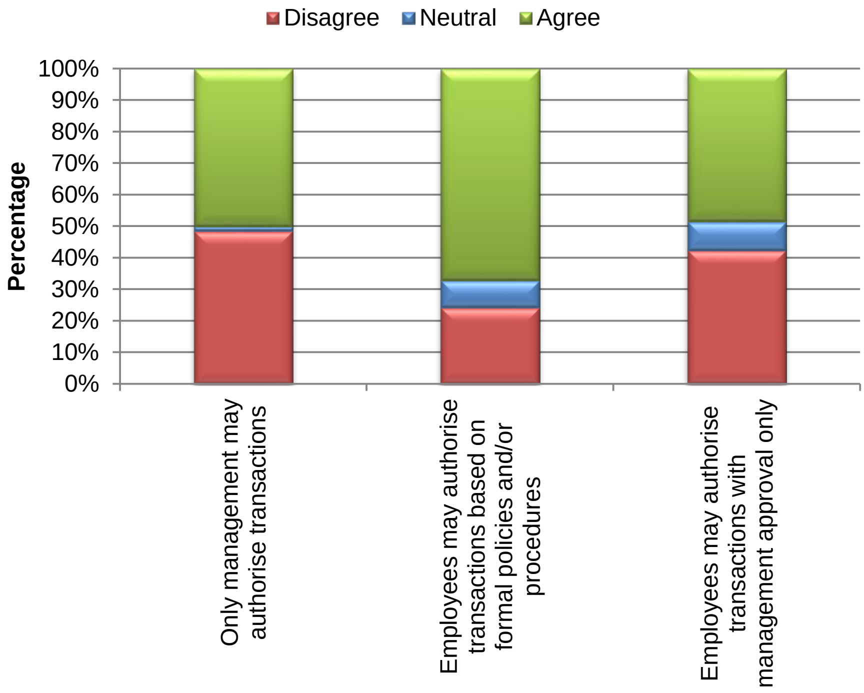

Figure 5.27: Proper authorisation activities

Table 5.8: *Proper authorisation activities*

In the business…	Total sample		Managerial		Employee	
	Mean	Median	Mean	Median	Mean	Median
Only management may authorise transactions	2.95	3.50	3.16	4.00	2.63	1.00
Employees may authorise transactions based on formal policies and/or procedures	3.70	4.00	3.76	5.00	3.61	4.00
Employees may authorise transactions with management approval only	2.99	3.00	3.24	4.00	2.62	1.00

The results above are placed in better perspective by the summarised views of respondents pertaining to authorisation in sampled South Africa FMCG SMMEs, below (see Annexure D):

- Employees were responsible for authorising transactions based on formal policies and procedures 50.5% of the time.
- Members of management were solely responsible for authorising transactions 50.0% of the time.
- Employees were responsible for authorising transactions, with management approval, 48.5% of the time.

Stemming from the above, the assumption can be made that since management does not always authorise transactions, employees are often left to their own devices to make decisions pertaining to the authorisation of transactions, whether formally or informally empowered to do so. This may have either a positive influence (e.g. formal empowering of staff through policies and procedures) or a negative influence (e.g.

abusing of authority to approve transactions for personal gain) on sampled South African FMCG SMMEs. Nevertheless, it is also important note that the average sampled South African FMCG SMME employed between zero and five employees – hence it is highly likely that the segregation of duties of these business entities will also not be proper (see Section 5.4.2.4).

5.4.2.3 Safeguarding of assets

A summary of the results pertaining to the safeguarding of assets is shown in Figure 5.28 and Table 5.9.

Stemming from the results in both Figure 5.28 and Table 5.9, evidence is provided that assets are not optimally safeguarded in sampled South African FMCG SMMEs. This view is supported by the fact that of all the listed controls to safeguard assets, only three controls stood out with total mean scores greater than 3.5, while the remaining listed controls to safeguard assets had total mean scores ranging between 2.74 and 3.41.

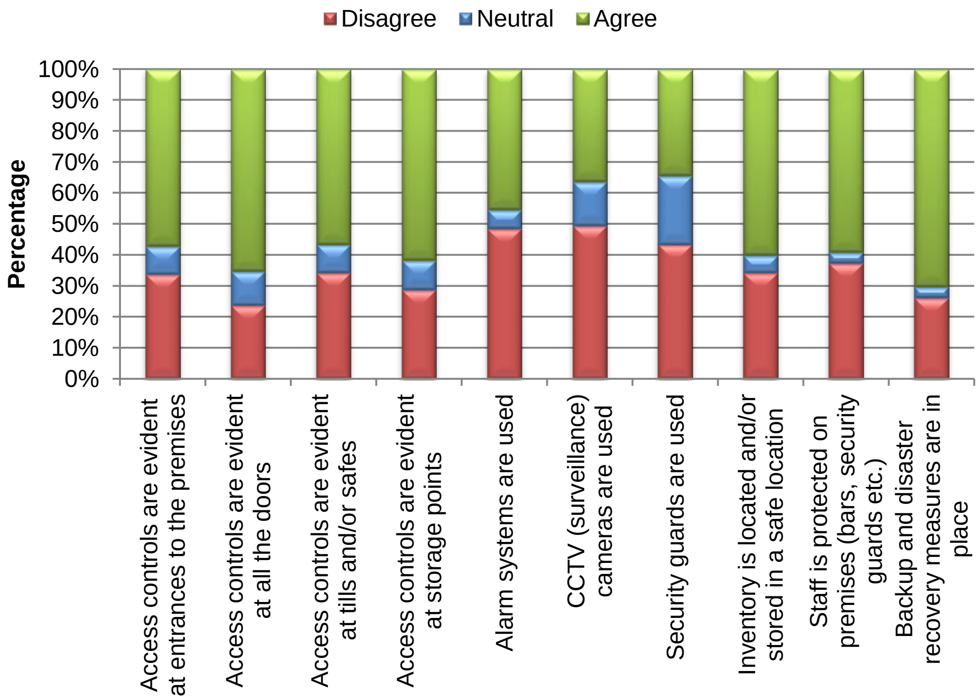

Figure 5.28: Internal control activities relative to the safeguarding of assets

Table 5.9: *Internal control activities relative to the safeguarding of assets*

In the business…	Total sample		Managerial		Employee	
	Mean	Median	Mean	Median	Mean	Median
Access controls are evident at entrances to the premises	3.35	4.00	3.39	4.00	3.29	4.00
Access controls are evident at all the doors	3.70	5.00	3.86	5.00	3.46	4.00
Access controls are evident at tills and/or safes	3.29	4.00	3.29	4.00	3.29	4.00
Access controls are evident at storage points	3.59	5.00	3.66	5.00	3.47	4.00
Alarm systems are used	2.90	3.00	3.08	3.00	2.65	1.00
CCTV (surveillance) cameras are used	2.74	3.00	2.85	3.00	2.57	2.00
Security guards are used	2.83	3.00	2.76	3.00	2.94	3.00
Inventory is located and/or stored in a safe location	3.41	4.00	3.52	4.00	3.24	4.00
Staff are protected on premises (bars, security guards etc.)	3.33	4.00	3.55	5.00	3.01	4.00
Backup and disaster recovery measures are in place	3.63	4.00	3.73	4.00	3.47	4.00

The results above can be placed in better perspective when focus is placed on a summary of the responses pertaining to internal control activities relative to the safeguarding of assets in sampled South Africa FMCG SMMEs (see Annexure D):

- Backup and disaster recovery measures were in place 70.2% of the time.
- Doors had access controls 65.1% of the time.
- Storage points had access controls 61.6% of the time.
- Inventory was stored in a safe location 60.1% of the time.
- Employees were physically protected on premises 59.1% of the time.
- Entrances had access controls 57.0% of the time.
- Tills/safes had access controls 56.6% of the time.
- Alarm systems were used 45.5% of the time.
- CCTV cameras were used 36.4% of the time.
- Security guards were used 34.4% of the time.

Stemming from the above, it is apparent that sampled South African FMCG SMMEs placed more emphasis on preventive controls (e.g. access controls) than on detective controls (e.g. the use of alarm systems and CCTV surveillance). These business entities were more concerned with preventing risks from realising as opposed to detecting risks once realised. Nonetheless, it is important to note that 45% of sampled South African FMCG SMMEs had been in existence only between zero and five years, meaning that a large proportion of these business entities were still in their infancy stages (see Section 5.3.3). In addition, the financial performance and financial position of sampled South African FMCG SMMEs are regarded as marginally above average, providing justification for the partial implementation of internal controls relative to the safeguarding of assets.

5.4.2.4 Segregation of duties

A summary of the results pertaining to the segregation of duties is shown in Figure 5.29 and Table 5.10.

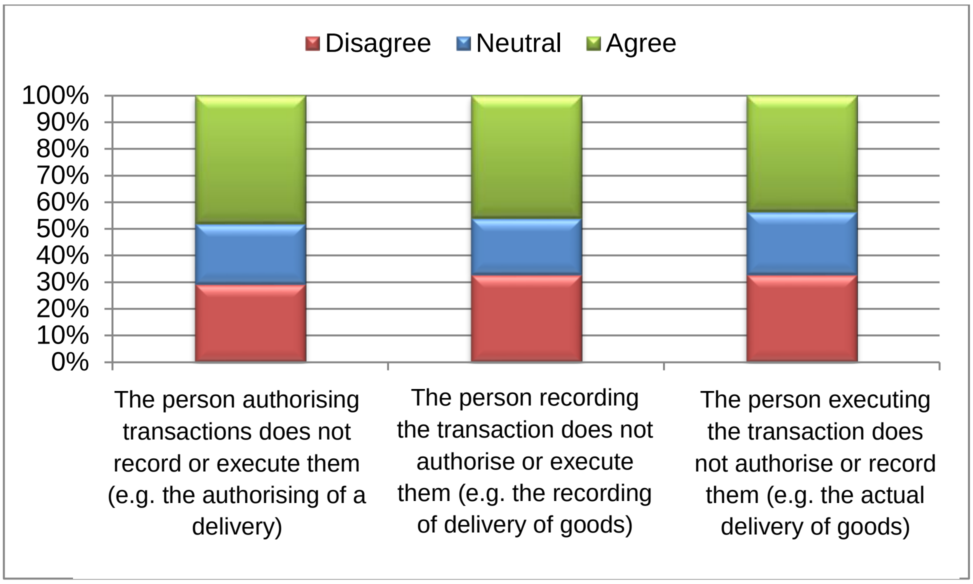

Figure 5.29: Internal control activities in sampled South African FMCG SMMEs relative to segregation of duties

Table 5.10: *Internal control activities relative to segregation of duties*

In the business…	Total sample		Managerial		Employee	
	Mean	Median	Mean	Median	Mean	Median
The person authorising transactions does not record or execute them (e.g. the authorising of a delivery)	3.30	3.00	3.45	4.00	3.09	3.00
The person recording the transactions does not authorise or execute them (e.g. the recording of delivery of goods)	3.19	3.00	3.34	3.00	2.96	3.00
The person executing transactions does not authorise or record them (e.g. the actual delivery of goods)	3.16	3.00	3.31	3.00	2.94	3.00

Based on the mean scores in Table 5.10, it is apparent that the views of members of management and employees differed from one another in relation to the segregation of duties evident in their respective South African FMCG SMMEs. The views of employees were more "neutral" pertaining to these phenomena as they (probably) were not aware of these internal control activities.

To place these results in better perspective, a summary of the responses received (by all respondents) in relation to the segregation of duties evident in sampled South African FMCG SMMEs is provided below (see Annexure D):

- 48.0% of the time, a different person was responsible for authorising transactions when compared with the person recording and/or executing transactions.
- 46.0% of the time, a different person was responsible for authorising transactions when compared with the person recording and/or executing transactions.
- 43.5% of the time, a different person was responsible for executing transactions when compared with the person authorising and/or recording transactions,

The above statistics serve as evidence that the presence of internal control activities relative to the segregation of duties in sampled South African FMCG SMMEs was below average. Otherwise stated, there is a large risk of management override and financial fraud in these business entities, especially when taking into account the marginally above-average financial performance and financial position of these business entities (see Section 5.3.4). It is however important to take cognisance that 58.59% of these business entities employed between zero and five employees (see Section 5.3.3 and Section 5.4.2.2), hence the below-average internal control activities relative to the segregation of duties can be justified to some extent.

5.4.2.5 Independent checks

A summary of the results pertaining to independent checks is shown in Figure 5.30 and Table 5.11.

Based on the mean scores in Table 5.11, it is apparent that the views of members of management and employees did not differ greatly from one another in relation to independent checks. Therefore, based on the responses received by both members of management and employees, the four most popular independent checks implemented in sampled South African FMCG SMMEs were: 1) periodical staff-performance reviews (total mean score of 3.78), 2) staff supervision (total mean score of 3.66), 3) staff monitoring (total mean score of 3.64), and 4) physical counting of inventory (total mean score of 3.61).

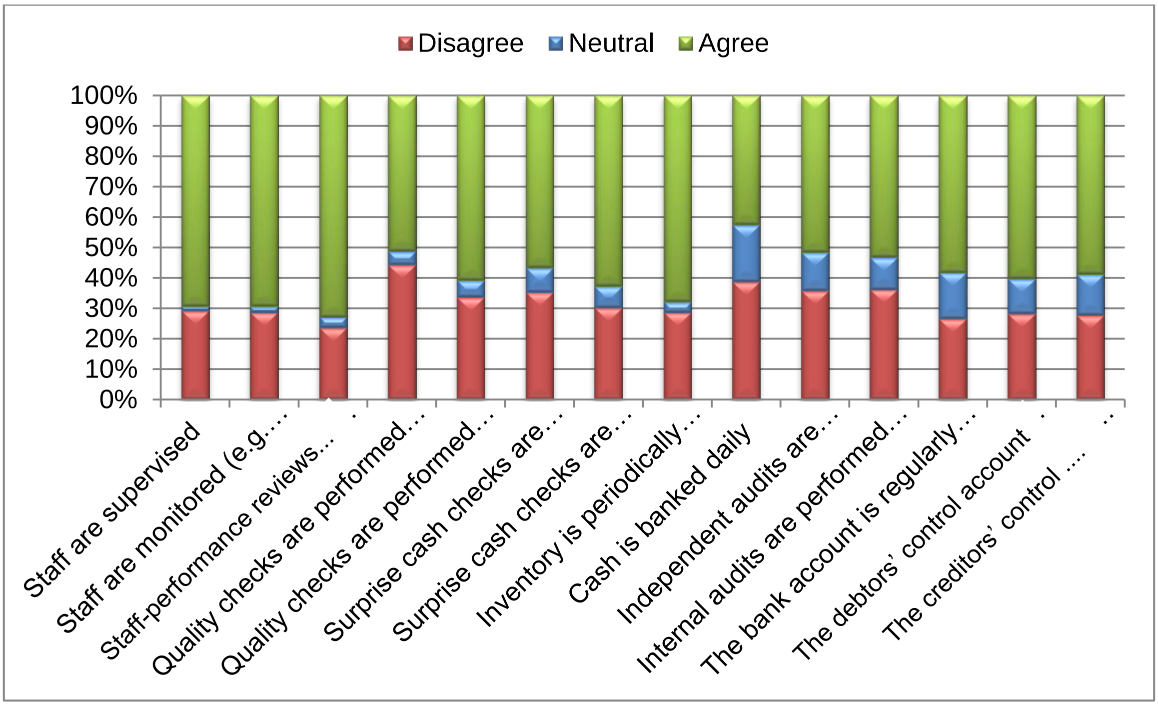

Figure 5.30: Internal control activities in sampled South African FMCG SMMEs relative to independent checks

Table 5.11: *Internal control activities relative to independent checks*

In the business…	Total sample		Managerial		Employee	
	Mean	Median	Mean	Median	Mean	Median
Staff are supervised	3.66	5.00	3.64	5.00	3.70	5.00
Staff are monitored (e.g. behaviour changes)	3.64	5.00	3.67	5.00	3.59	4.00
Staff-performance reviews are conducted periodically	3.78	4.50	3.91	5.00	3.58	4.00
Quality checks are performed on goods received	3.03	4.00	3.14	4.00	2.85	3.00
Quality checks are performed on goods before they are sold	3.40	4.00	3.47	4.00	3.30	4.00
Surprise cash checks are performed (at tills)	3.24	4.00	3.24	4.00	3.23	4.00
Surprise cash checks are performed (petty cash)	3.42	4.00	3.64	4.00	3.09	4.00
Inventory is periodically counted	3.61	4.00	3.74	5.00	3.42	4.00
Cash is banked daily	3.11	3.00	3.30	3.00	2.81	3.00
Independent audits are performed periodically	3.16	4.00	3.31	4.00	2.92	3.00
Internal audits are performed periodically	3.23	4.00	3.43	4.00	2.94	4.00
The bank account is regularly reconciled by an independent person	3.42	4.00	3.41	4.00	3.43	4.00
The debtors' control account is regularly reconciled by an independent person	3.39	4.00	3.34	4.00	3.48	4.00
The creditors' control account is regularly reconciled by an independent person	3.37	4.00	3.36	4.00	3.38	4.00

When focus is placed on all remaining independent checks implemented in sampled South African FMCG SMMEs, the inference can be made that they had an average presence in these business entities, with total mean scores ranging between 3.42 and 3.03. To make more sense of these statistics, a summary of the responses pertaining to the internal control activities relative to independent checks is provided below (see Annexure D):

- Employees' performance is reviewed periodically 72.7% of the time.
- Employees are supervised 69.2% of the time.
- Employees are monitored 69.2% of the time.
- Inventory gets periodically counted 67.7% of the time.
- Surprise cash checks are performed (petty cash) 62.6% of the time.
- Quality checks are performed on goods before they are sold 60.6% of the time.
- The debtors' control account is reconciled by an independent person 60.1% of the time.
- The creditors' control account is reconciled by an independent person 58.6% of the time.
- The bank account is reconciled by an independent person 58.0% of the time.
- Surprise cash checks are performed (tills) 56.6% of the time.
- Internal audits are periodically performed 53.0% of the time.
- Independent audits are periodically performed 51.1% of the time.
- Quality checks are performed on goods received 51.0% of the time.
- Cash is banked daily 42.4% of the time.

Stemming from the above, the assumption can be made that sampled South African FMCG SMMEs did make use of implemented independent checks, but only to an average extent. Although the internal control activities relative to independent checks can improve – especially taking into account the "harsh" economic environment of South Africa (see Section 3.2.2) – their current use in these business entities is justified when taking into account that: 1) 45% of sampled South African FMCG SMMEs have existed between zero and five years (see Section 5.3.3), and 2) 58.59% of these business entities employ between zero and five employees (see Section 5.3.3).

5.4.2.6 Conclusion

Taking all relevant results and discussions into account pertaining to the internal control activities evident in sampled South African FMCG SMMEs, additional evidence is provided to support the previous assumption that these business entities made use of customised internal control systems (see Section 5.3.3 and Section 5.3.4). This is specifically the case since the internal control activities in sampled South African FMCG SMMEs:

- did not include the extensive use of source documents as proof of transactions (see Section 5.4.2.1);
- were neither proper nor improper in relation to authorisation activities (see Section 5.4.2.2);
- were strongly relative to preventive controls (in relation to the safeguarding of assets); little relation to detective controls (see Section 5.4.2.3);
- relative to the segregation of duties had a below average presence (see Section 5.4.2.4); and
- relative to independent checks, had an average the presence (see Section 5.4.2.5).

Stemming from the above, while also taking into account that very few internal control activities had an average presence in sampled South African FMCG SMMEs, the assumptions can be made that: 1) the economic sustainability of these sampled business entities was adversely influenced by these customised internal control activities (avenue for further research), 2) the customised internal control systems which these business entities used did not provide reasonable assurance surrounding the attainment of relevant organisational objectives in the foreseeable future (see Section 5.4.1), and 3) the managerial conduct of management of these business entities (as a major aspect of the control environment) was flexible (see Section 5.4).

5.4.3 Characteristics of internal control activities

Although it is theoretically possible for customised internal control activities to add value to an organisation's internal control (see Section 3.3), this view was rejected by previous assumptions made above (see Section 5.4.2.6). This is particularly the case that since very few internal control activities had an average presence in sampled South African FMCG SMMEs, these activities were perceived not to add substantial value in relation to reasonable assurance provided on the attainment of relevant organisational objectives in the foreseeable future.

Nonetheless, respondents were asked to characterise the internal control activities evident in their respective South African FMCG SMMEs. This was done through asking respondents to rate an array of statements on a five-point

Likert scale (see Section 4.6). A summary of the results is depicted in Figure 5.31 and Table 5.12.

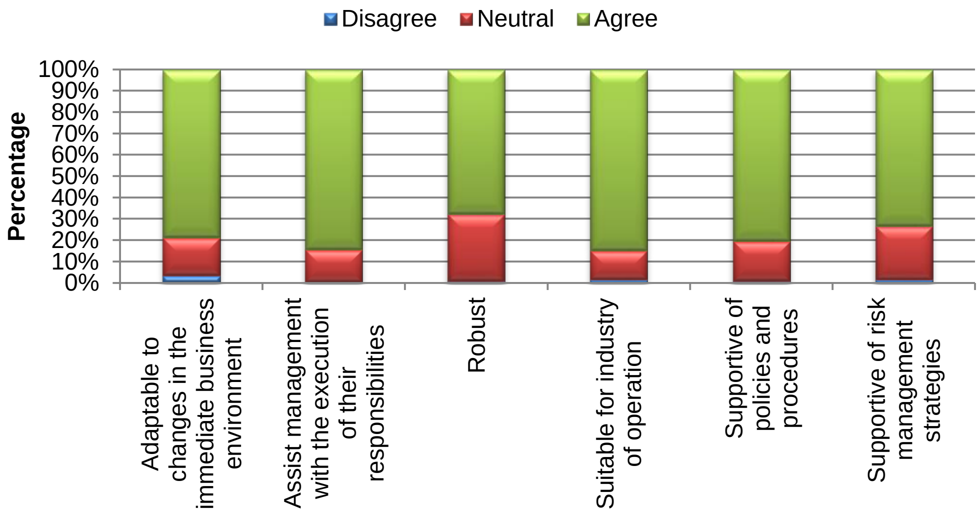

Figure 5.31: Characteristics of internal control activities

Table 5.12: *Characteristics of internal control activities*

The control activities are…	Total sample		Managerial		Employee	
	Mean	Median	Mean	Median	Mean	Median
Adaptable to changes in the immediate business environment	4.07	4.00	4.07	4.00	4.08	4.00
Assist management with the execution of their responsibilities	4.06	4.00	3.99	4.00	4.15	4.00
Robust	4.01	4.00	3.87	4.00	4.23	5.00
Suitable for industry of operation	4.06	4.00	4.09	4.00	4.01	4.00
Supportive of policies and procedures	4.08	4.00	4.08	4.00	4.06	4.00
Supportive of risk management strategies	3.92	4.00	3.93	4.00	3.91	4.00

Stemming from the results in Figure 5.24 and Table 5.12, it appears that the implemented internal control activities in sampled South African FMCG SMMEs added value to these business entities. This view is specifically supported by the above-average total mean scores of characteristics – implemented internal control activities were adaptable to changes in the immediate business environment (total mean score of 4.07), assisted management with the execution of their responsibilities (total mean score of 4.06), were robust[198] (total mean score of 4.01), were suitable for the FMCG industry in which these business entities operated (total mean score of 4.06), supportive of policies and procedures (total mean score of 4.08), and were supportive of risk-management strategies (total mean score of 3.92).

[198] Members of management had a more “neutral” view pertaining to the robustness of implemented internal control activities when compared with the views of employees.

The results above are placed in perspective by summarising the responses received in relation to the characteristics of implemented internal control activities evident in sampled South African FMCG SMMEs (see Annexure D):

- Suitable for the FMCG industry 84.8% of the time.
- Assisted management with the execution of their responsibilities 84.3% of the time.
- Supportive of policies and procedures 80.3% of the time.
- Adaptable to changes in the immediate environment 78.8% of the time.
- Supportive of risk management strategies 73.2% of the time.
- Robust 67.65% of the time.

Although it appears that the customised internal control activities of sampled South African FMCG SMMEs were both adequate and effective in relation to the conceptualised definition of the aspects which constitute adequate and effective internal control activities (see Section 2.5.2), the following should however be taken into account:

- Very few internal control activities had an average presence in sampled South African FMCG SMMEs (see Section 5.4.2.6).
- The economic sustainability of sampled South African FMCG SMMEs was described as reasonably good. Nevertheless, their financial performance and financial position were only slightly above average (see Section 5.3.4).
- Although the economic sustainability of sampled South African FMCG SMMEs was influenced by the “harsh” South African economic environment (see Section 3.2.2 and Section 5.3.4), the risks embedded in economic factors (which have a direct influence on economic sustainability) should have been both prevented and detected – not only prevented (see Section 5.4.2.3).

With the above in mind, it is therefore very possible that the views of respondents in relation to the adequacy and effectiveness of customised internal control activities were relative to only the few internal control activities that had an average presence in sampled South African FMCG SMMEs – mainly preventive internal control activities relative to the safeguarding of assets (see Section 5.4.2.3)

To understand how adequate and effective these customised internal control activities were in sampled South African FMCG SMMEs, respondents were asked to rate relevant statements on a five-point Likert scale (see Section 4.6).

The answers provided by respondents were grouped into three categories, namely: 1) disagree (comprising “strongly disagree” and “disagree”), 2) neutral, and 3) agree (comprising “strongly agree” and “agree”). A summary of the results is evident in Figure 5.32, Figure 5.33, and Table 5.13.

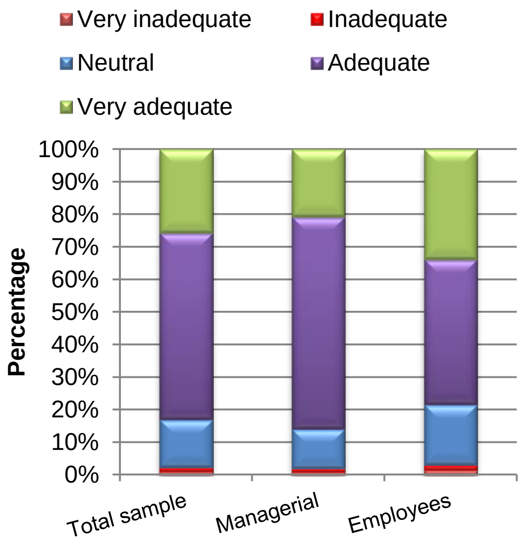

Figure 5.32: The adequacy of internal control activities

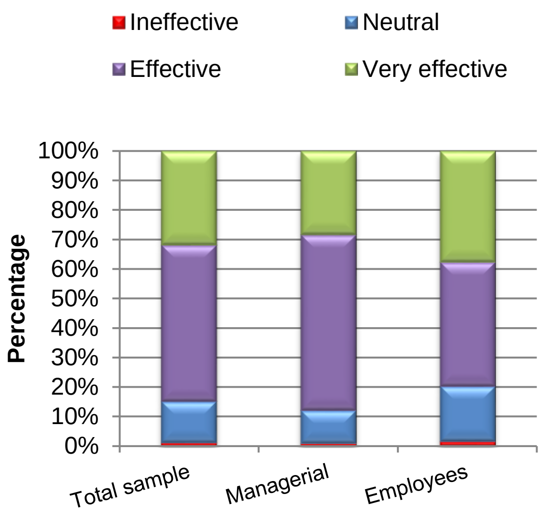

Figure 5.33: The effectiveness of internal control activities

Table 5.13: *The adequacy and effectiveness of internal control activities*

Statement	Total sample		Managerial		Employee	
	Mean	Median	Mean	Median	Mean	Median
The term "adequacy" relates to whether something is "good enough". How would you rate the adequacy of the business' internal control activities?	4.05	4.00	4.04	4.00	4.08	4.00
The term "effectiveness" relates to whether something is "working as intended". How would you rate the effectiveness of the business' internal control activities?	4.15	4.00	4.15	4.00	4.16	4.00

Based on the results in Figure 5.32, Figure 5.33, and Table 5.13, it appears that the implemented internal control activities were perceived by members of management and employees to be both adequate (total mean score of 4.05) and effective (total mean score of 4.15). In essence, the inference can be made that since sampled South African FMCG SMMEs had few internal control activities (e.g. preventive internal control activities relative to the safeguarding of assets) with an average presence (see Section 5.4.2.3), only those internal control activities were regarded as both adequate and effective by respondents.

It is highly probable that the views of respondents could have been influenced by what they understood in relation to the terms “adequate” and “effective”, despite the clarification of these terms in the questionnaire (see Annexure B).

5.5 MANAGERIAL CONDUCT

Stemming from the results (and discussion) in the previous section, evidence was provided that sampled South African FMCG SMMEs: 1) made use of customised internal control systems (see Section 5.4.1), and 2) made use of customised internal control activities (see Section 5.4.2.1, Section 5.4.2.2, Section 5.4.2.3, Section 5.4.2.4, and Section 5.4.2.5). Although it is theoretically possible that customised internal control initiatives can add value to an organisation (see Section 3.3), this view was rejected for sampled South African FMCG SMMEs since very few formal internal control activities had an average presence in these business entities – there were mainly preventive internal control activities relative to the safeguarding of assets (see Section 5.4.2.6). Even though respondents indicated that their customised internal control activities were both adequate and effective, the inference was that these activities did not really add substantial value in relation to the provision of reasonable assurance surrounding the attainment of relevant organisational objectives in the foreseeable future (see Section 5.4.3), particularly taking into account the marginally above-average financial performance and financial position of these business entities (see Section 5.3.4).

Notwithstanding the above, it is however important to take note that the control environment (relative to the tone set at the top by management) serves as the foundation of any system of internal control (see Section 2.5.1). Since the managerial conduct of management constitutes a large proportion of the control environment (see Section 2.5.2), while simultaneously taking into account that these business entities made use of customised internal control systems and customised internal control activities, it is highly probable that the managerial conduct of sampled South African FMCG SMMEs was flexible. This view is supported by popular literature (see Section 3.3) that the managerial conduct of South African FMCG SMMEs is believed to be very flexible owing to, inter alia, the nature of the FMCG industry and the nature of these business entities. The inference can therefore be made that the manner in which management behaves when discharging their applicable responsibilities – greatly characterised by their managerial operating style and managerial philosophy – can be regarded as changeable (flexible).

Despite a flexible managerial conduct’s having advantages and disadvantages (see Section 3.3), it is believed to have an influence on the adequacy and effectiveness of customised internal control activities, as well as the overall economic sustainability of these sampled business entities (see Section 1.2.1). Hence, for the remainder of this section, in relation to sampled South African FMCG SMMEs, emphasis is placed on the managerial conduct of management with relevant results and discussion under the following headings:

- Managerial philosophy.
- Values of management.
- Managerial operating styles.
- Appropriateness and influence of managerial conduct.

5.5.1 Managerial philosophy

Respondents were asked about the managerial philosophy of management in sampled South African FMCG SMMEs and to rate their overall agreement with certain statements on a five-point Likert scale (see Section 4.6). Answers provided by respondents were grouped into three categories, namely: 1) disagree (comprising "strongly disagree" and "disagree"), 2) neutral, and 3) agree (comprising "strongly agree" and "agree"). A summary of the results is provided in Figure 5.34 and Table 5.14.

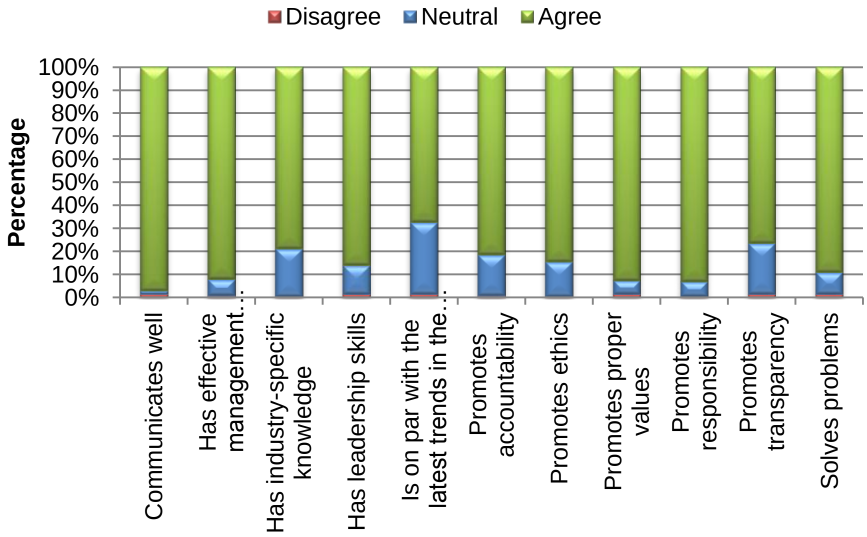

Figure 5.34: Managerial philosophy of members of management

Table 5.14: *Managerial philosophy of members of management*

The business' management…	Total sample		Managerial		Employee	
	Mean	Median	Mean	Median	Mean	Median
Communicates well	4.54	5.00	4.51	5.00	4.57	5.00
Has effective management practices	4.21	4.00	4.22	4.00	4.20	4.00
Has industry-specific knowledge	4.03	4.00	3.98	4.00	4.10	4.00
Has leadership skills	4.19	4.00	4.24	4.00	4.11	4.00
Is on par with the latest trends in the industry	3.87	4.00	3.91	4.00	3.82	4.00
Promotes accountability	4.08	4.00	4.07	4.00	4.09	4.00
Promotes ethics	4.14	4.00	4.15	4.00	4.11	4.00
Promotes proper values	4.33	4.00	4.32	4.00	4.34	4.00
Promotes responsibility	4.41	4.00	4.33	4.00	4.53	5.00
Promotes transparency	4.01	4.00	4.08	4.00	3.91	4.00
Solves problems	4.24	4.00	4.28	4.00	4.19	4.00

Based on the mean scores in Table 5.14, the views of members of management and employees pertaining to the managerial philosophy of members of management in sampled South African FMCG SMMES were very similar. Hence, based on all responses received, the results in Figure 5.34 and Table 5.14 serve as evidence that the managerial philosophy of members of management in these business entities was strongly associated with three of the core characteristics of good corporate governance (see Section 2.6.3), particularly those of: 1) transparency (total mean score of 4.01), 2) accountability (total mean score of 4.08), and 3) responsibility (total mean score of 4.41). Since these characteristics (relative to the managerial philosophy of members of management) are often influenced by the values of members of management (see Section 2.6.2), the assumption can be made that the values of members of management will also be relative to the core characteristics of good corporate governance.

5.5.2 Values of management

To test the previous assumption that the values of respondents were relative to the core characteristics of good corporate governance (see Section 5.5.1), respondents were asked to provide insight on the values of members of management. Again, respondents were asked to rate their overall agreement with certain statements on a five-point Likert scale (see Section 4.6). Answers provided by respondents were grouped into three categories: 1) disagree (comprising "strongly disagree" and "disagree"), 2) neutral, and 3) agree (comprising "strongly agree" and "agree"). A summary of the results is provided in Figure 5.35 and Table 5.15.

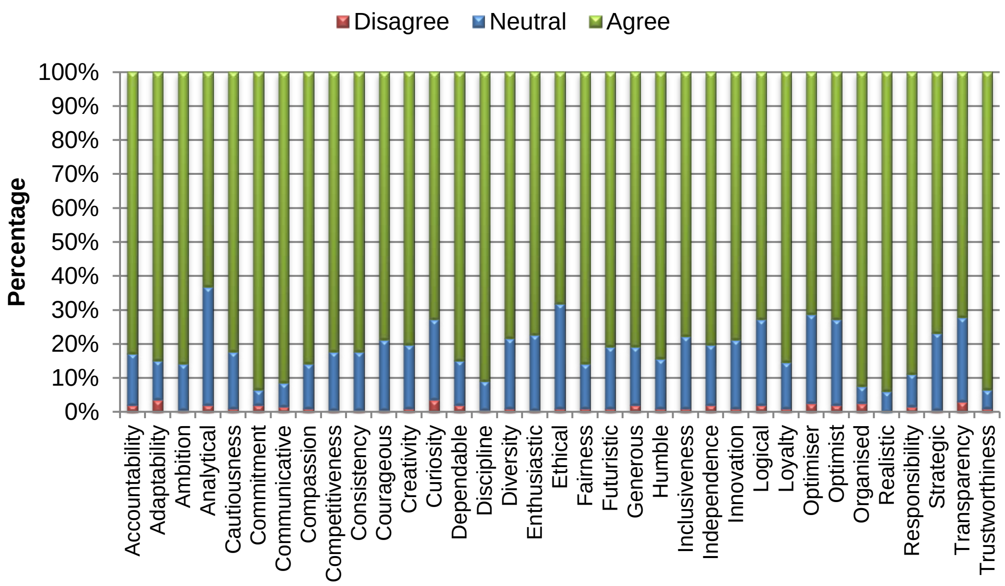

Figure 5.35: The values of members of management

Table 5.15: *The values of members of management*

I associate the business' management with the following values…	Total sample		Managerial		Employee	
	Mean	Median	Mean	Median	Mean	Median
Accountability	4.15	4.00	4.23	4.00	4.03	4.00
Adaptability	4.10	4.00	4.10	4.00	4.09	4.00
Ambition	4.28	4.00	4.24	4.00	4.34	5.00
Analytical	3.72	4.00	3.77	4.00	3.65	4.00
Cautiousness	4.07	4.00	4.04	4.00	4.10	4.00
Commitment	4.37	4.00	4.38	4.00	4.37	5.00
Communicative	4.34	4.00	4.37	4.00	4.30	5.00
Compassion	4.15	4.00	4.18	4.00	4.09	4.00
Competitiveness	4.10	4.00	4.12	4.00	4.08	4.00
Consistency	4.07	4.00	4.09	4.00	4.04	4.00
Courageous	4.03	4.00	4.09	4.00	3.92	4.00
Creativity	4.11	4.00	4.12	4.00	4.09	4.00
Curiosity	3.87	4.00	3.88	4.00	3.86	4.00
Dependable	4.09	4.00	4.13	4.00	4.01	4.00
Discipline	4.27	4.00	4.34	4.00	4.18	4.00
Diversity	4.06	4.00	4.07	4.00	4.04	4.00
Enthusiastic	3.93	4.00	4.03	4.00	3.78	4.00
Ethical	3.84	4.00	3.96	4.00	3.67	4.00
Fairness	4.16	4.00	4.27	4.00	3.99	4.00
Futuristic	4.10	4.00	4.08	4.00	4.11	4.00
Generous	3.98	4.00	4.03	4.00	3.92	4.00
Humble	4.25	4.00	4.25	4.00	4.25	4.00
Inclusiveness	3.97	4.00	3.97	4.00	3.97	4.00
Independence	4.05	4.00	4.09	4.00	3.99	4.00
Innovation	4.08	4.00	4.17	4.00	3.94	4.00
Logical	3.87	4.00	3.99	4.00	3.70	4.00
Loyalty	4.17	4.00	4.18	4.00	4.16	4.00
Optimiser	3.89	4.00	3.94	4.00	3.82	4.00
Optimist	3.93	4.00	4.03	4.00	3.78	4.00
Organised	4.37	4.00	4.33	4.00	4.44	5.00
Realistic	4.33	4.00	4.33	4.00	4.33	4.00
Responsibility	4.31	4.00	4.31	4.00	4.30	5.00
Strategic	3.97	4.00	4.02	4.00	3.90	4.00
Transparency	3.91	4.00	3.97	4.00	3.82	4.00
Trustworthiness	4.39	4.00	4.40	4.00	4.37	5.00

Referring to the mean scores in Table 5.15, it appears that the views of members of management and employees on the values members of management possess were not too disparate. Hence, by placing emphasis on relevant total mean scores, clear tangent planes emerge as to why the managerial philosophy of members of management was strongly associated with three of the core characteristics of good corporate governance (see Section 2.6.3). The values of members of management were directly related to six of the core characteristics of good corporate governance: 1) discipline (total mean score of 4.27), 2) transparency (total mean score of 3.91), 3) independence (total mean score of 4.05), 4) accountability (total mean score of 4.15), 5) responsibility (total mean score of 4.31), and 6) fairness (total mean score of 4.16).

5.5.3 Managerial operating style

Respondents were asked to rate their overall agreement with certain statements pertaining to the managerial operating style of members of management on a five-point Likert scale (see Section 4.6). Answers provided by respondents were grouped into three categories, namely: 1) disagree (comprising "strongly disagree" and "disagree"), 2) neutral, and 3) agree (comprising "strongly agree" and "agree"). A summary of the results is provided in Figure 5.36 and Table 5.16.

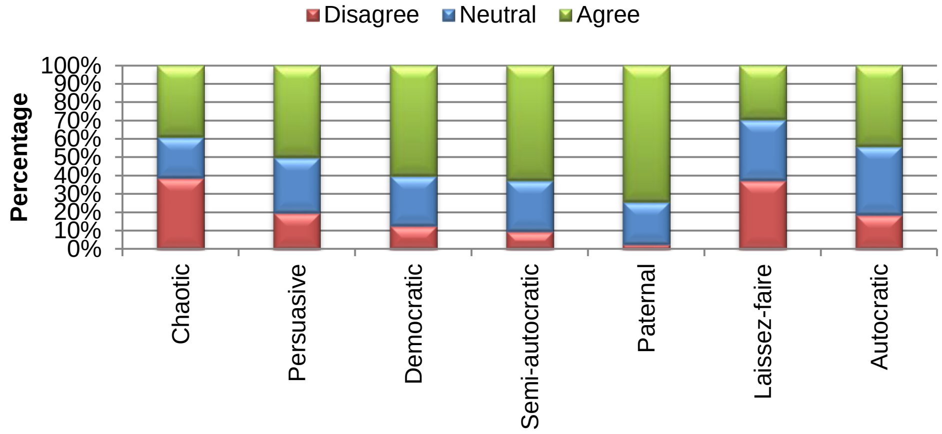

Figure 5.36: Managerial operating style of members of management

Table 5.16: *Managerial operating style of members of management*

The management's operating style is best described as…	Total sample		Managerial		Employee	
	Mean	Median	Mean	Median	Mean	Median
Employees are given full control of taking action (chaotic)	2.99	3.00	2.94	3.00	3.06	3.00
Employees are persuaded to management's view before taking actions (persuasive)	3.38	3.50	3.34	3.00	3.43	4.00
Employees' inputs are asked before action (democratic)	3.64	4.00	3.54	4.00	3.80	4.00
Management gets input from some employees before taking action (semi-autocratic)	3.66	4.00	3.64	4.00	3.68	4.00
Management has the final say before taking action (paternal)	4.09	4.00	4.09	4.00	4.08	4.00
Management lets employees take action at their own pace (*laissez-faire*)	2.85	3.00	2.75	3.00	3.00	3.00
Management only takes own views into account before taking action (autocratic)	3.36	3.00	3.34	3.00	3.38	3.00

Based on the mean scores in Table 5.16, the views of members of management and employees on the managerial operating style of members of management in sampled South African FMCGs were not too disparate. When analysing the results in Figure 5.36 and Table 5.16 (taking into account all responses), although members of management used a variety of managerial operating styles, they had the final say before any action was taken – paternal operating style (total mean score of 4.09). Regardless of this, other managerial operating styles also used by members of management were: 1) chaotic operating style (total mean score of 2.99), 2) persuasive operating style (total mean score of 3.38), 3) democratic operating style (total mean score of 3.64), 4) *laissez-faire* operating style (total mean score of 2.85), and 5) autocratic operating style (total mean score of 3.36).

The results pertaining to the managerial operating styles of members of management support the earlier assumption that the managerial conduct of management of sampled South African FMCG SMMEs was flexible (see Section 5.5 as well as Figure 5.6). This is particularly the case since four managerial operating styles had total mean scores ranging between 3.38 and 3.66, while one managerial operating style had a total mean score of 4.09.

Nevertheless it is important to take cognisance that although the managerial conduct of management is influenced by the managerial operating style of members of management, the managerial philosophy of members of management also has to be taken into account (see Section 2.6.2). Hence, although the managerial operating style of members of management was flexible, both the values (characteristics) of members of management and the managerial philosophy of members of management of sampled South African FMCG SMMEs were found to be strongly associated with the characteristics of good corporate governance (see Section 5.5.1 and Section 5.5.2). Given that the managerial philosophy of members of management accorded with best practice (associated with the core characteristics of good corporate governance), while the managerial operating style of members of management was flexible, the inference can be made that the managerial conduct of members of management was neither appropriate nor inappropriate.

5.5.4 Appropriateness and influence of managerial conduct

Since the managerial conduct of members of management will always be unique (see Section 2.6.3), respondents were asked how appropriate the managerial conduct of management was in sampled South African FMCG SMMEs. A summary of the results is evident in Figure 5.37 and Table 5.17.

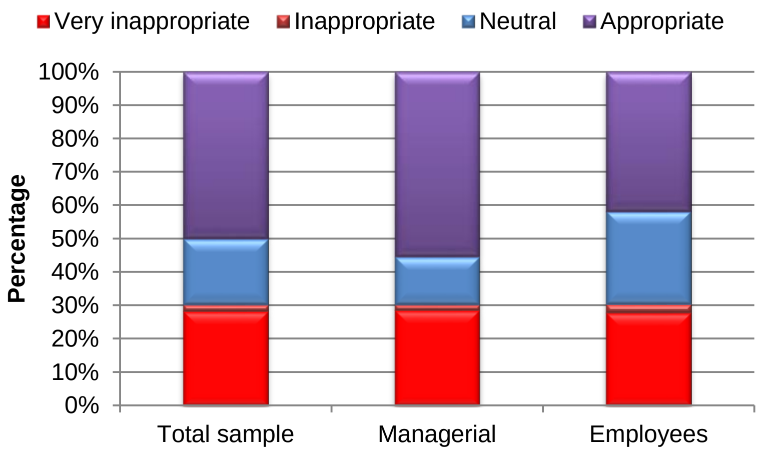

Figure 5.37: Appropriateness of the managerial conduct of members of management

Table 5.17: *Appropriateness of the managerial conduct of members of management*

Statement	Total sample		Managerial		Employee	
	Mean	Median	Mean	Median	Mean	Median
Taking into account the nature of the business, how appropriate is the managerial conduct of management?	2.91	3.50	2.97	4.00	2.84	3.00

Taking into account the mean scores in Table 5.17, it is apparent that members of management and employees had similar views surrounding the appropriateness of the managerial conduct of members of management. Stemming from the results in Figure 5.37 and Table 5.17 however, while taking into account all responses, the deduction is that the overall appropriateness of the managerial conduct of members of management of sampled South African FMCG SMMEs was rated as almost completely “neutral” (total mean score of 2.91), supporting the earlier inference (see Section 5.5.3).

In relation to the results above, as previously mentioned (see Section 2.6.3), the term “appropriate” has different meanings to different people; as such, the different views of respondents may have been influenced by their personal perceptions. This view is substantiated by a previous research study (Bruwer, 2014:6) where it was found that the personality of members of management of South African FMCG SMMEs might result in a type of “personality clash” with relevant stakeholders (avenue for further research).

Respondents were also asked to provide information surrounding the overall influence the managerial conduct of members of management has on sampled South African FMCG SMMEs. This was done by asking respondents to rate their overall agreement with certain statements on a five-point Likert scale (see Section 4.6). For the sake of interpretation, answers provided by respondents were grouped into three categories: 1) disagree (comprising “strongly disagree” and “disagree”), 2) neutral, and 3) agree (comprising “strongly agree” and “agree”). A summary of the results is provided in Figure 5.38 and Table 5.18.

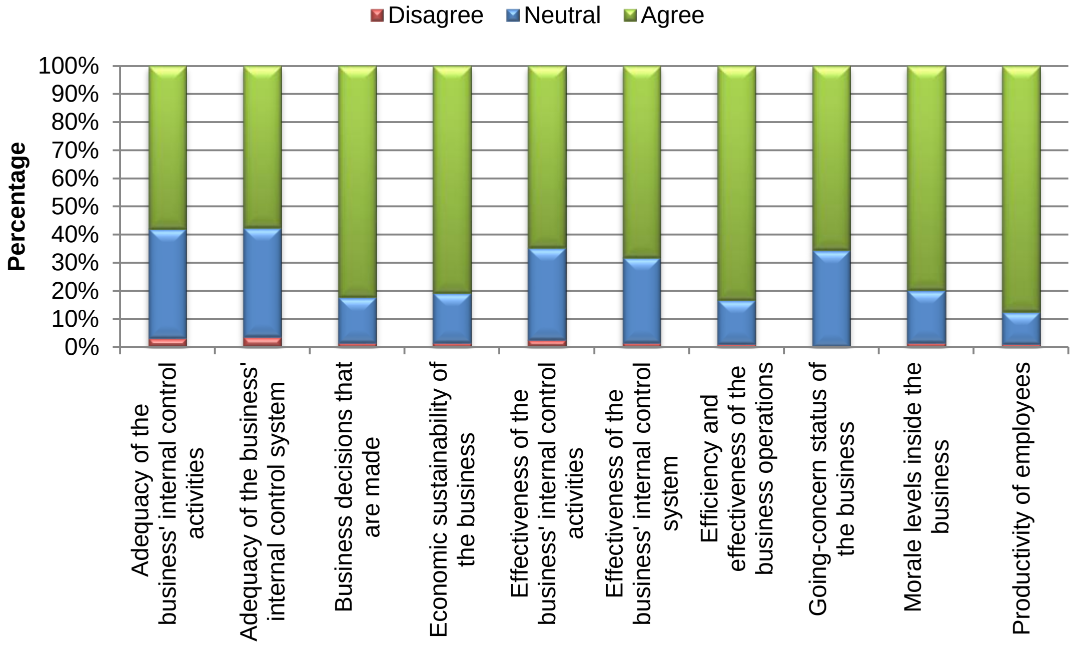

Figure 5.38: The influence of the managerial conduct of members of management

Table 5.18: *The influence of the managerial conduct of members of management*

The managerial conduct of the business' management has a direct influence on the…	Total sample		Managerial		Employee	
	Mean	Median	Mean	Median	Mean	Median
Adequacy of the business' internal control activities	3.74	4.00	3.87	4.00	3.56	3.00
Adequacy of the business' internal control system	3.65	4.00	3.74	4.00	3.52	3.00
Business decisions that are made	4.16	4.00	4.22	4.00	4.06	4.00
Economic sustainability of the business	4.10	4.00	4.18	4.00	3.97	4.00
Effectiveness of the business' internal control activities	3.78	4.00	3.83	4.00	3.70	4.00
Effectiveness of the business' internal control system	3.81	4.00	3.88	4.00	3.71	4.00
Efficiency and effectiveness of the business’ operations	4.19	4.00	4.28	4.00	4.06	4.00
Going-concern status of the business	3.81	4.00	3.82	4.00	3.80	4.00
Morale levels inside the business	4.11	4.00	4.13	4.00	4.09	4.00
Productivity of employees	4.29	4.00	4.22	4.00	4.41	5.00

Stemming from the results in Table 5.18, it appears that the views of members of management and employees were not too disparate. Therefore, taking into account all responses (based on relevant total sample mean scores), the inference can be that the managerial conduct of members of management had a direct influence on the following aspects, inter alia, of sampled South African FMCG SMMEs:

- The adequacy and effectiveness of their internal control systems (total mean scores ranging between 3.65 and 3.81).
- The adequacy and effectiveness of their internal control activities (total mean scores ranging between 3.74 and 3.78).
- Their economic sustainability (total mean scores ranging between 3.81 and 4.10).

These results above support previous inferences in relation to sampled South African FMCG SMMEs: 1) their customised internal control systems did not necessarily help provide reasonable assurance on attainment of organisational objectives in the foreseeable future (see Section 5.3.4 and Section 5.4.1), 2) all implemented customised internal control activities were not necessarily adequate and effective (see Section 5.4.2.6), 3) the managerial conduct of management had an influence on both the adequacy and effectiveness of internal control activities and the economic sustainability of sampled South African FMCG SMMEs.

Using the above as foundation, it was important to understand whether a statistical relationship existed between the managerial conduct of management and the internal control activities evident in these sampled business entities.

5.6 RELATIONSHIP BETWEEN THE MANAGERIAL CONDUCT OF MANAGEMENT AND INTERNAL CONTROL ACTIVITIES

Stemming from the results of this research study, the managerial conduct of members of management of sampled South African FMCG SMMEs was regarded as neither appropriate nor inappropriate (see Section 5.5.4), while the internal control activities (with an average presence) in these business entities were considered to be both adequate and effective, according to respondents (see Section 5.4.2.6). Since the managerial conduct of management can be viewed as a major portion of the control environment (see Section 2.6.2), and the control environment serves as the foundation of any system of internal control (see Section 2.5.1), the inference was previously that the managerial conduct of members of management will have an influence (in theory) over the adequacy and effectiveness of internal control activities in a business (see Section 3.3).

To better understand the influence of the managerial conduct of management of sampled South African FMCG SMMEs on the internal control activities evident in these business entities, the relationship existing between the managerial conduct of management and the internal control activities evident in sampled South African FMCG SMMEs was tested by a Spearman rank correlation. To achieve this, the following relevant variables were identified beforehand:

- Variables that were indicative of the managerial conduct of management[199] were Question H1_01 to Question H1_11 (see Section 5.5.1).
- Variables that were indicative of internal control activities were Question G1_01 to Question G1_41 (see Section 5.4.2.1, Section 5.4.2.2, Section 5.4.2.3, Section 5.4.2.4, and Section 5.4.2.5).

Before interpreting the results of the Spearman rank correlation, it should be noted that each calculated correlation had a certain: 1) direction, and 2) size. This is clarified below (Goodwin & Leech, 2006:252):

- Direction: The direction of a correlation is indicative of how the relationships between variables work. A correlation with a positive direction (0.01 – 1.00) means that if one variable increases, the other one will also increase. A correlation with a neutral direction (0.00) means that if one variable increases, the other one will either increase or decrease. A correlation with a negative direction (-1.00 – -0.01) means that if one variable increases, the other one will decrease.
- Size: The size of a correlation is indicative of the strength of the relationships between variables. Scores ranging between 0.00 and 0.199 (and -0.199 and 0.0) are very weak, scores ranging between 0.20 and 0.399 (and -0.399 and -0.20) are weak, scores ranging between 0.40 and 0.599 (and -0.599 and -0.40) are moderate, scores ranging between 0.60 and 0.799 (and -0.79 and -0.60) are strong, and scores ranging between 0.80 and 1.00 (and -1.00 and -0.80) are very strong.

[199] It is important to note that although the managerial conduct of management comprises both the managerial philosophy of management and the managerial operating style of management, only the managerial philosophy of members of management was found to be in accordance with best practice (relative to the core characteristics of good corporate governance) (see Section 5.5.1 and Section 5.5.2). Since the managerial operating style of management was flexible, it was decided to only use the variables pertaining to Question H1_01 and H1_11.

With the above in mind, based on the results of the Spearman rank correlation, a very weak negative statistically significant relationship existed between the managerial conduct of management and the internal control activities evident in sampled South African FMCG SMMEs (see Table 5.19).

Stemming from the results in Table 5.19, it is apparent that of the 451 tested correlations only 66 (14.63%) were statistically significant at a 99% level of confidence (shaded in grey in Table 5.19) while only 51 (11.31%) were statistically significant at a 95% level of confidence (also shaded in grey in Table 5.19). When focus is shifted to all statistically significant correlations, a total of 35 (29.91%) were identified as positive, while 82 (70.09%) were identified as negative. In turn, when focus is shifted to the strength of all statistically significant correlations, only one (0.85%) was found to be moderate, while 50 (42.74%) were found to be weak, and 66 (56.41%) were found to be very weak. A summary of all statistically significant correlations is shown in Table 5.20.

Table 5.19: *All correlation between the managerial conduct of members of management and internal control activities*

Managerial conduct The business' management… **Internal control activities In the business…**		Communicates well	Has effective management practices	Has industry-specific knowledge	Has leadership skills	Is on par with the latest trends in the industry	Promotes account-ability	Promotes ethics	Promotes proper values	Promotes responsibility	Promotes transparency	Solves problems
Source documents are used when goods are bought	*Correlation Coefficient*	-0.402**	-0.124	0.076	0.079	0.073	-0.088	-0.104	-0.201**	-0.144*	-0.168*	-0.135
	Sig. (2-tailed)	0.000	0.081	0.289	0.271	0.309	0.219	0.144	0.005	0.044	0.018	0.058
Source documents are used when goods are received	*Correlation Coefficient*	-0.262**	-0.098	0.098	0.004	0.146*	0.011	-0.035	-0.102	-0.205**	-0.012	-0.082
	Sig. (2-tailed)	0.000	0.172	0.172	0.950	0.040	0.879	0.627	0.153	0.004	0.864	0.251
Source documents are used when goods are sold	*Correlation Coefficient*	-0.212**	0.035	0.046	-0.010	0.089	-0.096	-0.012	-0.077	-0.173*	-0.076	-0.097
	Sig. (2-tailed)	0.003	0.623	0.517	0.888	0.212	0.178	0.868	0.283	0.015	0.290	0.176
Source documents are used when payments are made	*Correlation Coefficient*	-0.288**	-0.205**	0.127	0.005	0.111	-0.063	-0.027	-0.132	-0.260**	-0.096	-0.018
	Sig. (2-tailed)	0.000	0.004	0.074	0.943	0.121	0.378	0.702	0.063	0.000	0.179	0.800
Source documents are used when money is received	*Correlation Coefficient*	-0.334**	-0.012	0.144*	0.000	0.161*	-0.152*	0.039	-0.187**	-0.199**	0.000	-0.121
	Sig. (2-tailed)	0.000	0.872	0.043	0.999	0.023	0.033	0.587	0.008	0.005	0.997	0.088
Copies of all relevant source documents used are kept	*Correlation Coefficient*	-0.088	0.034	0.085	-0.008	0.101	0.129	0.011	-0.172*	-0.170*	-0.038	0.002
	Sig. (2-tailed)	0.215	0.639	0.233	0.916	0.158	0.070	0.877	0.016	0.016	0.593	0.976
All relevant source documents used are pre-numbered	*Correlation Coefficient*	-0.112	0.043	0.057	-0.118	0.069	-0.006	-0.008	-0.023	-0.014	0.035	-0.033
	Sig. (2-tailed)	0.117	0.551	0.426	0.097	0.335	0.929	0.912	0.746	0.846	0.627	0.648
Unused source documents are kept safe	*Correlation Coefficient*	-0.228**	-0.085	0.034	-0.070	0.144*	-0.025	-0.076	-0.043	-0.052	-0.123	-0.099
	Sig. (2-tailed)	0.001	0.235	0.631	0.330	0.043	0.729	0.285	0.550	0.467	0.085	0.167
All relevant source documents used have spaces for the date of transaction	*Correlation Coefficient*	-0.144*	0.000	0.123	0.054	0.138	0.054	-0.012	-0.105	-0.012	-0.158*	-0.017
	Sig. (2-tailed)	0.043	0.996	0.084	0.450	0.053	0.454	0.872	0.141	0.868	0.026	0.810
All relevant source documents used have spaces for signatures	*Correlation Coefficient*	-0.233**	-0.087	0.031	0.125	0.131	-0.121	0.028	-0.050	-0.088	-0.016	-0.118
	Sig. (2-tailed)	0.001	0.223	0.666	0.080	0.066	0.090	0.693	0.484	0.215	0.827	0.098
All relevant source documents used are	*Correlation Coefficient*	-0.220**	-0.007	0.053	0.046	0.034	0.079	-0.030	-0.033	-0.026	-0.049	0.009

Managerial conduct **The business' management…** **Internal control activities** **In the business…**		**Communicates well**	**Has effective management practices**	**Has industry-specific knowledge**	**Has leadership skills**	**Is on par with the latest trends in the industry**	**Promotes account-ability**	**Promotes ethics**	**Promotes proper values**	**Promotes responsibility**	**Promotes transparency**	**Solves problems**
simple to complete	*Sig. (2-tailed)*	0.002	0.919	0.460	0.523	0.638	0.271	0.670	0.648	0.717	0.491	0.896
Only management may authorise transactions	*Correlation Coefficient*	-0.228**	-0.070	0.004	-0.068	0.138	0.049	-0.020	-0.059	-0.111	0.047	-0.134
	Sig. (2-tailed)	0.001	0.330	0.953	0.341	0.052	0.496	0.777	0.413	0.120	0.514	0.059
Employees may authorise transactions based on formal policies and/or procedures	*Correlation Coefficient*	-0.098	-0.029	0.160*	0.057	0.146*	0.025	-0.008	-0.034	-0.098	-0.056	0.114
	Sig. (2-tailed)	0.169	0.688	0.025	0.426	0.040	0.729	0.909	0.636	0.170	0.435	0.110
Employees may authorise transactions with management approval only	*Correlation Coefficient*	-0.137	-0.005	0.089	-0.004	0.058	-0.068	0.030	-0.010	-0.115	-0.112	-0.098
	Sig. (2-tailed)	0.054	0.946	0.215	0.955	0.413	0.344	0.674	0.890	0.106	0.115	0.171
Access controls are evident at entrances to the premises	*Correlation Coefficient*	-0.268**	-0.043	0.056	0.008	0.009	0.071	-0.116	-0.225**	-0.055	-0.070	-0.008
	Sig. (2-tailed)	0.000	0.548	0.430	0.907	0.895	0.323	0.102	0.001	0.442	0.330	0.911
Access controls are evident at all the doors	*Correlation Coefficient*	-0.112	0.010	-0.023	0.153*	0.111	0.063	-0.106	-0.057	-0.039	-0.048	-0.053
	Sig. (2-tailed)	0.116	0.889	0.751	0.031	0.120	0.374	0.137	0.423	0.582	0.500	0.459
Access controls are evident at tills and/or safes	*Correlation Coefficient*	-0.172*	-0.039	0.040	-0.033	0.194**	-0.029	-0.112	-0.018	-0.157*	-0.069	-0.187**
	Sig. (2-tailed)	0.015	0.581	0.574	0.643	0.006	0.682	0.116	0.803	0.027	0.335	0.008
Access controls are evident at storage points	*Correlation Coefficient*	-0.142*	-0.029	-0.046	0.007	-0.005	0.134	-0.004	-0.127	-0.221**	-0.099	-0.138
	Sig. (2-tailed)	0.046	0.690	0.523	0.926	0.943	0.060	0.956	0.074	0.002	0.165	0.053
Alarm systems are used	*Correlation Coefficient*	-0.325**	-0.125	0.156*	0.061	0.146*	-0.009	-0.112	-0.206**	-0.226**	-0.132	-0.120
	Sig. (2-tailed)	0.000	0.078	0.029	0.394	0.041	0.897	0.117	0.004	0.001	0.063	0.091
CCTV (surveillance) cameras are used	*Correlation Coefficient*	-0.232**	-0.076	0.115	0.028	0.088	-0.137	-0.116	-0.176*	-0.283**	-0.137	-0.018
	Sig. (2-tailed)	0.001	0.289	0.108	0.691	0.220	0.055	0.103	0.013	0.000	0.055	0.804
Security guards are used	*Correlation Coefficient*	-0.161*	-0.114	0.195**	-0.003	0.271**	-0.094	-0.004	-0.080	-0.141*	-0.053	-0.149*
	Sig. (2-tailed)	0.024	0.110	0.006	0.962	0.000	0.187	0.953	0.265	0.048	0.460	0.036
Inventory is located and/or stored in a	*Correlation Coefficient*	-0.283**	-0.085	-0.145*	0.007	-0.117	0.012	-0.088	-0.161*	-0.175*	-0.164*	-0.028

Managerial conduct The business' management… Internal control activities In the business…		Communicates well	Has effective management practices	Has industry-specific knowledge	Has leadership skills	Is on par with the latest trends in the industry	Promotes account-ability	Promotes ethics	Promotes proper values	Promotes responsibility	Promotes transparency	Solves problems
safe location	*Sig. (2-tailed)*	0.000	0.236	0.042	0.917	0.101	0.869	0.218	0.023	0.014	0.021	0.692
Staff are protected on premises (bars, security guards etc.)	*Correlation Coefficient*	-0.198**	-0.087	0.207**	0.065	0.225**	-0.213**	0.080	-0.100	-0.167*	-0.042	-0.031
	Sig. (2-tailed)	0.005	0.223	0.003	0.363	0.001	0.003	0.261	0.162	0.019	0.559	0.667
Backup and disaster recovery measures are in place	*Correlation Coefficient*	-0.217**	-0.051	0.103	0.017	0.036	-0.060	-0.048	-0.029	-0.154*	-0.107	-0.128
	Sig. (2-tailed)	0.002	0.475	0.150	0.811	0.615	0.402	0.500	0.686	0.030	0.134	0.072
Staff are supervised	*Correlation Coefficient*	-0.214**	-0.213**	0.081	-0.001	0.029	-0.052	0.040	-0.148*	-0.184**	-0.128	0.002
	Sig. (2-tailed)	0.002	0.003	0.254	0.991	0.690	0.464	0.577	0.038	0.010	0.072	0.981
Staff are monitored (e.g. behaviour changes)	*Correlation Coefficient*	-0.128	-0.110	0.088	-0.054	0.079	-0.058	-0.168*	0.004	-0.102	-0.120	-0.002
	Sig. (2-tailed)	0.073	0.124	0.217	0.446	0.267	0.415	0.018	0.952	0.153	0.092	0.976
Staff-performance reviews are conducted periodically	*Correlation Coefficient*	-0.092	0.014	0.063	-0.016	0.222**	0.025	0.151*	0.003	-0.074	0.025	-0.038
	Sig. (2-tailed)	0.198	0.844	0.377	0.820	0.002	0.727	0.034	0.972	0.300	0.729	0.597
Quality checks are performed on goods received	*Correlation Coefficient*	-0.209**	-0.166*	0.042	0.037	0.045	-0.084	-0.148*	-0.237**	-0.117	-0.164*	-0.134
	Sig. (2-tailed)	0.003	0.019	0.561	0.600	0.528	0.239	0.037	0.001	0.102	0.021	0.060
Quality checks are performed on goods before they are sold	*Correlation Coefficient*	-0.053	-0.035	0.075	-0.068	0.008	0.105	0.092	-0.073	-0.234**	-0.075	-0.116
	Sig. (2-tailed)	0.458	0.622	0.293	0.344	0.907	0.142	0.196	0.309	0.001	0.294	0.103
Surprise cash checks are performed (at tills)	*Correlation Coefficient*	-0.224**	0.000	0.147*	0.028	0.107	-0.027	-0.017	-0.095	-0.177*	-0.061	-0.077
	Sig. (2-tailed)	0.002	0.996	0.039	0.696	0.133	0.708	0.817	0.185	0.012	0.390	0.284
Surprise cash checks are performed (petty cash)	*Correlation Coefficient*	-0.080	-0.029	0.051	0.125	0.112	0.091	-0.047	0.003	-0.183**	0.107	-0.008
	Sig. (2-tailed)	0.263	0.681	0.478	0.079	0.116	0.201	0.507	0.962	0.010	0.134	0.910
Inventory is periodically counted	*Correlation Coefficient*	-0.185**	-0.024	0.239**	0.164*	0.250**	-0.067	-0.117	-0.146*	-0.141*	-0.096	-0.142*
	Sig. (2-tailed)	0.009	0.735	0.001	0.021	0.000	0.349	0.101	0.041	0.048	0.178	0.046
Cash is banked daily	*Correlation Coefficient*	-0.224**	-0.140*	-0.010	-0.172*	0.049	-0.072	-0.069	-0.113	-0.360**	-0.044	-0.114
	Sig. (2-tailed)	0.001	0.049	0.888	0.016	0.493	0.313	0.332	0.111	0.000	0.538	0.110
Independent audits	*Correlation*	-0.130	0.014	0.241**	0.262**	0.213**	0.139	0.028	-0.033	-0.197**	-0.082	-0.054

Managerial conduct The business' management… Internal control activities In the business…		Communicates well	Has effective management practices	Has industry-specific knowledge	Has leadership skills	Is on par with the latest trends in the industry	Promotes account-ability	Promotes ethics	Promotes proper values	Promotes responsibility	Promotes transparency	Solves problems
are performed periodically	*Coefficient*											
	Sig. (2-tailed)	0.068	0.841	0.001	0.000	0.003	0.051	0.692	0.648	0.005	0.252	0.452
Internal audits are performed periodically	*Correlation Coefficient*	-0.253**	-0.033	0.110	0.214**	0.130	-0.065	0.067	-0.078	-0.199**	-0.068	-0.185**
	Sig. (2-tailed)	0.000	0.644	0.123	0.002	0.069	0.362	0.348	0.272	0.005	0.341	0.009
The bank account is regularly reconciled by an independent person	*Correlation Coefficient*	-0.006	0.094	0.047	0.012	0.176*	0.186**	0.037	0.036	-0.044	-0.070	-0.109
	Sig. (2-tailed)	0.930	0.186	0.511	0.867	0.013	0.009	0.608	0.616	0.540	0.329	0.127
The debtors' control account is regularly reconciled by an independent person	*Correlation Coefficient*	-0.114	-0.051	0.049	0.095	0.184**	0.132	-0.035	-0.002	-0.102	0.030	-0.055
	Sig. (2-tailed)	0.111	0.478	0.495	0.182	0.009	0.065	0.628	0.974	0.152	0.677	0.438
The creditors' control account is regularly reconciled by an independent person	*Correlation Coefficient*	-0.048	0.004	0.215**	0.154*	0.148*	0.130	0.071	-0.033	-0.082	-0.021	0.023
	Sig. (2-tailed)	0.503	0.952	0.002	0.031	0.037	0.068	0.320	0.647	0.250	0.773	0.743
The person authorising transactions does not record or execute them (e.g. the authorising of a delivery)	*Correlation Coefficient*	-0.266**	-0.064	0.177*	-0.003	0.283**	0.037	-0.060	-0.156*	-0.205**	0.064	-0.189**
	Sig. (2-tailed)	0.000	0.372	0.013	0.968	0.000	0.603	0.402	0.028	0.004	0.368	0.008
The person recording the transactions does not authorise or execute them (e.g. the recording of delivery of goods)	*Correlation Coefficient*	-0.115	-0.058	0.150*	0.063	0.288**	0.089	0.070	-0.105	-0.393**	0.055	-0.134
	Sig. (2-tailed)	0.108	0.416	0.034	0.382	0.000	0.214	0.328	0.140	0.000	0.445	0.060
The person executing transactions does not authorise or record them (e.g. the actual delivery of goods)	*Correlation Coefficient*	-0.232**	-0.097	0.166*	0.077	0.137	0.077	-0.050	-0.059	-0.263**	-0.019	-0.093
	Sig. (2-tailed)	0.001	0.175	0.019	0.278	0.055	0.282	0.482	0.405	0.000	0.790	0.191

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

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

Table 5.20: *Summary of significant correlations between the managerial conduct of members of management and internal control activities*

Internal control activity	Tested correlations	Significant correlations	Positive correlations	Strength of positive correlations
Document utilisation and design	121	26 (21.49%)	4 (3.31%)	Very weak (0.146 – 0.161)
Authorisation activities	33	3 (9.09%)	2 (6.06%)	Very weak (0.146 – 0.160)
Safeguarding of assets	110	34 (30.91%)	8 (7.27%)	Very weak/weak (0.146 – 0.225)
Independent checks	154	42 (27.27%)	16 (10.39%)	Very weak/weak (0.147 – 0.262)
Segregation of duties	33	12 (36.36%)	5 (15.15%)	Very weak/weak (0.150 – 0.288)
TOTAL	**451**	**117 (25.94%)**	**35 (7.76%)**	

Using the statistics in Table 5.20 as basis, of all 451 tested correlations, 154 (34.15%) related to independent checks, 121 (26.83%) related to document utilisation and design, 110 (24.39%) related to the safeguarding of assets, 33 (7.32%) related to authorisation activities, and 33 (7.32%) related to the segregation of duties. Although the tested correlations predominantly covered three internal control activities (independent checks, the safeguarding of assets and document utilisation and design), it is important to take cognisance of the following three characteristics pertaining to the nature of sampled South African FMCG SMMEs (see Section 5.3.3):

- 58.59% employed between zero and five employees.
- 80.30% sold goods that were frequently consumed by customers.
- 81.82% made use of cash sales.

Based on the number of persons employed by these business entities (on average), there appears to be a limited need for sampled South African FMCG SMMEs to make use of internal control activities pertaining to authorisation activities and the segregation of duties. This inference is supported by the results showing that in these business entities, internal controls pertaining to the segregation of duties had a below-average presence (see Section 5.4.2.4), while the internal controls pertaining to authorisation activities were not deemed appropriate (see Section 5.4.2.5). In addition, since more than 80% of these business entities sold goods that were frequently consumed by customers on a cash-only basis, it may also be inferred there was a definitive need for internal control activities in sampled South African FMCG SMMEs which pertained to adequate document utilisation and design, the safeguarding of assets, and independent checks. Unfortunately, based on the results, these business entities mostly did not make use of source documents (see Section 5.4.2.1), largely used preventive controls only in relation to the safeguarding of assets (see Section 5.4.2.3), while internal control relating to independent checks had an average presence in these business entities (see Section 5.4.2.5).

With regard to all tested correlations, only 35 of the 451 tested correlations were significant and positive, with internal control activities pertaining to the segregation of duties (15.15%) and independent checks (10.39%) obtaining the highest percentages. These 35 correlations, in turn, linked to the managerial conduct of members of management as follows:

- Members of management are on par with the latest trends in the FMCG industry – 17 correlations (48.57%).
- Members of management have industry-specific knowledge – 12 correlations (34.29%).
- Members of management have leadership skills – 4 correlations (11.42%).
- Members of management promote ethics – 1 correlation (2.86%).
- Members of management promote accountability (2.86%) – 1 correlation (2.86%).

Also, pertaining to the remaining 416 correlations, the following characteristics of the managerial conduct of members of management either had a negative significant correlation or no significant correlation with internal control activities:

- Members of management communicate well – 41 correlations (9.86%).
- Members of management have effective management practices 41 correlations (9.86%).
- Members of management have industry-specific knowledge – 29 correlations (6.97%)
- Members of management have leadership skills – 37 correlations (8.89%).
- Members of management are on par with the latest trends in the FMCG industry – 24 correlations (5.77%)
- Members of management promote accountability – 40 correlations (9.62%).
- Members of management promote ethics – 40 correlations (9.62%).
- Members of management promote proper values – 41 correlations (9.86%).
- Members of management promote responsibility – 41 correlations (9.86%).
- Members of management promote transparency – 41 correlations (9.86%).
- Members of management solve problems – 41 correlations (9.86%).

Based on the correlations above, it appears that the managerial conduct of members of management, in sampled South African FMCG SMMEs, did not have an influence on the internal control activities evident in these business entities. Previous research studies (see Section 2.5.1, Section 2.5.2, and Section 2.6.1) explain that the managerial conduct of members of management, as a major part of the control environment, should have an influence on the internal control activities in these business entities. In addition this is of concern, as only six of the 35 significant positive correlations (17.14%) pertaining to the managerial conduct of members of management were relevant to the characteristics of good corporate governance.

The most logical interpretations of all significant correlations are presented in Table 5.21 – positive significant responses are shaded in grey.

Table 5.21: *Summary of direction(s) and strength(s) of significant correlations between the managerial conduct of members of management and internal control activities*[200]

Significant correlation and correlation coefficient	Strength	Direction	Interpretation
Adequate source document design and utilisation			
'All relevant source documents used are simple to complete' and 'communicates well' (-0.220**)	Weak	Negative	Source documents were not simple to complete, even if members of management communicated well.
'All relevant source documents used have spaces for signatures' and 'communicates well' (-0.233**)	Weak	Negative	Source documents may have had spaces for signatures, but this was not supported by the communication of members of management.
'All relevant source documents used have spaces for the date of transaction' and 'communicates well' (-0.144*)	Very weak	Negative	Source documents may have had spaces for dates, but this was not supported by the communication of members of management.
'All relevant source documents used have spaces for the date of transaction' and 'promotes transparency' (-0.158*)	Very weak	Negative	Source documents may have spaces for dates, but this was not supported by members of management through the manner in which they promote transparency.
'Copies of all relevant source documents used, are kept' and 'promotes proper values' (-0.172*)	Very weak	Negative	Copies may have been kept of source documents, but it was not encouraged by the promotion of proper values by members of management.
'Copies of all relevant source documents used, are kept' and 'promotes responsibility' (-0.170*)	Very weak	Negative	Copies may have been kept of source documents, but it was not encouraged by the promotion of responsibility by members of management.
'Source documents are used when goods are bought' and 'communicates well' (-0.402**)	Moderate	Negative	Source documents may have been used when goods were bought, but this was not supported by the communication of members of management.
'Source documents are used when goods are bought' and 'promotes proper values' (-0.201**)	Weak	Negative	Source documents may have been used when goods were bought, but this was not supported by the promotion of proper values by members of management.
'Source documents are used when goods are bought' and 'promotes responsibility' (-0.144*)	Very weak	Negative	Source documents may have been used when goods were bought, but this was not supported by the promotion of responsibility by members of management.
'Source documents are used when goods are bought' and 'promotes transparency' (-0.168*)	Very weak	Negative	Source documents may have been used when goods were bought, but this was not supported by the promotion of transparency by members of management.
'Source documents are used when goods are received' and 'communicates well' (-0.262**)	Weak	Negative	Source documents may have been used when goods were received, but this was not supported by the communication of members of management.
'Source documents are used when goods are received' and 'is on par with the latest trends in the industry' (0.146*)	Very weak	Positive	Source documents may have been used when goods were received, but they were used more when members of management were on par with the latest trends in the FMCG industry (which could have included the use of certain source documents).
'Source documents are used when goods are received' and 'promotes responsibility' (-0.205**)	Weak	Negative	Source documents may have been used when goods were received, but this was not supported by the promotion of responsibility by members of management.
'Source documents are used when goods are sold' and 'communicates well' (-0.212**)	Weak	Negative	Source documents may have been used when goods were sold, but this was not supported by the communication of members of management.
'Source documents are used when goods are sold' and 'promotes responsibility' (-0.173*)	Very weak	Negative	Source documents may have been used when goods were sold, but this was not supported by the promotion of responsibility by members of management.
'Source documents are used when money is received' and 'communicates well' (-0.334**)	Weak	Negative	Source documents may have been used when money was received, but this was not supported by the communication of members of management.

[200] All areas of concern (see "interpretation" column) are addressed in the Control Legacy-K Framework (see Section 6.8).

'Source documents are used when money is received' and 'has industry-specific knowledge' (0.144*)	Very weak	Positive	Source documents may have been used when money was received, but they were used more when members of management had industry-specific knowledge (which could have included the use of certain source documents).
'Source documents are used when money is received' and 'is on par with the latest trends in the industry' (0.161*)	Very weak	Positive	Source documents may have been used when money was received, but they were used more when members of management were on par with the latest trends in the FMCG industry (which could have included the use of certain source documents).
'Source documents are used when money is received' and 'promotes accountability' (-0.152*)	Very weak	Negative	Source documents may have been used when money was received, but this was not supported by the promotion of accountability by members of management.
'Source documents are used when money is received' and 'promotes proper values' (-0.187**)	Very weak	Negative	Source documents may have been used when money was received, but this was not supported by the promotion of proper values by members of management.
'Source documents are used when money is received' and 'promotes responsibility' (-0.199**)	Very weak	Negative	Source documents may have been used when money was received, but this was not supported by the promotion of responsibility by members of management.
'Source documents are used when payments are made' and 'communicates well' (-0.288**)	Weak	Negative	Source documents may have been used when payments were made, but this was not supported by the communication of members of management.
'Source documents are used when payments are made' and 'has effective management practices' (-0.205**)	Weak	Negative	Source documents may have been used when payments were made, but this was not supported by the effective management practices of members of management.
'Source documents are used when payments are made' and 'promotes responsibility' (-0.260**)	Weak	Negative	Source documents may have been used when payments were made, but this was not supported by the promotion of responsibility by members of management.
'Unused source documents are kept safe' and 'communicates well' (-0.228**)	Weak	Negative	Unused source documents may have been kept, but such actions were not supported by the communication of members of management.
'Unused source documents are kept safe' and 'is on par with the latest trends in the industry' (0.144*)	Very weak	Positive	Unused source documents may have been kept safe, but they were used more when members of management were on par with the latest trends in the FMCG industry (which could have included the safeguarding of unused source documents).
Authorisation activities			
'Employees may authorise transactions based on formal policies and/or procedures' and 'has industry-specific knowledge' (0.160*)	Very weak	Positive	Employees may have authorised transactions based on formal policies and/or procedures, but this was more visible when members of management had industry-specific knowledge (which could have included ways in which to authorise transactions).
'Employees may authorise transactions based on formal policies and/or procedures' and 'is on par with the latest trends in the industry' (0.146*)	Very weak	Positive	Employees may have authorised transactions based on formal policies and/or procedures, but this was more visible when members of management were on par with the latest trends in the FMCG industry (which could have included ways in which to authorise transactions).
'Only management may authorise transactions' and 'communicates well' (-0.228**)	Weak	Negative	Members of management may have been the only people to authorise transactions, but this was not supported by the communication of members of management.
Safeguarding of assets			
'Access controls are evident at all the doors' and 'has leadership skills' (0.153*)	Very weak	Positive	Access controls may have been present at all doors, but this phenomenon was more visible when members of management had leadership skills.
'Access controls are evident at entrances to the premises' and 'communicates well' (-0.268**)	Weak	Negative	Access controls may have been present at entrances to the premises, but this was not supported by the communication of members of management.
'Access controls are evident at entrances to the premises' and 'promotes proper values' (-0.225**)	Weak	Negative	Access controls may have been present at entrances to the premises, but this was not supported by the promotion of proper values by members of management.
'Access controls are evident at storage points' and 'communicates well' (-0.142*)	Very weak	Negative	Access controls may have been present at storage points, but this was not supported

			by the communication of members of management.
'Access controls are evident at storage points' and 'promotes responsibility' (-0.221**)	Weak	Negative	Access controls may have been present at storage points, but this was not supported by the promotion of responsibility by members of management.
'Access controls are evident at tills and/or safes' and 'communicates well' (-0.172*)	Very weak	Negative	Access controls may have been present at tills and/or safes, but this was not supported by the communication of members of management.
'Access controls are evident at tills and/or safes' and 'is on par with the latest trends in the industry (0.194**)	Very weak	Positive	Access controls may have been present at tills and/or safes, this phenomenon was more visible when members were on par with the latest trends in the FMCG industry (which could have included the use of access controls at tills and/or safes).
'Access controls are evident at tills and/or safes' and 'promotes responsibility' (-0.157*)	Very weak	Negative	Access controls may have been present at tills and/or safes, but this was not supported by the promotion of responsibility by members of management.
'Access controls are evident at tills and/or safes' and 'solves problems' (-0.187**)	Very weak	Negative	Access controls may have been present at tills and/or safes, but this was not supported by the manner in which members of management solved problems.
'Alarm systems are used' and 'communicates well' (-0.325**)	Weak	Negative	Alarm systems may have been used, but this was not supported by the communication of members of management.
'Alarm systems are used' and 'has industry-specific knowledge' (0.156*)	Very weak	Positive	Alarm systems may have been used, alarm systems were used more when members of management had industry-specific knowledge (which could have included the use of alarm systems)
'Alarm systems are used' and 'is on par with the latest trends in the industry' (0.146*)	Very weak	Positive	Alarm systems may have been used, but alarm systems were used more when members of management were on par with the latest trends in the FMCG industry (which could have included the use of alarm systems)
'Alarm systems are used' and 'promotes proper values' (-0.206**)	Weak	Negative	Alarm systems may have been used, but this was not supported by the promotion of proper values by members of management.
'Alarm systems are used' and 'promotes responsibility' (-0.226**)	Weak	Negative	Alarm systems may have been used, but this was not supported by the promotion of responsibility by members of management.
'Backup and disaster-recovery measures are in place' and 'communicates well' (-0.217**)	Weak	Negative	Backup and disaster-recovery measures may have been in place, but this was not supported by the communication of members of management.
'Backup and disaster-recovery measures are in place' and 'promotes responsibility' (-0.154*)	Very weak	Negative	Backup and disaster recovery-measures may have been in place, but this was not supported by the promotion of responsibility by members of management.
'CCTV (surveillance) cameras are used' and 'communicates well' (-0.232**)	Weak	Negative	CCTV cameras may have been used, but this was not supported by the communication of members of management.
'CCTV (surveillance) cameras are used' and 'promotes proper values' (-0.176*)	Very weak	Negative	CCTV cameras may have been used, but this was not supported by the promotion of proper values by members of management.
'CCTV (surveillance) cameras are used' and 'promotes responsibility' (-0.283**)	Weak	Negative	CCTV cameras may have been used, but this was not supported by the promotion of responsibility by members of management.
'Inventory is located and/or stored in a safe location' and 'communicates well' (-0.283**)	Weak	Negative	Inventory may have been located and/or stored in a safe location, but this was not supported by the communication of members of management.
'Inventory is located and/or stored in a safe location' and 'has industry-specific knowledge' (-0.145*)	Very weak	Negative	Inventory may have been located and/or stored in a safe location, but this was not supported by the industry-specific knowledge of members of management.
'Inventory is located and/or stored in a safe location' and 'promotes proper values' (-0.161*)	Very weak	Negative	Inventory may have been located and/or stored in a safe location, but this was not supported by the promotion of proper values by members of management.
'Inventory is located and/or stored in a safe location' and 'promotes responsibility' (-0.175*)	Very weak	Negative	Inventory may have been located and/or stored in a safe location, but this was not supported by the promotion of responsibility by members of management.

'Inventory is located and/or stored in a safe location' and 'promotes transparency' (-0.164*)	Very weak	Negative	Inventory may have been located and/or stored in a safe location, but this was not supported by the promotion of transparency by members of management.
'Security guards are used' and 'communicates well' (-0.161*)	Very weak	Negative	Security guards may have been used, but this was not supported by the communication of members of management.
'Security guards are used' and 'has industry-specific knowledge' (0.195**)	Very weak	Positive	Security guards may have been used, but they were used more when members had industry-specific knowledge (which could have included the use of security guards).
'Security guards are used' and 'is on par with the latest trends in the industry' (0.271**)	Weak	Positive	Security guards may have been used, but they were used more when members were on par with the latest trends in the FMCG industry (which could have included the use of security guards).
'Security guards are used' and 'promotes responsibility' (-0.141*)	Very weak	Negative	Security guards may have been used, but this was not supported by the promotion of responsibility by members of management.
'Security guards are used' and 'solves problems' (-0.149*)	Very weak	Negative	Security guards may have been used, but this was not supported by the ability of members of management to solve problems.
'Staff are protected on premises (bars, security guards etc.)' and 'communicates well' (-0.198**)	Very weak	Negative	Staff may have been protected on premises, but this was not supported by the communication of members of management.
'Staff are protected on premises (bars, security guards etc.)' and 'has industry-specific knowledge' (0.207**)	Weak	Positive	Staff may have been protected on premises, but staff were more protected on premises when members of management had industry-specific knowledge (which could have included the manner in which staff can be protected).
'Staff are protected on premises (bars, security guards etc.)' and 'is on par with the latest trends in the industry' (0.225**)	Weak	Positive	Staff may have been protected on premises, but staff were more protected on premises when members of management were on par with the latest trends in the FMCG industry (which could have included the manner in which staff can be protected).
'Staff are protected on premises (bars, security guards etc.)' and 'promotes accountability' (-0.213**)	Weak	Negative	Staff may have been protected on premises, but this was not supported by the promotion of accountability by members of management.
'Staff are protected on premises (bars, security guards etc.)' and 'promotes responsibility' (-0.167*)	Very weak	Negative	Staff may have been protected on premises, but this was not supported by the promotion of responsibility by members of management
Independent checks			
'Cash is banked daily' and 'communicates well' (-0.224**)	Weak	Negative	Cash may have been banked daily, but this was not supported by the communication of members of management.
'Cash is banked daily' and 'has effective management practices' (-0.140*)	Very weak	Negative	Cash may have been banked daily, but this was not supported by the effective management practices of members of management.
'Cash is banked daily' and 'has leadership skills' (-0.172*)	Very weak	Negative	Cash may have been banked daily, but this was not supported by the leadership skills of members of management.
'Cash is banked daily' and 'promotes responsibility' (-0.360**)	Weak	Negative	Cash may have been banked daily, but this was not supported by the promotion of responsibility by members of management.
'Independent audits are performed periodically' and 'has industry-specific knowledge' (0.241**)	Weak	Negative	Independent audits may have been performed, but this was not supported by the industry-specific knowledge of members of management.
'Independent audits are performed periodically' and 'has leadership skills' (0.262**)	Weak	Positive	Independent audits may have been performed, but the periodic performance of independent audits was more likely to take place when members of management had leadership skills.
'Independent audits are performed periodically' and 'is on par with the latest trends in the industry' (0.213**)	Weak	Positive	Independent audits may have been performed, but the periodic performance of independent audits was more likely to take place when members of management were

			on par with the latest trends in the FMCG industry (which could have included independent audits).
'Independent audits are performed periodically' and 'promotes responsibility' (-0.197**)	Very weak	Negative	Independent audits may have been performed, but this was not supported by the promotion of responsibility by members of management.
'Internal audits are performed periodically' and 'communicates well' (-0.253**)	Weak	Negative	Internal audits may have been performed, but this was not supported by the communication of members of management.
'Internal audits are performed periodically' and 'has leadership skills' (0.214**)	Weak	Positive	Internal audits may have been performed, but the performance of internal audits was more likely to take place when members of management had leadership skills.
'Internal audits are performed periodically' and 'promotes responsibility' (-0.199**)	Very weak	Negative	Internal audits may have been performed, but this was not supported by the promotion of responsibility by members of management.
'Internal audits are performed periodically' and 'solves problems' (-0.185**)	Very weak	Negative	Internal audits may have been performed, but this was not supported by the ability of members of management to solve problems.
'Inventory is periodically counted' and 'communicates well' (-0.185**)	Very weak	Negative	Inventory may have been periodically counted, but this was not supported by the communication of members of management.
'Inventory is periodically counted' and 'has industry-specific knowledge' (0.239**)	Weak	Positive	Inventory may have been periodically counted, the periodic counting of inventory was more likely to take place when members of management had industry-specific knowledge (which could have included the periodic counting of inventory).
'Inventory is periodically counted' and 'has leadership skills' (0.164*)	Very weak	Positive	Inventory may have been periodically counted, the periodic counting of inventory was more likely to take place when members of management had leadership skills.
'Inventory is periodically counted' and 'is on par with the latest trends in the industry' (0.250**)	Weak	Positive	Inventory may have been periodically counted, the periodic counting of inventory was more likely to take place when members of management were on par with the latest trends in the FMCG industry (which could have included the periodic counting of inventory).
'Inventory is periodically counted' and 'promotes proper values' (-0.146*)	Very weak	Negative	Inventory may have been periodically counted, but this was not supported by the promotion of proper values by members of management.
'Inventory is periodically counted' and 'promotes responsibility' (-0.141*)	Very weak	Negative	Inventory may have been periodically counted, but this was not supported by the promotion of responsibility by members of management.
'Inventory is periodically counted' and 'solves problems' (-0.142*)	Very weak	Negative	Inventory may have been periodically counted, but this was not supported by the ability of members of management to solve problems.
'Quality checks are performed on goods before they are sold' and 'promotes responsibility' (-0.234**)	Weak	Negative	Quality checks may have been performed on goods before they were sold, but this was not supported by the promotion of responsibility by members of management.
'Quality checks are performed on goods received' and 'communicates well' (-0.209**)	Weak	Negative	Quality checks may have been performed on goods received, but this was not supported by the communication of members of management.
'Quality checks are performed on goods received' and 'has effective management practices' (-0.166*)	Very weak	Negative	Quality checks may have been performed on goods received, but this was not supported by the effective management practices of members of management.
'Quality checks are performed on goods received' and 'promotes ethics' (-0.148*)	Very weak	Negative	Quality checks may have been performed on goods received, but this was not supported by the promotion of ethics by members of management.
'Quality checks are performed on goods received' and 'promotes proper values' (-0.237**)	Weak	Negative	Quality checks may have been performed on goods received, but this was not supported by the promotion of proper values by members of management.
'Quality checks are performed on goods received' and 'promotes transparency' (-0.164*)	Very weak	Negative	Quality checks may have been performed on goods received, but this was not supported by the promotion of transparency by members of management.
'Staff are monitored (e.g. behaviour changes)' and 'promotes ethics' (-0.168*)	Very weak	Negative	Staff may have been monitored, but this was not supported by the promotion of ethics

			by members of management.
'Staff are supervised' and 'communicates well' (-0.214**)	Weak	Negative	Staff may have been supervised, but this was not supported by the communication of members of management.
'Staff are supervised' and 'has effective management practices' (-0.213**)	Weak	Negative	Staff may have been supervised, but this was not supported by the effective management practices of members of management.
'Staff are supervised' and 'promotes proper values' (-0.148*)	Very weak	Negative	Staff may have been supervised, but this was not supported by the promotion of proper values by members of management.
'Staff are supervised' and 'promotes responsibility' (-0.184**)	Very weak	Negative	Staff may have been supervised, but this was not supported by the promotion of responsibility of members of management.
'Staff-performance reviews are conducted periodically' and 'is on par with the latest trends in the industry' (0.222**)	Weak	Positive	Staff may have been performance reviewed on a periodic basis, but performance reviews of staff were more likely to take place when members of management were on par with the latest trends in the FMCG industry (which could have included staff-performance reviews).
'Staff-performance reviews are conducted periodically' and 'promotes ethics' (0.151*)	Very weak	Positive	Staff may have been performance reviewed on a periodic basis, but performance reviews of staff were more likely to take place when members of management promoted ethics.
'Surprise cash checks are performed (at tills)' and 'communicates well' (-0.224**)	Weak	Negative	Surprise cash checks may have been performed at tills, but this was not supported by the communication of members of management.
'Surprise cash checks are performed (at tills)' and 'has industry-specific knowledge' (0.147*)	Very weak	Positive	Surprise cash checks may have been performed at tills, but it was more likely to be performed when members of management had industry-specific knowledge (which could have included surprise cash checks).
'Surprise cash checks are performed (at tills)' and 'promotes responsibility' (-0.177*)	Very weak	Negative	Surprise cash checks may have been performed at tills, but this was not supported by the promotion of responsibility by members of management.
'Surprise cash checks are performed (petty cash)' and 'promotes responsibility' (-0.183**)	Very weak	Negative	Surprise cash checks may have been performed for petty cash, but this was not supported by the promotion of responsibility by members of management.
'The bank account is regularly reconciled by an independent person' and 'is on par with the latest trends in the industry' (0.176*)	Very weak	Positive	Independent bank reconciliations may have taken place, but it was more likely to take place when members of management were on par with the latest trends in the FMCG industry (which could have included bank reconciliations).
'The bank account is regularly reconciled by an independent person' and 'promotes accountability' (0.186**)	Very weak	Positive	Independent bank reconciliations may have taken place, but it was more likely to take place when members of management promoted accountability.
'The creditors' control account is regularly reconciled by an independent person' and 'has industry-specific knowledge' (0.215**)	Weak	Positive	Independent creditors' reconciliations may have taken place, but it was more likely to take place when members of management had industry-specific knowledge (which could have included creditors' reconciliations).
'The creditors' control account is regularly reconciled by an independent person' and 'has leadership skills' (0.154*)	Very weak	Positive	Independent creditors' reconciliations may have taken place, but it was more likely to take place when members of management had leadership skills.
'The creditors' control account is regularly reconciled by an independent person' and 'is on par with the latest trends in the industry' (0.148*)	Very weak	Positive	Independent creditors' reconciliations may have taken place, but it was more likely to take place when members of management were on par with the latest trends in the FMCG industry (which could have included creditors' reconciliations).
'The debtors' control account is regularly reconciled by an independent person' and 'is on par with the latest trends in the industry' (0.184**)	Very weak	Positive	Independent debtors' reconciliations may have taken place, but it was more likely to take place when members of management were on par with the latest trends in the FMCG industry (which could have included debtors' reconciliations).
Segregation of duties			

'The person authorising transactions does not record or execute them (e.g. the authorising of a delivery)' and 'communicates well' (-0.266**)	Weak	Negative	The segregation of duties may have taken place, but this was not supported by the communication of members of management.
'The person authorising transactions does not record or execute them (e.g. the authorising of a delivery)' and 'has industry-specific knowledge' (0.177*)	Very weak	Positive	The segregation of duties may have taken place, but it was more likely to take place when members of management had industry-specific knowledge (which could have included the segregation of duties).
'The person executing transactions does not authorise or record them (e.g. the actual delivery of goods)' and 'has industry-specific knowledge' (0.166*)	Very weak	Positive	
'The person recording the transactions does not authorise or execute them (e.g. the recording of delivery of goods)' and 'has industry-specific knowledge' (0.150*)	Very weak	Positive	The segregation of duties may have taken place, but it was more likely to take place when members of management were on par with the latest trends of the FMCG industry (which could have included the segregation of duties).
'The person recording the transactions does not authorise or execute them (e.g. the recording of delivery of goods)' and 'is on par with the latest trends in the industry' (0.288**)	Weak	Positive	
'The person authorising transactions does not record or execute them (e.g. the authorising of a delivery)' and 'is on par with the latest trends in the industry' (0.283**)	Weak	Positive	
'The person authorising transactions does not record or execute them (e.g. the authorising of a delivery)' and 'promotes proper values' (-0.156*)	Very weak	Negative	The segregation of duties may have taken place, but this was not supported by the promotion of proper values by members of management.
'The person authorising transactions does not record or execute them (e.g. the authorising of a delivery)' and 'promotes responsibility' (-0.205**)	Weak	Negative	The segregation of duties may have taken place, but this was not supported by the promotion of responsibility by members of management.
'The person executing transactions does not authorise or record them (e.g. the actual delivery of goods)' and 'promotes responsibility' (-0.263**)	Weak	Negative	
'The person recording the transactions does not authorise or execute them (e.g. the recording of delivery of goods)' and 'promotes responsibility' (-0.393**)	Weak	Negative	
'The person authorising transactions does not record or execute them (e.g. the authorising of a delivery)' and 'solves problems' (-0.189**)	Very weak	Negative	The segregation of duties may have taken place, but this was not supported by the ability of members of management to solve problems.
'The person executing transactions does not authorise or record them (e.g. the actual delivery of goods)' and 'communicates well' (-0.232**)	Weak	Negative	The segregation of duties may have taken place, but this was not supported by the communication of members of management.

In referring to the interpretations in Table 5.21, the following inferences can be made in relation to the internal control activities in sampled South African FMCG SMMEs:

- The utilisation of controls applicable to the safeguarding of assets was negatively influenced by the following attributes of members of management: 1) their communication skills, 2) their promotion of proper values, 3) their promotion of responsibility, 4) their effective management practices, 5) their promotion of transparency, and/or 6) their ability to solve problems. When members of management had industry-specific knowledge and/or were on par with the latest trends in the FMCG industry, it did have a positive influence on the utilisation of controls applicable to the safeguarding of assets. Therefore, it is highly probable that the controls applicable to the safeguarding of assets (which were implemented by these business entities) were only utilised if they were deemed to be popular in the South African FMCG industry and/or proved to work in the FMCG industry.
- The adequate design and utilisation of source documents were negatively influenced by the following attributes of members of management: 1) their communication skills, 2) their promotion of transparency, 3) their promotion of proper values, 4) their promotion of responsibility, 5) their promotion of accountability, and/or 6) their effective management practices. Similar to the previous point, when members of management had industry-specific knowledge and/or were on par with the latest trends in the FMCG industry, it did have a positive influence on the adequate design and utilisation of source documents. Hence, it appears that the design and utilisation of source documents (in these business entities) were influenced by the popularity and feasibility of source documents in general in the South African FMCG industry.
- The utilisation of controls pertaining to proper authorisation activities was positively influenced when members of management had industry-specific knowledge and/or when they were on par with the latest trends in the FMCG industry. Stemming from the aforesaid, the possibility arises that the popularity and/or the feasibility of authorisation activities in the South African FMCG industry influenced the actual utilisation of proper authorisation activities in these business entities.
- The utilisation of controls relevant to independent checks was negatively influenced by the following attributes of members of management: 1) their promotion of responsibility, 2) their communication skills, 3) their promotion of responsibility, 4) their ability to solve problems, 5) their effective management practices, 6) their promotion of proper values, 7) their promotion of transparency, and/or 8) their promotion of ethics. When members of management were on par with the latest

trends in the FMCG industry and/or had industry-specific knowledge, it had a positive influence on the utilisation of control pertaining to independent checks. Hence, it is highly plausible that the popularity and/or feasibility of independent checks in the South African FMCG industry had an influence on how such controls were actually utilised in these business entities.

- The utilisation of controls pertaining to the segregation of duties was negatively influenced by the following attributes of members of management: 1) their communication skills, 2) their promotion of proper values, 3) their promotion of responsibility, and/or 4) their ability to solve problems. Similar to the previous points, when members of management were on par with the latest trends in the FMCG industry and/or had industry-specific knowledge, it had a positive influence on the utilisation of control pertaining to the segregation of duties. For this reason, the assumption can be made that the actual utilisation of controls pertaining to the segregation of duties in these business entities was influenced by the popularity and/or the feasibility of these controls in the South African FMCG industry.

The inferences made above provide additional insight into why only a few internal control activities had an average presence in sampled South African FMCG SMMEs, (see Section 5.4.2.6). It appears that internal control activities were only utilised (and implemented) in these business entities if they were regarded as popular and/or had been found to work in an array of business entities within the FMCG industry. The latter dispensation is strongly relative to the *neo-institutional theory* – a business merely adopts and/or mimics habits, routines, conventions and/or other external norms, which in turn may have an adverse influence on the attainment of relevant organisational objectives in the foreseeable future (se Section 2.1.4).

When taking into account the statistics in Table 5.21, although the direction of 70.09% of all significant correlations was negative, it should however be noted that the strength of 99.15% of all significant correlations was either weak or very weak (mostly). Although there are many probable reasons for this, the two most probable reasons are:

- Sampled South African FMCG SMMEs made use of customised internal control activities (see Section 5.4.2.1, Section 5.4.2.2, Section 5.4.2.3, Section 5.4.2.4, and Section 5.4.2.5) of which only a few (mostly preventive internal control activities that are relative to the safeguarding of assets) had an average presence in these sampled business entities (see Section 5.4.2.1, Section 5.4.2.2, Section 5.4.2.3, Section 5.4.2.4, and Section 5.4.2.5). These customised internal control activities with an average presence were regarded as both adequate and effective (see Section 5.4.2.6). When focus is placed on the results of the Spearman rank correlation (see Table 5.19), it appears that these business entities only made use of internal control activities when they were deemed popular and/or proved to be feasible in the FMCG industry as opposed to making use of internal control activities to provide reasonable assurance surrounding the attainment of relevant organisational objectives in the foreseeable future.

- Even through the managerial conduct of management have an influence on an array of activities in sampled South African FMCG SMMEs, the managerial conduct of members of management was evaluated as neither appropriate nor inappropriate (see Section 5.5.4). When taking into account the fact that the managerial philosophy of members of management accorded with the core characteristics of good corporate governance (see Section 5.5.1), as well as the fact that the values of members of management also accorded with the core characteristics of good corporate governance (see Section 5.5.2), it is highly probable that the flexible managerial operating styles of members of management, inter alia, may have had an adverse influence on the evaluation of respondents pertaining to the appropriateness of the managerial conduct of members of management (see Section 5.5.3). The managerial conduct of management forms a major part of the control environment (see Section 2.6.2) – if the managerial conduct of management is neither appropriate nor inappropriate, it serves as an indication that the control environments of these business entities are also neither appropriate nor inappropriate. Based on the results of the Spearman rank correlation (see Table 5.19) however, evidence is provided that these business entities only made use of internal control activities when they were deemed popular and/or proved to be feasible in the FMCG. Hence, it appears that members of management did not meticulously rely on their managerial conduct before deciding which internal control activities should be used.

Taking the above into account, the inference can therefore be made that a very weak negative statistically significant relationship exists between the managerial conduct of management of sampled South African FMCG SMMEs and the internal control activities evident in these business entities.

5.7 TEST OF RELATIONSHIP BETWEEN THE MANAGERIAL CONDUCT OF MANAGEMENT AND INTERNAL CONTROL ACTIVITIES

Although a very weak negative statistically significant relationship was found to exist between the managerial conduct of management of sampled South African FMCG SMMEs and the internal control activities evident in these business entities, it should be noted that the views of both members of management and employees of South African FMCG SMMEs were taken into account for this research study. The reason for this was to minimise respondent bias to the greatest extent possible (see Section 1.2.4).

Using the above as basis, the views of members of management and of employees were tested for both significant differences and significant similarities on: 1) the managerial conduct of members of management, 2) the internal control activities, and 3) the relationship they perceived to exist between these two aspects in sampled South African FMCG SMMEs (see Section 5.6). This was achieved through means of a Mann–Whitney U test (to test significant differences between the views of respondents), followed by two Spearman rank correlations (to test significant correlations between variables, per respondent group). The latter were merely compared to identify similar views and no statistical tests were conducted between the differences in the views of members of management and employees. To test the views of respondents, the following variables were identified:

- Variables that were indicative of the managerial conduct of management were Question H1_01 to Question H1_11 (see Section 5.5.1).
- Variables that were indicative of internal control activities were Question G1_01 to Question G1_41 (see Section 5.4.2.1, Section 5.4.2.2, Section 5.4.2.3, Section 5.4.2.4, and Section 5.4.2.5).

5.7.1 Significant differences between the views of members of management and employees

Statistical differences between the views of members of management and the views of employees on the managerial conduct of members of management and the internal control activities evident in sampled South African FMCG

SMMEs were determined. A summary of the Mann–Whitney *U* test is shown in Table 5.22.

Table 5.22: *Significant differences between the views of members of management and employees*

Question		Mann–Whitney *U*	*Z*	*p*-Value	Result (based on 5% level)
G1_1	In the business source documents are used when goods are bought	3867.000	-2.393	0.017	*Significant*
G1_2	In the business source documents are used when goods are received	3696.000	-2.876	0.004	*Significant*
G1_3	In the business source documents are used when goods are sold	4180.500	-1.436	0.151	*Not significant*
G1_4	In the business source documents are used when payments are made	3967.500	-2.016	0.044	*Significant*
G1_5	In the business source documents are used when money is received	3657.500	-2.802	0.005	*Significant*
G1_6	In the business copies of all relevant source documents used are kept	4310.500	-1.066	0.286	*Not significant*
G1_7	In the business all relevant source documents used are pre-numbered	4153.000	-1.444	0.149	*Not significant*
G1_8	In the business unused source documents are kept safe	3944.500	-1.999	0.046	*Significant*
G1_9	In the business all relevant source documents used have spaces for the date of transaction	3692.000	-2.828	0.005	*Significant*
G1_10	In the business all relevant source documents used have spaces for signatures	3899.500	-2.242	0.025	*Significant*
G1_11	In the business all relevant source documents used are simple to complete	4593.000	-0.294	0.769	*Not significant*
G1_12	In the business only management may authorise transactions	3964.500	-2.069	0.039	*Significant*
G1_13	In the business employees may authorise transactions based on formal policies and/or procedures	4389.500	-0.849	0.396	*Not significant*
G1_14	In the business employees may authorise transactions with management approval only	3745.500	-2.580	0.010	*Significant*
G1_15	In the business access controls are evident at entrances to the premises	4474.500	-0.607	0.544	*Not significant*
G1_16	In the business access controls are evident at all the doors	3996.500	-1.927	0.054	*Not significant*
G1_17	In the business access controls are evident at tills and/or safes	4596.000	-0.279	0.780	*Not significant*
G1_18	In the business access controls are evident at storage points	4307.000	-1.088	0.277	*Not significant*
G1_19	In the business alarm systems are used	4060.000	-1.763	0.078	*Significant*
G1_20	In the business CCTV (surveillance) cameras are used	4225.000	-1.265	0.206	*Not significant*
G1_21	In the business security guards are used	4427.000	-0.717	0.473	*Not significant*
G1_22	In the business inventory is located and/or stored in a safe location	4133.000	-1.523	0.128	*Not significant*
G1_23	In the business staff are protected on premises (bars, security guards etc.)	3874.500	-2.290	0.022	*Significant*
G1_24	In the business backup and disaster-recovery measures are in place	4211.500	-1.317	0.188	*Not significant*
G1_25	In the business staff are supervised	4694.500	-0.017	0.986	*Not significant*
G1_26	In the business staff are monitored (e.g. behaviour changes)	4459.500	-0.671	0.502	*Not significant*
G1_27	In the business staff-performance reviews are conducted periodically	3910.000	-2.167	0.030	*Significant*
G1_28	In the business quality checks are performed on goods received	4180.500	-1.416	0.157	*Not significant*

Question		Mann–Whitney *U*	*Z*	*p*-Value	Result (based on 5% level)
G1_29	In the business quality checks are performed on goods before they are sold	4396.500	-0.830	0.407	*Not significant*
G1_30	In the business surprise cash checks are performed (at tills)	4675.000	-0.068	0.946	*Not significant*
G1_31	In the business surprise cash checks are performed (petty cash)	3737.000	-2.569	0.010	*Significant*
G1_32	In the business inventory is periodically counted	4131.000	-1.562	0.118	*Not significant*
G1_33	In the business cash is banked daily	3771.500	-2.404	0.016	*Significant*
G1_34	In the business independent audits are performed periodically	4051.500	-1.718	0.086	*Not significant*
G1_35	In the business internal audits are performed periodically	3921.000	-2.090	0.037	*Significant*
G1_36	In the business the bank account is regularly reconciled by an independent person	4621.500	-0.207	0.836	*Not significant*
G1_37	In the business the debtors' control account is regularly reconciled by an independent person	4597.500	-0.271	0.786	*Not significant*
G1_38	In the business the creditors' control account is regularly reconciled by an independent person	4688.000	-0.033	0.974	*Not significant*
G1_39	In the business the person authorising transactions does not record or execute them (e.g. the authorising of a delivery)	3947.500	-1.961	0.050	*Significant*
G1_40	In the business the person recording the transactions does not authorise or execute them (e.g. the recording of delivery of goods)	3948.500	-1.953	0.051	*Not significant*
G1_41	In the business the person executing transactions does not authorise or record them (e.g. the actual delivery of goods)	3968.000	-1.902	0.057	*Not significant*
H1_1	The business' management communicates well	4071.000	-1.847	0.065	*Not significant*
H1_2	The business' management has effective management practices	4586.500	-0.336	0.737	*Not significant*
H1_3	The business' management has industry-specific knowledge	4273.000	-1.197	0.231	*Not significant*
H1_4	The business' management has leadership skills	4496.000	-0.571	0.568	*Not significant*
H1_5	The business' management is on par with the latest trends in the industry	4362.000	-0.920	0.357	*Not significant*
H1_6	The business' management promotes accountability	4585.000	-0.324	0.746	*Not significant*
H1_7	The business' management promotes ethics	4631.500	-0.194	0.846	*Not significant*
H1_8	The business' management promotes proper values	4380.000	-0.909	0.363	*Not significant*
H1_9	The business' management promotes responsibility	3617.000	-3.072	0.002	*Significant*
H1_10	The business' management promotes transparency	4182.500	-1.426	0.154	*Not significant*
H1_11	The business' management solves problems	4642.000	-0.165	0.869	*Not significant*

Stemming from the results in Table 5.22, some statistically significant differences exist between the views of members of management and the views of employees in relation to: 1) 16 out of the 41 (39.02%) internal control activities, and 2) one out of the 11 (9.09%) characteristics of the managerial philosophy of members of management. It is disconcerting to note that members of management and employees had statistically significant different views in relation to the following phenomena:[201]

- The use of source documents when: 1) goods are bought, 2) goods are received, 3) payments are made, and 4) money is received.
- The safekeeping of unused source documents.
- The design of source documents (particularly whether there are spaces for signatures and dates).
- The authorisation of transactions whereby: 1) only members of management may authorise transactions, and 2) employees may only authorise transactions with management approval.
- The use of alarm systems.
- The overall safety of members of staff on premises.
- The periodic performance reviews of members of staff.
- The surprise checking of cash.
- The daily banking of cash.
- The periodical performance of internal audits.
- The segregation of duties.
- The promotion of responsibility by members of management.

The statistically significant different views of members of management and employees in relation to the phenomena listed above serve as additional evidence as to why the internal control activities evident in these business entities: 1) had an average presence (see Section 5.4.2.1, Section 5.4.2.2, Section 5.4.2.3, Section 5.4.2.4, and Section 5.4.2.5), and 2) were not adequate or effective in relation to the provision of assurance on the attainment of organisational objectives in the foreseeable future (see Section 5.4.2.6).

The only variable pertaining to the managerial conduct of members of management, where a statistically significant difference was identified, was the “promotion of responsibility”. This dispensation can be pinned on the nature of the positions of respondents (see Section 5.3.1 and section 5.3.2) – members of management had to be more open-minded than employees owing to their business decision-making responsibilities. However, it is expected that both members of management and employees have a similar understanding of the internal control activities evident in these business entities as well as the

[201] All concerns pertaining to the statistically significant different views of respondents are addressed in the Control Legacy-K Framework (see Section 6.8).

managerial conduct of their respective members of management. The statistically significant different views of members of management and employees can also be further substantiated by previous results where employees had a predominantly neutral view (see employees' mean scores) in relation to the variables pertaining to internal control activities (see Section 5.4.2.1, Section 5.4.2.2, Section 5.4.2.3, Section 5.4.2.4, and Section 5.4.2.5).

Notwithstanding the above, the inference is that there are statistically significant differences between the views of members of management and employees on certain variables pertaining to the managerial conduct of members of management of South African FMCG SMMEs and the internal control activities in these business entities. The test conducted serves as confirmation that members of management most probably are biased in evaluating their own managerial conduct as well as the internal control activities implemented (and used) in their respective South African FMCG SMMEs.

5.7.2 Individual comparisons of significant correlations between the views of members of management and employees

To test the significant correlations between the views of respondents on the relationship they believed to exist between the managerial conduct of members of management in sampled South African FMCG SMMEs and the internal control activities evident in these business entities, separate Spearman rank correlations were conducted for members of management and employees. In Annexure E and Annexure F, the Spearman rank correlations are shown. The calculated results were compared to determine whether members of management and employees had similar views on the relationship between the managerial conduct of management and the internal control activities in sampled South African FMCG SMMEs.

Stemming from the results (see Annexure E and Annexure F), of 451 tested correlations for each group, it was found that members of management had 147 (32.59%) statistically significant correlations, while employees had only 31 (6.87%) statistically significant correlations, serving as an indication that members of management believed that their managerial conduct had a greater influence on the internal control activities evident in their business entities when compared with the beliefs of employees.

When focus is placed on the direction of these statistically significant correlations, the following was found:

- 119 (80.95%) significant correlations of members of management were negative.
- 28 (19.05%) significant correlations of members of management were positive.
- 9 (29.03%) significant correlations of employees were negative.
- 22 (70.97%) significant correlations of employees were positive.

In terms of the strength of the statistically significant correlations, the following was evident:

- 8 (5.44%) significant correlations of members of management were moderate.
- 107 (72.79%) significant correlations of members of management were weak.
- 32 (21.77%) significant correlations of members of management were very weak.
- 31 (100%) significant correlations of employees were weak.

With this in mind, the significant correlations of members of management were compared with the significant correlations of employees to determine how similar the views of respondents were. After comparing the 147 statistically significant correlations of members of management and the 31 statistically significant correlations of employees, it was found that only eight (4.49%) of all statistically significant correlations of respondents were similar for both respondent groups. A summary of the similarities is shown in Table 5.23, with positive significant correlations shaded in grey.

Table 5.23: *Summary of similar significant correlations between members of management and employees*

Significant correlation	Employee correlation coefficients	Members of management correlation coefficients	Absolute difference between correlation coefficients
'The person recording the transactions does not authorise or execute them (e.g. the recording of delivery of goods)' and 'promotes responsibility'	-0.326	-0.399	0.073
'The creditors account is regularly reconciled by an independent person' and 'has industry-specific knowledge'	0.267	0.186	0.081
'Alarm systems are used' and 'communicates well'	-0.260	-0.354	0.094
'Inventory is periodically counted' and 'is on par with the latest trends in the industry'	0.302	0.192	0.110
'Security guards are used' and 'is on par with the latest trends in the industry'	0.344	0.225	0.119
'Source documents are used when goods are bought' and 'communicates well'	-0.315	-0.440	0.125
'Inventory is periodically counted' and 'has industry-specific knowledge'	0.332	0.190	0.142
'Cash is banked daily' and 'promotes responsibility'	-0.254	-0.403	0.149

Stemming from the results in Table 5.23, the inference can be made that the views of members of management and employees, on the relationship they believed to exist between the managerial conduct of members of management in sampled South African FMCG SMMEs and the internal control activities evident in these business entities, were not significantly similar to one another. In core, from a total of 451 correlations, only four positive statistically significant correlations were found to be similar in relation to the views of both members of management and employees. Since employees had only 31 statistically significant correlations (positive and negative) on the relationship they believed to exist between the managerial conduct of members of management and the internal control activities in South African FMCG SMMEs, members of management should be concerned that their managerial conduct does not influence the views (and also presumably the actions and attitudes) of employees on internal control activities (avenue for further research).

Therefore it is concluded that there exists virtually no statistically significant relationship between the views of members of management and those of employees on the relationship they believe to exist between the managerial conduct of members of management and the internal control activities evident in sampled South African FMCG SMMEs. This comparison also serves as confirmation that the views of members of management are most probably biased in respect of the support that their managerial conduct has on the internal control activities in these business entities.

5.8 CONCLUSION AND RELEVANCE TO THE STUDY

In this chapter, focus was placed on the data analysis, results and discussion pertaining to the data collected from the questionnaire. This was particularly important since it addressed the fourth investigative research question with the main intent to achieve the final two secondary research objectives.

Before any data were analysed, hierarchical cluster analyses of variables were performed to test the construct validity of the questionnaire, particularly in relation to specific variables pertaining to questions in Section E, Section G, and Section H in the questionnaire. Each hierarchical cluster analysis was supported by a relevant dendrogram discussed in depth. Stemming from the hierarchical cluster analyses conducted, it was found that the variables in Questions E1, G1, G2, H1, H2, and H5 were valid, serving as additional evidence of the construct validity of the questionnaire used.

The data collected were analysed to provide background information on sampled South African FMCG SMMEs, particularly supported by demographic information pertaining to their members of management, employees, nature, and economic sustainability. Moreover, relevant results and discussions were shared in relation to the internal control systems and internal control activities evident in these sampled business entities, including the managerial conduct of members of management (their managerial philosophy, managerial operating style, and values). Even through the perceptions of members of management and employees deviated from some of the perceptions drawn in the literature review (e.g. the sustainability of these business entities), applicable inferences were made that predominantly accorded with the literature reviewed in this research study (see Chapter 2 and Chapter 3).

Lastly, to answer the final investigative research question, relevant tests were performed on applicable variables (particularly those variables evident in Question G1 and Question H1 of the questionnaire) to test the relationship between the managerial conduct management and the internal control activities evident in these business entities. Stemming from the tests that were conducted, the following were found:

- A very weak negative statistically significant relationship exists between the managerial conduct of these entities' members of management and implemented internal control activities in these business entities.

- Statistical significant differences exist between the views of members of management and those of employees on close to half of the variables tested in relation to the managerial conduct of management and the internal control activities of these business entities, confirming possible biased views of members of management.
- Very few similarities exist between the views of members of management and those of employees of South African FMCG SMMEs on the relationship they perceived to exist between the managerial conduct of these entities' members of management and implemented internal control activities, supporting the over-optimistic (and biased) views of members of management surrounding the influence they believe their managerial conduct has on the internal control activities evident in these business entities.

In the next chapter, the identified research problem, relevant research questions and relevant research objectives are revisited, from where relevant conclusions are drawn and practicable recommendations are made.

CHAPTER 6: CONCLUSION

SYNOPSIS

Throughout this thesis a methodical process was followed whereby each chapter built on the previous one. This methodical process is provided below while also placing this particular chapter in context of all other chapters:

Chapter 1: Introduction to the research study

Chapter 2: Literature review - Internal control, the elements of an internal control system and the managerial conduct

Chapter 3: Literature review - South African fast-moving consumer goods: Small, Medium and Micro Enteprises

Chapter 4: Research design, methodology and methods

Chapter 5: Data analyses, results and discussion

Chapter 6: Conclusion

6.1) Introduction
6.2) Research problem revisited
6.3) Primary research question and primary research objective revisited
6.4) Investigative research questions and secondary research objectives revisited
6.5) Conclusion of the research study
6.6) Recommendations
6.7) Avenues for further research
6.8) The Control Legacy-K Framework explained
6.9) Conclusion

6.1 INTRODUCTION

In this research study, a research problem was identified (see Section 1.2.1), from where a primary research question and a primary research objective were formulated, relative to the relationship that exists between the managerial conduct of management in South African FMCG SMMEs and the internal control activities evident in these business entities (see Section 1.2.2). To achieve the primary research objective and answer the primary research question, a total of four investigative research questions were asked and five secondary research objectives were formulated (see Section 1.2.3).

The first three investigative research questions were answered and the first three secondary research objectives were obtained by conducting non-empirical research (see Section 4.5), more specifically by conducting two literature reviews. Stemming from the literature reviewed in Chapter 2, applicable conceptual frameworks were developed in relation to, inter alia:

- Internal control (see Section 2.1.3 and Section 2.1.4).
- Risk management (see Section 2.2.3)
- Sound internal control system (see Section 2.2.4).
- Sound control environment (see Section 2.5.1).
- Adequate and effective internal control activities (see Section 2.5.2).
- Appropriate managerial conduct (see Section 2.6.3).

In addition to the above, based on the literature reviewed in Chapter 3, applicable conceptual frameworks were developed in relation to, inter alia:

- Small, Medium and Micro Enterprises (see Section 3.1.3).
- Economic sustainability (see Section 3.2.2)
- The current status surrounding the managerial conduct of members of management and the adequacy and effectiveness of internal control activities in South African FMCG SMMEs (see Section 3.3).

From the literature reviews conducted (Chapter 2 and Chapter 3), a questionnaire could be developed (see Annexure B) in assist in the collection of primary quantitative data from two human populations, namely that of: 1) South African FMCG SMME members of management, and 2) South African FMCG SMME employees. The data were obtained by conducting empirical research (see Section 4.5). In essence, survey research was conducted with the main intent to answer the fourth investigative research question and attain the final two secondary research objectives (see Section 1.2.3).

In Chapter 5, collected primary quantitative data were analysed accordingly, from where relevant results were both shown and discussed in depth; applicable inferences were also made. Stemming from the analysed data, insight was provided in relation to the following phenomena (based on the responses received):

- Demographic information of members of management (see Section 5.3.1).
- Demographic information of employees (see Section 5.3.2).
- Demographic information of South African FMCG SMMEs (see Section 5.3.3).
- Economic sustainability of South African FMCG SMMEs (see Section 5.3.4).
- Internal control systems of South African FMCG SMMEs (see Section 5.4.1).
- Internal control activities of South African FMCG SMMEs (see Section 5.4.2.1, Section 5.4.2.2, Section 5.4.2.3, Section 5.4.2.4, and Section 5.4.2.5).
- The managerial philosophy of members of management (see Section 5.5.1).
- The values of members of management (see Section 5.5.2).
- The managerial operating style of members of management (see Section 5.5.3).
- The appropriateness and influence of the managerial conduct of members of management (see Section 5.5.4).
- The relationship between the managerial conduct of members of management and internal control activities (see Section 5.6).
- The relationship between the views of members of management and employees surrounding the relationships they perceived to exist between the managerial conduct of members of management and internal control activities (see Section 5.7).

Specifically for this chapter, the research problem, the primary research question, the four investigative research questions, the primary research objective, and the five secondary research objectives are revisited to draw final conclusions and, in turn, provide feasible recommendations. Lastly, a framework is proposed (as the contribution of this research study – see Section 1.3) to help mitigate and/or solve the identified research problem (see Section 1.2.2).

6.2 RESEARCH PROBLEM REVISITED

Stemming from the background to this research study (see Section 1.1), the following three unexplored potential areas of concern were highlighted: 1) the managerial conduct of management in South African FMCG SMMEs may be inappropriate to support a sound system of internal control, 2) implemented internal control activities in South African FMCG SMMEs may be inadequate and/or ineffective, and 3) the managerial conduct of management in South African FMCG SMMEs may contribute to the inadequacy and/or ineffectiveness of implemented internal control activities. Using the above as basis, the following research problem was identified within the ambit of this research study:

> South African SMMEs have a weak continuation rate owing to the implementation of ill-developed systems of internal control, resulting in limited assurance being provided surrounding the attainment of organisational objectives. As the managerial conduct is a core aspect of the control environment, which sets the tone at the top in an organisation and forms the foundation of an internal control system, it is unclear how the managerial conduct of management, in South African FMCG SMMEs influences the adequacy and effectiveness of implemented internal control activities in these business entities.

To address the identified research problem, one primary research question was identified and one primary research objective was formulated (see Section 1.2.2), which, in turn, were both answered and achieved by asking four investigative research questions and raising five secondary research objectives (see Section 1.2.3).

6.3 PRIMARY RESEARCH QUESTION AND PRIMARY RESEARCH OBJECTIVE REVISITED

In order to address the identified research problem (see Section 6.2), the following primary research question was identified:

> To what extent does the managerial conduct of management, in South African FMCG SMMEs, as a major part of the control environment, influence the adequacy and effectiveness of implemented internal control activities in these business entities?

Stemming from the primary research question above, the primary research objective pertaining to this research study, read as follows:

> To explore the relationship that exists between the managerial conduct of management (a major part of the control environment) in South African FMCG SMMEs and the implemented internal control activities in these business entities. This relationship should provide guidance, through means of a framework, as to how management of South African FMCG SMMEs can enhance the appropriateness of their managerial conduct and the adequacy and effectiveness of their internal control activities. By attaining the latter, it should enhance the internal control systems in South African FMCG SMMEs to provide more assurance surrounding the attainment of their organisational objectives in the foreseeable future, enhancing their overall continuation rates.

Notwithstanding that the identified research problem could only be mitigated and/or solved through both the answering of the primary research question and the attainment of the primary research objective, these two phenomena (the primary research question and the primary research objective) were very broad. Therefore, to answer and attain the primary research question and the primary research objective, a total of four investigative research questions were asked, while a total of five secondary research objectives were formulated (see Section 1.2.3).

6.4 INVESTIGATIVE RESEARCH QUESTIONS AND SECONDARY RESEARCH OBJECTIVES REVISITED

As mentioned above, for this research study, a total of four investigative research questions were developed, supported by five secondary research objectives. Each investigative research question, with its relevant secondary research objectives, is revisited below.

6.4.1 First investigative research question and its relevant secondary research objective revisited

Using the primary research question as foundation, the first investigative question that was asked within the ambit of this research study read as follows:

> What constitutes a sound control environment in relation to the managerial conduct?

This investigative research question was answered by conducting a literature review (see Chapter 2) with the intent to achieve the following secondary research objective:

> To develop a conceptual framework relating to the core characteristics which are representative of an appropriate managerial conduct, as a fundamental part of the control environment.

Before the investigative research question could be answered, it was important to first formulate a thorough understanding of the control environment. The control environment of any organisation has to do with the overall attitude of management surrounding internal control, in a holistic sense (see Section 2.3.1). Although no formal definitions exist for a sound control environment, previous research studies point out that a sound control environment is strongly associated with the following characteristics: 1) management is committed to integrity, 2) management is committed to ethical values, 3) management is committed to competence, 4) management is committed to responsibility, 5) management is committed to accountability, 6) management has a proper management philosophy, 7) management uses a sound operating style, 8) adequate human resource policies and practices exist, and 9) an adequate organisational structure exists which reflects clear lines of authority (see Section 2.5.1).

When focus was shifted to the managerial conduct of management, it was found that this phenomenon forms a major part of the control environment of any organisation (see Section 2.5.1 and Section 2.5.2) since it pertains to the manner in which management execute their respective responsibilities, through making use of a suitable managerial philosophy and a suitable operating style (see Section 2.6.1). As a result, the perception was formulated (in theory) that the more appropriate the managerial conduct of management is in an organisation, the better the control environment in the respective organisation will be. This perception was an incentive to ascertain what appropriate managerial conduct is.

Unfortunately, after investigating an array of databases, no formal definitions were found for appropriate managerial conduct. It was however found that appropriate managerial conduct is strongly associated with the characteristics of good corporate governance, namely that of: 1) discipline, 2) transparency, 3) independence, 4) accountability, 5) responsibility, and 6) fairness (see Section 2.6.3). Hence, a conceptual framework was developed in relation to the core characteristics representative of appropriate managerial conduct:

- Management should execute their relevant responsibilities in a manner that accords with the characteristics of good corporate governance.
- Management should utilise a suitable managerial philosophy to make decisions, built on the characteristics of good corporate governance.
- Management should utilise a suitable operating style to manage effectively, built on the characteristics of good corporate governance.

Based on this research study, it was found that both the managerial philosophies and the values of members of management, of sampled South African FMCG SMMEs, were strongly associated with the core characteristics of good corporate governance (see Section 5.5.1 and Section 5.5.2); in turn, the managerial operating styles of members of management were found to be flexible (see Section 5.5.3). Although the managerial conduct of management had a distinct influence on an array of activities in these sampled business entities, the managerial conduct of management was regarded by respondents as neither appropriate nor inappropriate (see Section 5.5.4). Since the managerial conduct forms a major part of the control environment, the assumption was therefore that the control environment of sampled South African FMCG SMMEs was neither appropriate nor inappropriate (see Section 5.6), which may or may not have had an adverse influence on the internal control evident in these business entities.

6.4.2 Second investigative research question and its relevant secondary research objective revisited

Also relative to the primary research question, the second investigative research question that was asked within the ambit of this research study read as follows:

> What constitute adequate and effective internal control activities?

This investigative question was also answered by conducting a literature review (see Chapter 2) to achieve the following secondary research objective:

> To develop a conceptual framework relating to the core aspects which constitute adequate and effective internal control activities.

Before the relevant investigative research question could be addressed, it was important to first understand what an internal control system was. According to the literature reviewed, an internal control system should provide reasonable assurance surrounding the attainment of relevant organisational objectives in the foreseeable future. Furthermore, it also comprises five inter-related elements, namely: 1) control environment, 2) risk management, 3) control activities, 4) information and communication, and 5) monitoring (see Section 2.1.2 and Section 2.2.4). All of these five inter-related elements should be both present and comprehensive in their coverage across an organisation, in a holistic sense (see Section 2.3.4).

Using the above as basis, it was important to place emphasis on what a sound system of internal control is. Unfortunately, after investigating an array of databases, no formal definitions were found for a sound internal control system. According to previous research studies, however (see Section 2.1.4, Section 2.2.3, Section 2.2.4, and Section 2.3.4), a sound system of internal control was found to be strongly relative to the following listed characteristics:

- Entails a process.
- Implemented by stakeholders charged with governance.
- Helps prevent risks from realising.
- Helps detect risks as they realise.
- Helps with the attainment of operational objectives.
- Helps with the attainment of reporting objectives.
- Helps with the attainment of compliance objectives.

A sound control environment is regarded as a prerequisite for a sound internal control system, particularly since it forms the foundation of any system of internal control (see Section 2.5.1). Because the control environment will almost always have a direct influence on the remaining four inter-related elements of a system of internal control (see Section 2.5.1), in a theoretical dispensation the assumption was made that the soundness of the control environment will have an influence on the adequacy and effectiveness of control activities in any organisation (see Section 2.5.2). For this very reason it was important to understand what constitute adequate and effective internal control activities.

With the assistance of relevant literature (see Section 2.5.2), a conceptual framework was developed pertaining to the core characteristics constituting adequate and effective internal control activities. These characteristics were found to include, inter alia:

- Consist of both preventive controls and detective controls.
- Be adaptable to changes in the business environment of an organisation.
- Assist management with the execution of their respective responsibilities.
- Be robust.
- Be suitable for the industry in which the organisation is based.
- Be supportive of relevant policies and procedures.
- Be supportive of risk-management strategies.
- Relate to the five categories of control, namely: 1) segregation of duties, 2) proper authorisation activities, 3) adequate document usage and design, 4) safeguarding of assets, and 5) independent checks.

Based on this research study, it was found that the internal control systems that were implemented by sampled South African FMCG SMMEs were customised in nature. Despite the fact that these systems were largely described as formal, more often than not they were built on the foundation of an array of internal control frameworks (see Section 5.4.1). Even through a customised internal control system can add value to an organisation in relation to the attainment of its objectives in the foreseeable future (see Section 3.3), based on the results the inference was that the customised internal control systems of these business entities did not provide reasonable assurance surrounding the attainment of relevant organisational objectives in the foreseeable future (see Section 5.4.1). This inference is supported by the results pertaining to the internal control activities in these business entities.

Sampled South African FMCG SMMEs: 1) did not make proper use of source documents (see Section 5.4.2.1), 2) did not make use of proper authorisation activities (see Section 5.4.2.2), 3) mostly made use of preventive control activities to safeguard assets while ignoring detective controls (see Section 5.4.2.3), 4) made limited use of controls pertaining to the segregation of duties (see Section 5.4.2.4), and 5) made only average use of controls pertaining to independent checks (see Section 5.4.2.5). In addition, only a few internal control activities were found to have an average presence in these business entities (see Section 5.4.2.6).

Notwithstanding the above, respondents were of the opinion that the internal control activities used (implemented) by sampled South African FMCG SMMEs were both adequate and effective. Since only a few internal control activities had an average presence in these business entities, the assumption was that respondents made reference to those activities when they evaluated the adequacy and effectiveness of internal control activities in their respective business entities (see Section 5.4.2.6). When taking into account the economic sustainability of these business entities, however (see Section 5.3.4), as well as the conceptual framework developed pertaining to adequate and effective internal control activities (see Section 2.5.2), it appears that the customised internal control activities (and customised internal control systems) in sampled South African FMCG SMMEs were neither adequate nor effective as they did not provide reasonable assurance regarding the attainment of relevant (economic) organisational objectives in the foreseeable future (see Section 5.4.3).

Moreover, when focusing on the results pertaining to the managerial conduct of management (see Section 6.4.1), clear tangent planes start to emerge as to why these business entities made use of customised internal control systems. The managerial conduct of management (as a major part of the control environment) was described as flexible and neither appropriate nor inappropriate. Hence, it is highly plausible that the control environments of these business entities were also flexible and neither appropriate nor inappropriate (see Section 5.6).

6.4.3 Third investigative research question and its relevant secondary research objective revisited

Stemming from the primary research question, the third investigative research question that was asked within the ambit of this research study read as follows:

> In a theoretical dispensation, what is the current status surrounding the managerial conduct of South African FMCG SMMEs' management and the implemented control activities in these business entities?

Similar to the previous two investigative research questions, this investigative question was also answered by conducting a literature review (see Chapter 3), all with the intent to achieve the following secondary research objective:

> To develop a conceptual framework surrounding the current status pertaining to both the managerial conduct of South African FMCG SMMEs' management, and the adequacy and effectiveness of implemented internal control activities in South African FMCG SMMEs.

Before answering the relevant investigative research question, the economic landscape of South Africa was theoretically explored. Even though South Africa is a developing country, popular literature contends that the economic landscape of South African can be described as "harsh" (see Section 3.1.2.3), largely attributable to high inflation and unemployment rates, and excessive poverty levels (see Section 3.1.2.4). According to the literature review, the "harsh" economic environment of South Africa is believed to have an adverse influence on both natural and non-natural entities in South Africa (including South African SMMEs) as it serves as a type of "breeding ground" for an array of risks to realise (see Section 3.2.1 and Section 3.2.2). Using this as foundation, while also taking the conceptualised framework pertaining to the characteristics of adequate and effective internal control activities into account (see Section 2.5.2), it was important to investigate theoretically the sustainability of South African FMCG SMMEs.

Previous research studies suggest that South African SMMEs are major contributors to the national GDP; however, and unfortunately, these business entities do not have sound economic sustainability as to a large extent they do not attain their economic responsibilities (see Section 3.2.2). This view is substantiated by the fact that approximately 75% of South African SMMEs have to close their doors after being in operation for only three years. Since the weak economic sustainability of South African SMMEs is strongly influenced by the "harsh" economic environment of South Africa, which, in turn, is influenced by an of array economic factors (see Section 3.2.1), the perception was formulated that these business entities had a need for some sort of internal control system. For this reason, it was important to understand the current status surrounding the adequacy and effectiveness of internal control activities evident in these business entities. After examining an array of databases, only one[202] previous research study was found which indicated that South African FMCG SMMEs made use of customised internal control systems, which, in turn, provided limited assurance surrounding the attainment of organisational objectives in the foreseeable future (see Section 3.3). As a result, an assumption was made that these business entities made use of customised internal control activities.

Notwithstanding the above, the control environment serves as the foundation of any system of internal control (see Section 2.5.1); the managerial conduct of management also forms a major part of the control environment. Therefore it was important to understand the current status surrounding the appropriateness of the managerial conduct of management in South African FMCG SMMEs. After examining various databases, it was found that limited literature existed on the current status surrounding the managerial conduct of South African FMCG SMMEs. Only a few international research studies have been conducted on the managerial conduct of management in FMCG SMMEs – the managerial conduct of management in FMCG SMMEs is deemed to be flexible.

Using the above as basis, relevant conceptual frameworks were developed in relation to the following phenomena:

- The managerial conduct of South African FMCG SMMEs' members of management would most probably function as follows:
  - Management makes use of a variety of operating styles.
  - These operating styles are very flexible.
  - These operating styles are aligned to "customer satisfaction".
  - These operating styles are aligned to "beating the competition".
  - These operating styles are aligned to "making profit".
  - Management makes use of suitable managerial philosophies.

[202] This research study only took into account the views of members of management of South African FMCG SMMEs into consideration. Their views surrounding their relevant business entities' internal control activities could have been biased.

- These philosophies are aligned to “customer satisfaction”.
- These philosophies are aligned to “beating the competition”.
- These philosophies are aligned to “making profit”.
- The overall managerial conduct of members of management is flexible.

- The internal control activities evident in South African FMCG SMMEs are most probably:
  - Customised.
  - Informal in nature.

Based on this research study, the internal control activities evident in South African FMCG SMME are customised (informal) in nature. In essence, the analysed results provided evidence that these business entities: 1) did not make adequate use of or source documents (see Section 5.4.2.1), 2) made use of neither proper nor improper authorisation activities (see Section 5.4.2.2), 3) made predominant use of detective controls only in relation to the safeguarding of assets (see Section 5.4.2.3), 4) made limited use of controls pertaining to the segregation of duties (see Section 5.4.2.4), and 5) controls relative to independent checks were used only to an average extent (see Section 5.4.2.5). Since only a few internal control activities had an average presence in sampled South African FMCG SMMEs (see Section 5.4.2.6), while also taking into account the economic sustainability of these business entities (see Section 5.3.4), the assumption was that these customised internal control activities were neither adequate nor effective (see Section 5.4.3).

It was found that the managerial philosophy of members of management accorded with the characteristics of good corporate governance (see Section 5.5.1), soundly supported by values also in line with the characteristics of good corporate governance (see Section 5.5.2). In addition, it was found that members of management did in fact made use of an array of operating styles, supporting the view that the managerial conduct of management was flexible (see Section 5.5.3). Furthermore, members of management were found to have neither appropriate nor inappropriate managerial conduct (see Section 5.5.4). It is believed that this could have been influenced by, inter alia: 1) a “personality clash” between members of management and employees, 2) the manner in which respondents understood the term “appropriate”, and/or, 3) the flexibility of the managerial operating styles of members of management.

6.4.4 Fourth investigative research question and its relevant secondary research objectives revisited

The fourth investigative question that was asked within the ambit of this research study was also built on the foundation of the primary research question. It read as follows:

> What relationship exists between the managerial conduct of South African FMCG SMMEs' management and the implemented internal control activities in these business entities?

The investigative research question above was answered by performing a thorough data analysis (by means of descriptive statistics and inferential statistics) on the primary quantitative data that were obtained from respondents. The following two secondary research objectives were attained by the analysed data (see Chapter 5):

> To determine the relationships which exist between the managerial conduct of members of management and the implemented internal control activities in South African FMCG SMMEs.

> To determine the similarities and/or differences between the views of members of management and those of employees on: 1) the managerial conduct of members of management, 2) internal control activities of South African FMCG SMMEs, and 3) the relationships they perceive to exist between the two aspects.

Before these secondary research objectives could be achieved, data were first analysed on the background information of sampled South African FMCG SMMEs. Reference was made to the: 1) demographic information of members of management, 2) demographic information of employees, 3) nature of sampled South African FMCG SMMEs, and 4) the economic sustainability of these sampled business entities (see Section 5.3.1, Section 5.3.2, Section 5.3.3, and Section 5.3.4). In addition, data were also analysed to provide insight on the internal control systems and internal control activities of these business entities (see Section, 5.4.1, Section 5.4.2.1, Section 5.4.2.2, Section 5.4.2.3, Section 5.4.2.4, Section 5.4.2.5, Section 5.4.2.6, and Section 5.4.3), as well as the managerial philosophy and the managerial operating style of members of management (see Section 5.5.1, Section 5.5.2, Section 5.5.3, and Section 5.5.4). Stemming from the analyses, the following main key findings were reached in relation to the background information of sampled South African FMCG SMMEs:

- Members of management: The average member of management was a South African, deemed an owner with zero to five years' managerial experience and a highest qualification of Grade 12 (see Section 5.3.1).
- Employees: The average employee was a South African full-time employee with work-related experience of between zero and five years, and a highest qualification of Grade 12 (see Section 5.3.2).
- Nature of businesses: The average sampled South African FMCG SMME was situated in the Cape Metropole and regarded as a non-franchised sole retailer that frequently sold its products on a cash-only basis. It employed an average of zero to five employees at any given time and had existed for six years or longer (see Section 5.3.3).
- Economic sustainability: The economic sustainability of the average sampled South African FMCG SMME was deemed to be very good according to respondents. Despite the fact that it had a good relationship among its relevant stakeholders, its profitability solvency and liquidity levels were only slightly above average (see Section 5.3.4).
- Internal control systems: The internal control systems of sampled South African FMCG SMME were customised and rated as adequate and effective by respondents. These systems were built on an array of internal control frameworks, and stemming from the results, the inference was that these customised systems of internal control did not provide reasonable assurance surrounding the attainment of relevant organisational objectives in the foreseeable future (see Section 5.4.1).
- Internal control activities: The internal control activities in sampled South African FMCG SMMEs were customised, of which only a few had an average presence. In particular, these business entities: 1) did not make adequate use of or source documents (see Section 5.4.2.1), 2) made use of neither proper nor improper authorisation activities (see Section 5.4.2.2), 3) made predominant use of detective controls only in relation to the safeguarding of assets (see Section 5.4.2.3), 4) made limited use of controls pertaining to the segregation of duties (see Section 5.4.2.4), and 5) controls relative to independent checks were used only to an average extent (see Section 5.4.2.5). As such, the inference was that these internal control activities did not provide assistance towards the providence of reasonable assurance surrounding the attainment of relevant organisational objectives in the foreseeable future (see Section 5.4.3).
- Managerial philosophy: The managerial philosophy of members of management was found to be in accordance with the following characteristics of good corporate governance: 1) transparency, 2) accountability, and 3) responsibility – supported by the

values of members of management that were in line with all relevant characteristics of good corporate governance (see Section 5.5.1 and Section 5.5.2).

- Managerial operating style: The managerial operating style of members of management was found to be flexible as it pertained to the following: 1) parental operating styles, 1) autocratic-operating styles, 3) semi-autocratic operating styles, 4) democratic operating styles, and 5) persuasive operating styles (see Section 5.5.3).
- Managerial conduct: Based on the results pertaining to the managerial philosophy and the managerial operating style of members of management, the inference was that the managerial conduct of members of management was flexible. In addition, according to respondents, the appropriateness of the managerial conduct of members of management was deemed to be neither appropriate nor inappropriate (see Section 5.5.4).

Stemming from the above, it was possible to perform statistical tests with the main intent to answer the fourth investigative research question and attain the final two secondary research objectives. The tests that were performed helped to determine: 1) the relationship which existed between the managerial conduct of members of management in sampled South African FMCG SMMEs and the internal control activities evident in these business entities, as well as 2) the differences and/or similarities in the views of members of management and those of employees of sampled South African FMCG SMMEs pertaining to the managerial conduct and internal control activities, as well as the relationship they believed to exist between the latter two aspects. Based on tests performed, it was found that:

- There existed a very weak negative significant relationship between the managerial conduct of members of management and the implemented internal control activities in these business entities (see Section 5.6).
- There existed limited similarities between the views of members of management and those of employees of South African FMCG SMMEs pertaining to the managerial conduct of members of management and the internal control activities (see Section 5.7.1), serving as evidence that members of management had biased opinions in this regard.
- There existed close to no similarities between the views of members of management and employees on the relationship they believed to exist between the managerial conduct of members of management and the implemented internal control activities in these business entities (see Section 5.7.2), serving as evidence that members of management had over-optimistic (and biased) views surrounding the influence of their managerial conduct over the internal control activities evident in these business entities.

The following two probable reasons were provided for the very weak negative significant statistical relationships identified between the managerial conduct of members of management and the internal control activities evident in sampled South African FMCG SMMEs (see Section 5.6):

- Sampled South African FMCG SMMEs made use of customised internal control activities of which only a few had an average presence in these sampled business entities. Regardless of this, these customised internal control activities with an average presence were regarded as both adequate and effective. When focus is placed on the results, it appears that these business entities only made use of internal control activities when they were deemed popular and/or proved to be feasible in the FMCG industry as opposed to making use of internal control activities to provide reasonable assurance surrounding the attainment of relevant organisational objectives in the foreseeable future.
- Even through the managerial conduct of members of management has an influence on an array of activities in sampled South African FMCG SMMEs, the managerial conduct of members of management was evaluated as neither appropriate nor inappropriate. When taking into account the fact that the managerial philosophy of members of management was in accordance with the core characteristics of good corporate governance, it is highly probable that the flexible managerial operating styles of members of management, inter alia, may have had an adverse influence on the evaluation of respondents pertaining to the appropriateness of the managerial conduct of members of management. The managerial conduct of members of management forms a major part of the control environment – if the managerial conduct of members of management is neither appropriate nor inappropriate, it serves as an indication that the control environments of these business entities are also neither appropriate nor inappropriate. Based on the results however, evidence is provided that these business entities only made use of internal control activities when they were deemed popular and/or proved to be feasible in the FMCG. Hence, it appears that members of management did not meticulously rely on their managerial conduct before deciding which internal control activities should be used.

In addition to the aforesaid, the identification of limited statistically significant similarities between the views of members of management and those of employees on the managerial conduct of members of management and the internal control activities evident in these business entities – as well as the comparison of the statistically significant correlations of the separate views of the two groups on the aforesaid aspects (which indicated no similarities) – is quite concerning. This is especially the case since members of management and employees are expected to have similar views pertaining to the managerial conduct of members of management, as well as the internal control activities evident in their respective business entities. Unfortunately, based on the results, the two groups of respondents had statistically significant different views in relation to, inter alia, 39.02% of all tested internal control activities which were evident in these business entities (see Section 5.7.1). Although of concern, the latter statistics do however provide support as to why the internal control activities evident in these business entities: 1) had an average presence (see Section 5.4.2.1, Section 5.4.2.2, Section 5.4.2.3, Section 5.4.2.4, and Section 5.4.2.5), and 2) were not adequate or effective in relation to the provision of assurance surrounding the attainment of organisational objectives in the foreseeable future (see Section 5.4.2.6).

Despite the fact that a very weak significant negative relationship was identified between the managerial conduct of members of management and the internal control activities evident in sampled South African FMCG SMMEs, it is highly probable that other significant relationships exist between the managerial conduct of members of management and the other inter-related elements of a sound system of internal control in these business entities (avenue for further research). This sentiment is particularly supported by the results that show that the managerial conduct of members of management has a direct influence on a wide range of aspects in sampled South African FMCG SMMEs, including the adequacy and effectiveness of a system of internal control (see Section 5.5.4).

6.5 CONCLUSION OF THE RESEARCH STUDY

Stemming from the literature review conducted, it was found that the sustainability of South African SMMEs is regarded as one of the worst in the world. A plausible reason for this is that South African SMMEs made use of ill-developed internal control systems, each comprising, inter alia: 1) a control environment (including the managerial conduct), and 2) internal control activities.

Based on the research conducted (with focus placed on South African FMCG SMMEs), both members of management and employees regarded the managerial conduct of members of management as neutral, and evaluated the internal control activities (those with an average presence) as both adequate and effective. The internal control activities implemented by sampled South African FMCG SMMEs were found to provide limited assurance surrounding the attainment of organisational objectives in the foreseeable future. When correlations were drawn between the managerial conduct of members of management and the internal control activities evident in sampled South African FMCG SMMEs, a very weak negative statistically significant relationship was identified – meaning that the managerial conduct of management did not support the internal control activities evident in these business entities (contrary to sound internal control systems supporting such a relationship).

Since the views of members of management only could have resulted in respondent bias, the views of both members of management and those of employees were tested for differences and/or similarities, especially. Although the perceptions of members of management and employees were contradictory to the perceptions which were formulated, they had mostly statistically significant similar opinions surrounding the managerial conduct of members of management and the internal control activities in sampled South African FMCG SMMEs, too many significant differences were identified. When a comparison was made between the views of members of management and those of employees on the relationship they believed to exist between the managerial conduct management and the internal control activities evident in these business entities nearly no similar views were identified. The differences in perceptions of members of management and employees are a further indication that members of management have an incorrect perception of their managerial conduct, their implemented internal control activities, and the support their managerial conduct provides to their implemented internal control activities.

In conclusion, it is highly probable that the very weak negative statistically significant relationship between the managerial conduct of management and internal control activities evident in South African FMCG SMMEs played a role in the weak sustainability of these business entities.

6.6 RECOMMENDATIONS

Stemming from the discussions above, the following propositions are strongly recommended for implementation:

- The internal control systems of South African FMCG SMMEs should be enhanced by members of management. In particular, emphasis should be placed on implementing more detective controls with the main intent to help provide reasonable assurance surrounding the attainment of relevant organisational objectives in the foreseeable future.
- The internal control activities that are used by South African FMCG SMMEs should make provision for: 1) the mandatory utilisation of source documents, 2) proper authorisation activities as supported by written policies and procedures, 3) proper detective controls in relation to the safeguarding of assets (e.g. alarms, CCTV cameras, etc.), 4) the segregation of duties as supported by written policies and procedures, and 5) the introduction of mandatory independent checks (daily banking of cash, staff supervision, etc.). All improvements made to existing internal control activities should be subsidised by national government, where possible (particularly by the DTI).
- Employees of South African FMCG SMMEs should be provided with basic training in business and management sciences in order to obtain a generic and fundamental theoretical understanding of commerce. Such training should be subsidised by national government (particularly through skill development levies), where possible.
- Members of management of South African FMCG SMMEs should be provided with basic training in business and management sciences in order to obtain a generic and fundamental theoretical understanding of commerce. Such training should be subsidised by national government (particularly through skill development levies), where possible.
- The national government should encourage recently graduated students (bachelor's degree or equivalent) in the discipline of internal auditing to aid South African FMCG SMMEs with the assessment of their internal control on a periodic basis. These students are to be reasonably remunerated (particularly through the Department of Higher Education and Training and/or Skills and Education Training Authorities) by national government, where possible.
- South African FMCG SMMEs should ensure that their profitability, solvency and liquidity are properly controlled (through internal control activities) and monitored on a continual basis to provide reasonable assurance surrounding the attainment of relevant economic responsibilities.

Notwithstanding the above, it is also important to keep the "harsh" economic environment of South Africa in mind. The South African economic environment is not very conducive to SMMEs and is largely impacted by macro-economic factors. As macro-economic factors can be controlled to a large extent at a national level, it is strongly advised that national government take cognisance of the following recommendation:

- Money received in the form of taxation (or equivalent) should not be wasted on fruitless and wasteful expenditure; it rather be invested in the infrastructure of the national economy. Such investments should allow for, inter alia: 1) a decrease in unemployment rates, 2) a decrease in poverty levels, and 3) decreases in inflation rates.

6.7 AVENUES FOR FURTHER RESEARCH

Throughout this research study, many avenues for further research were identified. These avenues for further research are listed below:

- To identify the measures which members of management of South African SMMEs can take to holistically improve their implemented systems of internal control.
- To determine the impact of inadequate and/or ineffective internal control systems on the overall continuation rate of South African SMMEs.
- To determine the impact of customised internal control systems on the overall continuation rate of South African SMMEs.
- To explore the conduciveness of economic environments for SMMEs to operate in by comparing the economic environments of developing economies to those of developed economies.
- To explore the effectiveness of government support offered to SMMEs by comparing government support in developing economies with that of government in developed economies.
- To understand how the personalities of relevant stakeholders of South African SMMEs impact on the perceived appropriateness of the managerial conduct evident in these business entities.
- To determine how the managerial operating styles of members of management of South African SMMEs influence implemented internal control activities.
- To explore how the economic sustainability of South African SMMEs is influenced by customised internal control activities.
- To explore how the economic sustainability of South African SMMEs is influenced by inadequate and/or ineffective internal control activities.
- To ascertain how the lack of managerial experience of members of management of South African SMMEs impacts the overall sustainability of these business entities.

- To understand how the South African unemployment rate influences the employment statistics of South African SMMEs.
- To explore the employment strategies of members of management of South African SMMEs.
- To determine how cash management influences the liquidity of South African SMMEs.
- To explore how the South African unemployment rate influences necessity entrepreneurs.
- To explore the relationship between the managerial conduct of management and the element of “risk management” in South African SMMEs.
- To explore the relationship between the managerial conduct of management and the element of “information and communication” in South African SMMEs.
- To explore the relationship between the managerial conduct of management and the element of “monitoring” in South African SMMEs.
- To explore the significant differences between the views of management and employees in South African SMMEs regarding managerial conduct and internal control activities in their respective business entities.

6.8 THE CONTROL LEGACY-K FRAMEWORK EXPLAINED

Based on the research conducted, the following three significant discoveries, inter alia, were made:

- The customised internal control activities of sampled South African FMCG SMMEs did not help provide reasonable assurance surrounding the attainment of relevant organisational objectives in the foreseeable future. Probable reasons for this dispensation include, inter alia: 1) internal control activities were mostly used (implemented) in these business entities only if they were popular and/or proved to be feasible in the FMCG industry, and/or 2) only a few internal control activities (relative to the segregation of duties, independent checks, adequate document usage and design, proper authorisation activities, and the safeguarding of assets) had an average presence in these buisness entities (see Section 5.4.2.1, Section 5.4.2.2, Section 5.4.2.3, Section 5.4.2.4, Section 5.4.2.5, and Section 5.7).
- Taking into account the influence the managerial conduct of management has on sampled South African FMCG SMMEs, it is disconcerting to note that the managerial conduct of members of management in these business entities was evaluated by respondents to be neither appropriate nor inappropriate (see Section 5.5.4). Plausible reasons for the latter include, inter alia: 1) “personality” clashes between members of

management and employees, 2) the understanding of respondents in relation to the term "appropriate", and/or 3) the flexible managerial operating styles of members of management (see Section 5.5.3, Section 5.5.4, Section 5.6, and Section 5.7).

- There existed a very weak negative statistically significant relationship(s) between the managerial conduct of members of managment and the internal control activities evident in South African FMCG SMMEs (see Section 5.6). Since most correlations were found to be negative (70.09%), the results serve as evidence that the managerial conduct of management did not have an influence on the internal control activities evident in these business entities, contrary to popular literature (see Section 2.5.1, Section 2.5.2, Section 2.6.1, Section 2.6.3, and Section 5.6).

Stemming from these three listed significant discoveries, the Control Legacy-K (CLK) Framework was developed, serving as as tool which can assist members of management of South African FMCG SMMEs to enhance the appropriateness of their overall managerial conduct, as well as the adequacy and effectiveness of their implemented internal control activities to, in turn, allow these business entities to attain their respective organisational objectives in the foreseeable future. The CLK Framework was developed while keeping in mind that any organisation needs to be managed strategically for it to attain its relevant objectives in the foreseeable future (Slack & Lewis, 2015:5-7). The CLK Framework is first depicted in Figure 6.1 and explained in depth thereafter.

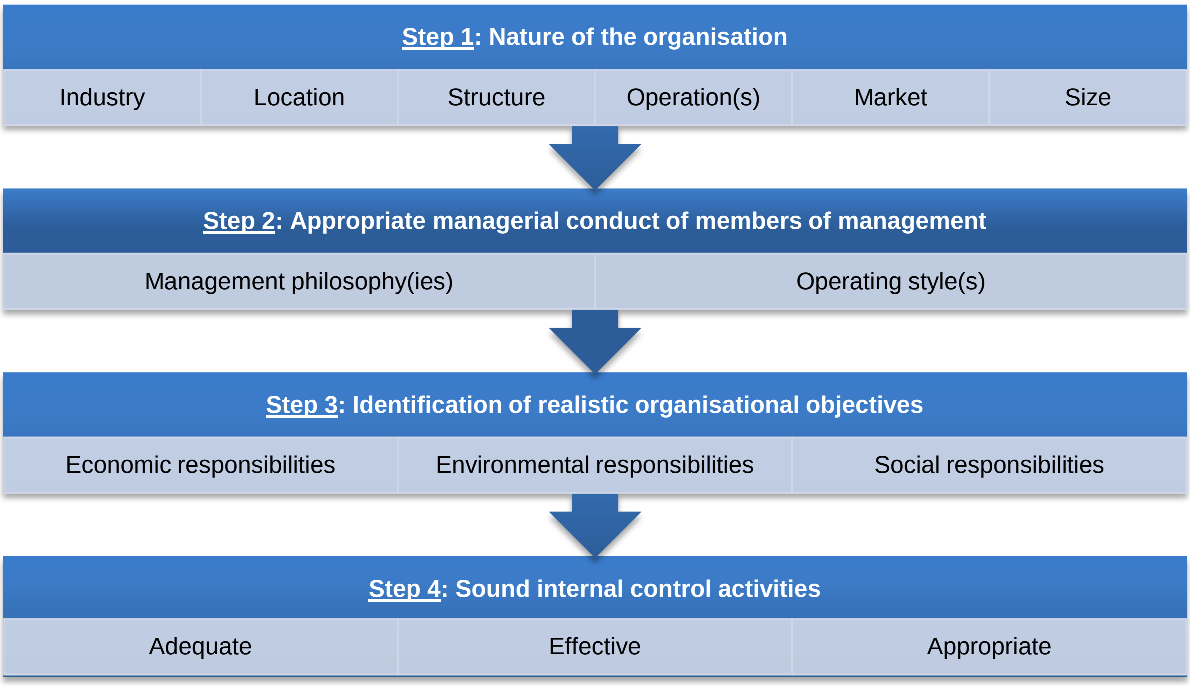

Figure 6.1: The CLK Framework

The CLK Framework proposes that the nature of the organisation should first be understood in depth – this includes the size of the organisation, the location of the organisation, the organisational structure, the organisational operations, the markets of the organisation and the industry in which the organisation operates. Essentially, the nature of the organisation will provide members of management with a holistic view of the reality pertaining to their respective organisations.

According to the results of this research study, the internal control activities which were used (implemented) by sampled South African FMCG SMMEs were largely influenced by the popularity and/or the feasibility of these activities in the FMCG industry (see Section 5.6). Furthermore, the views of members of management and employees differed in relation to 39.02% of all tested internal control activities (see Section 5.7). In essence, internal control activities should only be used (implemented) for the sake of assisting an organisation to achieve its relevant objectives in the foreseeable future through the adequate and effective prevention and detection of risks (see Section 2.5.2) with the ultimate aim to fortify its respective going-concern status (see Section 3.2.2).

Notwithstanding the above, when taking into account the “harsh” economic environment of South Africa, it serves as a type of “breeding ground” for an array of risks to realise (see Section 3.2.1). Since each orgnisation will be uniquely influenced by risks (see Section 2.2.3), it is important that the sustainability of organisations is reasonably assured by members of management through the way they manage, that is, their managerial conduct. In order to do so, it is imperative that members of managment fully understand the nature of their respective organisations (see Section 2.6.1).

With the above in mind, in a South African dispensation the inference can be made that the attainment of an organisation’s objectives will not only be directly impacted by, inter alia, the “harsh” South African economic environment, the adequacy and effectiveness of internal control activities, and the appropriateness of the managerial conduct of management, but also by the nature of the relevant organisation. Otherwise stated, it is important that members of management understand the nature of their respective organisations as the nature of their organisations will influence: 1) the organisational objectives that are set, 2) the most suitable manner in which the organisation should be managed, and 3) the internal control activities which should be used (implemented) in the organisation, among other aspects.

To place the first step of the CLK Framework in perspective, an explanation is provided by making reference to the game of chess.[203]

- Nature of the organisation: In order for an organisation (chess player) to become sustainable (safeguarded against defeat), it needs to achieve its relevant objectives in the foreseeable future (strategies to protect the King piece). Before any objectives can be set, it is important to take the nature of the organisation (universal analysis of the chess board) into account. The nature of the organisation includes the following phenomena: 1) the industry in which an organisation operates (the strengths and/or weaknesses of opposing chess players), 2) the location where the organisation is situated (the league of play), 3) the structure of the organisation (the types of pieces that can be used to defend the King piece of the player), 4) the operational activities that exist within the organisation (an array of moves that can be made to defend the King piece of the player), 5) the market in which the organisation operates (the number of opposing chess players against whom the chess player has to play in the foreseeable future), and 6) the size of the organisation (the number of pieces that can be used to defend the King piece of the player).

Once members of management have a thorough understanding of the nature of their respective organisations, they need to decide on managerial conduct that is deemed appropriate. According to the research study conducted, it was found that both the managerial philosophy and values of members of management of sampled South African FMCG SMMEs were in line with the core characteristics of good corporate governance (see Section 5.5.1 and Section 5.5.2). Moreover, the managerial operating styles of members of management were found to be flexible, leading to the inference that the managerial conduct of management was flexible (see Section 5.5.3). The managerial conduct of management in these business entities was regarded as neither appropriate nor inappropriate by respondents, despite its having a direct influence on an array of aspects in these business entities (see Section 5.5.4). In addition, members of management and employees also had statistically significant different views in relation to members of management's promotion of responsibility (see Section 5.7) that could have had a probable influence on the evaluation of the managerial conduct of management.

[203] Since this research study was based on SMMEs, it should be noted that the explanations below, in terms of chess, are related to the player who plays second – the defending player.

Among the aspects influenced by the managerial conduct, was that of the economic sustainability of sampled South African FMCG SMMEs (see Section 5.5.4). When placing focus on the economic sustainability of these business entities, it was disconcerting to note that it was slightly above average, especially when focusing on their profitability, solvency and liqudity levels (see Section 5.3.4).

Stemming from the above, it is therefore important that the chosen managerial philosophy of members of management should be concomitant with the core characteristics of good corporate governance and that the chosen managerial operating style of members of management should be sound – complementary to the nature of the organisation. This is important since members of management are clear and vivid reflections of their respective organisations, and vice versa (Gerber, 1995:5).

To place the second step of the CLK Framework in perspective, an explanation is provided by making reference to the game of chess:

- Appropriate managerial conduct: After the nature of the organisation has been determined (universal analysis of the chessboard), it will be possible to determine the appropriate managerial conduct (the manner in which chess is played by the player). Managerial conduct comprises: 1) the managerial philosophy of management (the confidence of the player while playing), and 2) the operating style of management (the style of play of the player).

  In essence, the appropriateness of the managerial conduct is strongly dependent on the nature of the organisation (universal analysis of the chessboard), since members of management are a clear and vivid reflection of their respective organisations, and vice versa (you are how you play chess). Therefore, management should decide what the most appropriate managerial philosophy and managerial operating style should be, even if a mixed approach is followed. The crux of the matter is that the managerial conduct of of management should be strongly associated with the core characteristics of good corporate governance (in accord with the rules of chess).

After members of management have decided on an appropriate managerial conduct, it is imperative that realistic organisational objectives are identified (if an organisation already has existing objectives, it is highly recommended that these objectives are revised and, where possible, adjusted accordingly). It is important that the objectives of an organisation should pertain to realistic expectations that are relative to the attainment of economic, social and/or environmental responsibilities in the foreseeable future (see Section 2.2.2).

Based on the research study conducted, it was found that members of management and employees had disparate views in relation to the managerial conduct of members of managment, the internal control activities in South African FMCG SMMEs, as well as the relationship between the two aspects (see Section 5.7.1 and Section 5.7.2). Since the views of members of management surrounding the phenomena were biased (see Section 6.5), it is highly probable that the views of members of mangement and employees surrounding the objectives of these organisations may also be biased.

The best manner to ensure that an organisation's objectives are realistic, is to take into account both the nature of the relevant organisation (step 1) and the managerial conduct (step 2). Alternatively put, when members of management have a thorough understanding of the nature of their respective organisations, and have decided on an appropriate managerial conduct to manage these organisations, it will be empirically possible to set realistic (and attainable) objectives which relate to economic, social, and/or environmental responsibilities.

To place the third step of the CLK Framework in perspective, an explanation is provided by making reference to the game of chess:

- <u>Identification of realistic organisational objectives</u>: Once an appropriate managerial conduct (manner in which chess is played by the player) has been established, it will be possible for members of management (players) to set relevant and realistic objectives for the organisation (desired outcome of each game of chess – stalemate, checkmate, etc.) that are strongly associated with the nature of the organisation (universal analysis of the chessboard). In turn, these objectives should relate to: 1) economic responsibilities (minimum and/or maximum number of moves required to protect the King piece), 2) environmental responsibilities (minimum and/or maximum sacrifices required to protect the King piece), and 3) social responsibilities (minimum and/or maximum number of piece promotions required to protect the King piece).

Lastly, while taking all other steps into account (step 1, step 2, and step 3), it is highly recommended that sound internal control activities are implemented with the main intent to: 1) aid in the provision of reasonable assurance surrounding the attainment of organisational objectives in the foreseeable future, and 2) help prevent and detect risks which may hamper the attainment of organisational objectives in the foreseeable future (if an organisation already has existing internal control activities, it is highly recommended that these activities are revised and (where possible) adjusted accordingly).

Based on the results of this research study, sampled South African FMCG SMMEs made use of customised internal control activities which, in turn, had an average presence in these business entities (see Section 5.4.2.6) since these business entities: 1) did not make extensive use of source documents (see Section 5.4.2.1), 2) did not make use of proper authorisation activities (see Section 5.4.2.2), 3) mostly made use of preventive controls only in relation to the safeguarding of assets (see Section 5.4.2.3), 4) made use of internal control activities pertaining to the segregation of duties to a below-average extent (see Section 5.4.2.4), and 6) made use of of internal control activities pertaining to independent checks to an average extent (see Section 5.4.2.5). This notwithstanding, the internal control activities these business entities used were neither adequate nor effective as they (customised internal control activities) provided limited assurance in relation to the attainment of relevant organisational objectives in the foreseeable future (see Section 5.4.3). Furthermore, it was found that internal control activities were mostly utilised (and implemented) in sampled South African FMCG SMMEs if they were regarded as popular and/or had been found to work in an array of business entities within the FMCG industry (see Section 5.6), while a limited statistically significant difference was also identified between the views of members of management and employees in relation to 39.02% of all tested internal control activities (see Section 5.7.1).

Hence, using the above as basis, it is imperative that implemented internal control activities should complement: 1) the nature of the organisation, 2) the managerial conduct, and 3) the attainment of realistic organisational objectives. In addition, it is strongly recommented that internal control activities should be adequate, effective, and appropriate:

- Adequate: Implemented internal control activitiess should be comprehensive in their coverage – be properly supported by the managerial conduct (step 2) and support the attainment of realistic organisational objectives in the foreseeable future (step 3).
- Effective: Implemented internal control activities should assist an organisation with the provision of reasonable assurance that its objectives will be achieved in the foreseeable future.

- Appropriate: Implemented internal control activities should be supportive of the nature of the organisation (step 1).

Notwithstanding the above, all implemented internal control activities should also be properly supported by, inter alia, formal written policies and procedures and proper audit trails (e.g. pre-numbered template source documents), while both members of management and employees should undergo continuous professional development. This is especially necessary to enhance the adequacy, effectiveness and appropriateness of impletemented internal control activities.

To place the fourth step of the CLK Framework in perspective, an explanation is provided by making reference to the game of chess:

- Internal control activities: With the nature of the organinsation in mind (universal analysis of the chess board), along with the establishment of an appropriate managerial conduct (manner in which chess is played by the player), and the identification of realistic organisational objectives (desired outcome of each game of chess), it should now be possible to implement sound internal control activities (hint-and-help resources). Internal control activities should both prevent risks from realising (provide help to defend the King piece and attain the desired outcome of each game of chess) and detect risks once they realise (provide hints on how the King piece should be defended better and how the desired outcome of each game of chess can still be attained), simultaneously assisting the organisation to achieve its realistic objectives while taking into account the nature of the organisation and the managerial conduct of management.

  The internal control activities that are implemented should provide appropriate coverage (hint-and-help resources take into account the universal analysis of the chessboard, the manner in which chess is played by the player, and the desired outcome of each game of chess), be adequate (hint and-help resources are good enough), be effective (hint-and-help resources are working as intended), and be directly relevant to: 1) segregation of duties, 2) proper authorisation activities, 3) adequate document usage and design, 4) safeguarding of assets, and 5) independent checks.

6.9 CONCLUSION

In this research study, emphasis was placed on the relationship which exists between the managerial conduct of management in South African FMCG SMMEs and the internal control activities in these business entities. Throughout this thesis, relevant conceptual frameworks were developed in Chapter 2 and Chapter 3, collected data (from respondents) were analysed from where results were shared and discussed accordingly in Chapter 5, and relevant conclusions and recommendations were made in relation to the research problem, primary research question, primary research objective, four investigative research questions, and the five secondary research objectives in Chapter 6.

Although there existed a very weak negative significant relationship between the managerial conduct of management and the internal control activities of South African FMCG SMMEs, the results showed that the internal control activities used (implemented) by these business entities were: 1) positively associated with the popularity and/or proven feasibility of these activities in the FMCG industry, and 2) negatively influenced by the appropriateness of the managerial conduct of management. Notwithstanding the above, the managerial conduct of management was however found to have a definitive influence on an array of aspects in sampled South African FMCG SMMEs.

Stemming from the research conducted, in order to assist these business entities to enhance the appropriateness of both the managerial conduct of management and the internal control activities evident in South African FMCG SMMEs, the CLK Framework was developed. The CLK Framework proposes four logically integrated steps which should, in turn, allow South African FMCG SMMEs to enhance their overall sustainability and, in turn, positively influence their continuation rate in the foreseeable future.

In essence, when internal control is sustained in an organisation, the sustainability of such an organisation can be assured to a reasonable extent.

> Success depends upon previous preparation, and without such preparation there is sure to be failure – Confucius.

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ANNEXURES

ANNEXURE A: NATIONAL AND INTERNATIONAL THESES AND DISSERTATIONS RELATED TO THE STUDY (2000 TO PRESENT)

Exploration of a Theory of Internal Audit

WHA Swinkels, Doctor of Philosophy

University of Amsterdam, 2012, Thesis

The purpose of this research study was to explore the academic and professional literature and current practice to develop clarity surrounding the theoretical and practical contributions to, limits of the existence and scope of work of internal auditing in relation to the control system of an organisation. The latter was attained through means of conducting a thorough literature review on the origins of internal auditing, the development of internal auditing, the theory of the firm (institutional theory) and the theory of control, while also collecting relevant data to empirically explore the actual existence of internal auditing in the Netherlands.

The research study found that internal auditing developed from traditional accounting and financial control into operational control testing and training, consulting activities such as risk management facilitation and corporate governance support to audit committees in organisations, as well as external auditors in their (external auditors') task of monitoring the internal risk and control system. In addition, this research study found that the various theoretical views of the firm (institutional theories) imply that internal auditing serves as a double-loop control mechanism. Despite this, the generic stance of internal auditing standards does however make it difficult for internal auditing to provide guidance on the question whether a firm is really in control. Lastly the research study also found that the broadness of the scope of internal audit functions is strongly associated with the size and (internal audit) team composition as opposed to their purpose and reporting lines.

Perceptions of Organizational Ethics, Governance, Compliance Risk and Internal Control

J Parales, Doctor of Management in Organizational Leadership
University of Phoenix, 2010, Dissertation

The purpose of this research study was to explore the differences that exist between individual approaches (perceptions) of organisational leaders in relation to organisational ethics, governance, compliance, risk and internal control processes. To achieve the latter, qualitative data from ten organisational leaders in a publicly administered organisation in the United States of America were obtained, particularly through means of using open-ended web-based surveys and individual open-ended (unstructured) face-to-face interviews. Aspects covered in the academic manuscript (literature review/s) include, but are not limited to:

- Agency theory.
- Ethics.
- Corporate governance.
- Compliance.
- Risks and risk management.
- Internal control.

The research study identified the relationship that exists between organisational ethics, governance, compliance, risk and internal control processes, and also found common themes in organisational leaders' approaches (perceptions) in relation to the aforementioned phenomena.

The Status of Internal Controls In Fast Moving Consumer Goods SMMEs in the Cape Peninsula

L Siwangaza, Master of Technology in Internal Auditing

Cape Peninsula University of Technology, 2013, Thesis

The main purpose of this research study was to determine the extent to which a sound implemented system of internal control could help small, medium and micro enterprises (SMMEs) improve their overall sustainability. This was achieved by means of conducting empirical research and obtaining quantitative data from 110 SMME owners and/or managers with the assistance of a questionnaire, comprising mostly closed-ended questions.

It was found that although most SMMEs had customised internal control systems in place, these systems of internal control provided limited assurance to SMME owners and/or managers that SMMEs would obtain their respective objectives in the foreseeable future.

Effect of Organizational Control Systems on Organizationally Directed Deviance

JJ Nowakowski, Doctor of Philosophy

Michigan State University, 2006, Dissertation

This research study examined the effect of several forms of organisational control (formal versus informal, external versus internal) on constructive deviance and destructive deviance. Stemming from the literature review, the hypothesis was formulated that formal and external control, as compared to informal and internal control, would lessen destructive deviance; however it may also (simultaneously) have a negative effect on constructive deviance.

The aforesaid was empirically tested through means of measuring the behaviour of 250 employees in a one-time work opportunity through making use of real-time non-participative observations as research methodology. Based on the findings made, although no forms of control were effective in eliminating destructive deviance, external control was proved most likely to weaken constructive deviance.

Ethical Dilemmas: Pressures on Leaders to Walk the Talk

MC Moreno, Doctor of Education

University of San Francisco, 2011, Dissertation

This qualitative research study explored the recursive nature of the causes and effects of ethical decision making within organisations through making use of the "person-situated interactionist model", along with an examination of complex responsive processes. Empirical research was conducted (through means of conducting interviews with relevant respondents) in a medium-sized municipal city environment near a major metropolitan area in the state of California.

Based on the findings made, five meta-themes were identified: 1) participants' values aligned with their definitions of ethics and the ethical dilemmas they experienced, 2) participants had cognitive, physical and emotional reactions to ethical dilemmas, 3) superiors' involvement had a significant bearing on the participants' ethical dilemmas, 4) formal and information cultural systems and processes influenced the participants' resolution of their ethical dilemmas, and 5) participants' ethical decisions influenced future organisational decisions, emanating in emergent patterns which may become a legacy in organisations' relevant (control) environments.

Effectiveness of Internal Control Mechanisms in Monitoring Financial Resources at the Gauteng Department of Education

K Makgatho, Master of Arts
North-West University, 2013, Dissertation

This research study was conducted with the main intent of strengthening internal control systems and mechanisms in the public sector, particularly for public institutions to maintain clean financial reports. In order to determine the effectiveness of internal control mechanisms in relation to monitoring financial resources, the case that was selected for this research study was the Gauteng Department of Education.

Empirical research (through interviews) was conducted to collect qualitative data from 45 employees based in the Gauteng Department of Education. It was found that although the Gauteng Department of Education is expected to develop (and maintain) policies that will contribute towards the management of public funds, a set of complex policies did exist within the department, which was in turn influenced strongly by the Public Finance Management Act, making it difficult to implement.

Participative Leadership and Social Control

LJ Taplin, Doctor of Philosophy

Benedictine University, 2001, Dissertation

In this research study a theory was constructed in relation to how organisational leaders exercise control over organisational outcomes in a "participative" work environment. Essentially, a better understanding is provided (through the literature reviewed) on the strategies and underlying techniques of social control that are used by leaders of various organisations, supported by a grounded theory approach.

The developed theory was tested by obtaining the experiences, observations and perspectives of three groups of respondents (organisational leaders, organisational employees and organisational consultants) which lead to the identification of multi-faceted strategies used by organisational leaders to obtain relevant organisational objectives, namely: 1) using the organisational leader as a control instrument, 2) using the elements of the formal organisation, and 3) using rational, informational, linguistic, cultural and strategic means to exercise social control.

Business Ethics: A Study of the Moral Reasoning of Selected Business Managers

A Forte, Doctor of Philosophy
New York University, 2001, Dissertation

For this research study, the relationships between organisational managers' locus of control and their moral reasoning ability were established. Three independent variables were focused on: 1) reported organisational ethical climate, 2) locus of control, and 3) selected demographic and institutional variables.

Kohlberg's theory of moral development, Victor and Cullen's ethical work climate theory and Rotter's theory of internal–external locus of internal control were used as foundation for this research study, and primary quantitative data were collected from 214 respondents (managers and/or executive managers) through means of a developed questionnaire.

Based on the findings, a major statistically significant relationship was discovered between the age and perceived organisational ethical climate types – younger mean ages were associated with more perceived ethical organisational climate types.

Risk Factors and Business Models: Understanding the Five Forces of Entrepreneurial Risks and the Causes of Business Failure

DA Miles, Doctor of Philosophy

University of the Incarnate Word, 2010, Dissertation

Although SMMEs across the globe have a large failure rate, few research studies explain why certain risks influence some SMMEs more than others. As such, this research study developed and validated a custom-designed measurement instrument (Entrepreneurial Risk Assessment Scale) to measure the critical forces of business risk, which, in turn, was enhanced through means of reviewed literature.

This was accomplished by obtaining quantitative data from 276 relevant respondents (business owners and/or managers of SMMES in the FMCG industry) in south Texas. Through the identification of many risk factors that influenced SMME success and the development of a custom-designed measurement instrument, it was also found that customers, resources and (business) operations often predicted the risk behaviour of relevant SMMEs.

A Structured Approach to Risk Management for South African SMMEs

Y Smit, Doctor of Technology in Internal Auditing

Cape Peninsula University of Technology, 2012, Thesis

As risk management (in general) pertains to the identification, assessment and appropriate handling of risks, this research study aimed to: 1) understand how risks are managed (holistically) within SMMEs and, 2) help develop a customised model for SMMEs to effectively manage their risks.

By making reference to applicable risk-management and governance frameworks, primary quantitative data were collected from 157 respondents (SMME owners and/or managers). It was found that although SMMEs made use of customised risk management techniques to manage risks, these techniques had limited effectiveness in relation to mitigating risks in these business entities. As such, the Risk Architecture Model was developed and recommended for use.

Internal Audit, Internal Control and Organizational Culture

RME Wright, Doctor of Philosophy

Victoria University, 2009, Thesis

Since the overall internal control of an organisation is based on the control environment (as foundation), this research study aimed to explore, with the assistance of an "organisational cultural model", how organisational culture (as a part of control environment) impacts on the operational internal audit (and internal control) in an organisation which, in turn, impacts on the attainment of relevant organisational objectives.

Through means of collecting primary quantitative data (through survey research), the results show that those responsible for establishing internal control generally have their own cultural orientation, independent of the organisation's cultural orientation.

<u>The Effect of HIV/AIDS on the Control Environment: An Internal Audit Perspective</u>

GP Coetzee, Master of Commerce
University of Pretoria, 2004, Dissertation

With the evolution of internal auditing as profession, the original Professional Practices Framework was amendment to include the aspect of "continuous professional development", particularly with the intent to enhance the control environment of an organisation (the foundation of any internal control system) to, in turn, enhance the soundness of internal control in the relevant organisation.

Unfortunately, HIV/AIDS has an adverse influence on the workforce of many governments around the world, particularly that of South Africa. As a result, this research study aimed to: 1) investigate the influence of HIV/AIDS on the control environment of organisations, and 2) evaluate the knowledge of internal auditors surrounding the potential risks of HIV/AIDS to an organisation.

Relevant chief audit executives of active IIA member companies provided primary qualitative data (through making use of personal interview questionnaires) from where it was found that although HIV/AIDS is not an "ordinary" business risk, it does have a direct influence on certain core elements of the control environment – serving as evidence that it should be appropriately managed just as any other "ordinary" business risk.

ANNEXURE B: RESEARCH QUESTIONNAIRE

LEAD RESEARCHER DETAILS	
Name and Surname:	Juan-Pierré Bruwer
E-mail:	**BruwerJP@cput.ac.za**

RESEARCH TITLE
The relationship between the managerial conduct of management and the internal control activities of South African fast-moving consumer goods SMMEs.

BRIEF BACKGROUND TO THE RESEARCH STUDY
Research shows that South African fast-moving consumer goods (FMCG) Small, Medium and Micro Enterprises (SMMEs) do not have sound internal control systems, which adversely impact on their abilities to attain their respective socio-economic objectives: 1) adding value to the national Gross Domestic Product (GDP), 2) reducing national unemployment levels, and 3) alleviating national poverty.

PROBLEM STATEMENT
In relation to the background, the perception was formulated that the weak internal control systems of FMCG SMMEs are directly influenced by: 1) the managerial conduct of their management, and 2) their internal control activities.

PRIMARY OBJECTIVE
This research study aims to explore the relationship that exists between the managerial conduct of South African FMCG SMMES and their internal control activities, in relation to their internal control systems.

HOW TO COMPLETE THE QUESTIONNAIRE
This questionnaire predominantly comprises closed-ended questions that require the respondent to fill in a numerical digit and/or mark an "X" or "✓" in the most appropriate boxes. In addition, clear instructions for each question are provided under each applicable section. If the respondent does not understand a certain question, please feel free to contact the lead researcher at the following e-mail address (BruwerJP@cput.ac.za) for more clarity. Please take note that throughout this survey, the term "the business" refers to the business which you own or manage and/or the business where you are employed.

ETHICAL CONSIDERATIONS
The following ethical considerations are applicable to this survey: 1) all information provided by the respondent will be treated with confidentiality, 2) the anonymity of the respondent is guaranteed during and after the research study, 3) all information provided by the respondent will used for research purposes only.

VOLUNTARY PARTICIPATION
The respondent should only participate in this research study on a voluntary basis. If the respondent agrees to voluntarily participate in this research study, the respondent may withdraw from the research study at any point in time the respondent should so wish.

Taking all of the above into account, I, the respondent, voluntarily agree to participate in this research study (tick the most appropriate box below)
Yes [ ] No [ ]

SECTION A: BUSINESS DEMOGRAPHICS
A1) How would you classify the business? (TICK the most appropriate box below)
Sole trader [ ] Partnership [ ] Close corporation [ ] Private company [ ]
A2) How would you describe the products sold by the business? (Tick as many appropriate boxes below)
Frequently sold by the business [ ] Frequently consumed by customers [ ] Necessity products [ ] Non-necessity products [ ] Fast-moving consumer goods [ ]
A3) How would you describe the geographical nature of the customers of the business? (tick as many appropriate boxes below)
Based in Cape Town only [ ] Based in the greater Western Cape [ ] Based in the greater South Africa [ ] Based beyond South Africa [ ]
A4) How would you describe the selling policy of the business relating to products sold? (Tick the most appropriate box below)
Cash sales only [ ] Credit sales only [ ] Cash and credit sales [ ]
A5) How would you describe the reach of the business apart from this outlet? (Tick as many appropriate boxes below)
This is the only outlet [ ] Another outlet(s) in Cape Town [ ] Another outlet(s) in the greater Western Cape [ ] Another outlet(s) in the greater South Africa [ ] Another outlet(s) worldwide [ ]
A6) What type of business is this? (Tick as many appropriate boxes below)
Retail store [ ] Wholesale store [ ] Caterer [ ] Restaurant [ ] Convenience store [ ] Café [ ] Spaza shop [ ] Tuck shop [ ] Other: ________________________
A7) What is the business' modus operandi? (Tick as many appropriate boxes below)
Buy products to sell to customers [ ] Buy products to sell to businesses [ ]
A8) Is this business a franchised business or a non-franchised business? (Tick the most appropriate box below)
Franchised [ ] Non-franchised [ ]
A9) How many employees does the business employ? (tick the most appropriate box below)
0 – 5 employees [ ] 6 – 10 employees [ ] 11 – 50 employees [ ] 51 – 100 employees [ ] 101+ employees [ ]
A10) How long has the business been in existence? (Please enter a number)
____________ years

SECTION B: POSITION IN THE BUSINESS
B1) What is your position in the business? (tick the most appropriate box below)
Managerial position (owner/manager) [ ] Non-managerial (employee) [ ]
If you are in a managerial position, please continue to Section C If you are in a non-managerial position, please continue to Section D

SECTION C: MANAGEMENT DEMOGRAPHICS
C1) What is your exact position in the business? (Tick the most appropriate box below)
Owner [ ] Manager [ ] Owner and manager [ ]
C2) How long have you been in this position? (Please write in a number)
____________ years
C3) Are you a South African citizen? (Tick the most appropriate box below)
Yes [ ] No [ ]
C4) What is your highest qualification? (Tick the most appropriate box below)
Lower than Grade 12 [ ] Grade 12/Senior Certificate/Matric [ ] National Higher Certificate/Higher Certificate/National Certificate [ ] Higher Diploma/Diploma/National Diploma [ ] Bachelor's Degree/Advanced Degree [ ] Honours degree/Postgraduate diploma [ ] Master's degree [ ] Doctoral degree [ ]
C5) Do you have decision-making power in the business? (tick the most appropriate box below)
Yes [ ] No [ ]
If "yes", please continue to Section E If "no", please continue to Section C(A)

SECTION C(A): MANAGEMENT DEMOGRAPHICS (ADDITIONAL)
C6) Based on C5, you indicated that you do not have decision-making power in the business. Why is this the case? (Please write a short sentence)
C7) Based on your answer in C5, would you rather say that you regard yourself as an employee of the business? (Tick the most appropriate box below)
Yes [ ] No [ ]
If "yes", please continue to Section D If "no", please continue to Section E

SECTION D: EMPLOYEE DEMOGRAPHICS
D1) What is your exact position in the business? (Tick the most appropriate box below)
Employee [ ] Other: ________________________
D2) How long have you been in this position? (Please write in a number)
____________ years
D3) What is your employment status? (Tick the most appropriate box below)
Full-time employee (permanent) [ ] Part-time employee [ ]
D4) Are you a South African citizen? (Tick the most appropriate box below)
Yes [ ] No [ ]
SECTION D: EMPLOYEE DEMOGRAPHICS (continued)
D5) What is your highest qualification? (Tick the most appropriate box below)
Lower than Grade 12 [ ] Grade 12/Senior Certificate/Matric [ ] National Higher Certificate/Higher Certificate/National Certificate [ ] Higher Diploma/Diploma/National Diploma [ ] Bachelor's Degree/Advanced Degree [ ] Honours degree/Postgraduate diploma [ ] Master's degree [ ] Doctoral degree [ ]
D6) Do you have decision-making power in the business? (tick the most appropriate box below)
Yes [ ] No [ ]
If "yes", please continue to Section D(A) If "no", please continue to Section E

SECTION D(A): EMPLOYEE DEMOGRAPHICS (ADDITIONAL)

D7) Based on D6, you indicated that you do have decision-making power in the business. Why is this the case? (Please write a short sentence)

Please continue to Section E

SECTION E: ECONOMIC SUSTAINABILITY OF THE BUSINESS

E1) For each statement below, indicate your level of agreement. The base sentence reads: "The business ..." (tick the most appropriate box(es) below).

Statement:	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Has more income than expenses					
Has more assets than liabilities					
Has sufficient cash on hand					
Has a good reputation among customers					
Has a good reputation among competitors					
Has a good reputation among its suppliers					
Will remain in operation for the foreseeable future					

SECTION E: ECONOMIC SUSTAINABILITY OF THE BUSINESS (continued)

E2) Based on your answers in E1, how would you describe the overall economic sustainability of the business? (Tick the most appropriate box below)

It is very good [ ] It is good [ ] It is neutral [ ] It is bad [ ] It is very bad [ ]

SECTION F: INTERNAL CONTROL SYSTEM

F1) Does the business have a system of internal control? (Tick the most appropriate box below)

Yes [ ] No [ ]

F2) How would you describe the business' system of internal control? (Tick as many appropriate boxes below)

A process [ ] realised/implemented by management [ ] formal [ ] informal [ ]
helps prevent risks from realising [ ] helps detect risks as they realise (loss events) [ ]
corrects loss events [ ] helps the business to achieve operational objectives [ ]
helps the business to achieve compliance objectives [ ]
helps the business to achieve reporting objectives [ ]
N/A, the business has no system of internal control [ ]

F3) For each statement, indicate "yes" or "no". The base sentence reads: "The business' system of internal control is ..." (tick the most appropriate box(es) below).

Statement	Yes	No
Based on the COSO Framework		
Based on the CoCo Framework		
Based on the COBIT Framework		
Based on another framework		
Not based on any particular framework		

F4) The term "adequacy" relates to whether something is "good enough". How would you rate the adequacy of the business' internal control system based on your answer(s) in F2? (Tick the most appropriate box below)

It is very adequate [ ] It is adequate [ ] It is neutral [ ] It is inadequate [ ]
It is very inadequate [ ] N/A, the business has no internal control system [ ]

F5) The term "effectiveness" relates to whether something is "working as intended". How would you rate the effectiveness of the business' internal control system based on your answer(s) in F2? (Tick the most appropriate box below)

It is very effective [ ] It is effective [ ] It is neutral [ ] It is ineffective [ ]
It is very ineffective [ ] N/A, the business has no internal control system [ ]

SECTION G: INTERNAL CONTROL ACTIVITIES

G1) For each statement below, indicate your level of agreement. The base sentence reads "In the business ..." (tick the most appropriate box(es) below)

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Source documents are used when goods are bought					
Source documents are used when goods are received					
Source documents are used when goods are sold					
Source documents are used when payments are made					
Source documents are used when money is received					
Copies of all relevant source documents used are kept					
All relevant source documents used are pre-numbered					
Unused source documents are kept safe					
All relevant source documents used have spaces for the date of transaction					
All relevant source documents used have spaces for signatures					
All relevant source documents used are simple to complete					
Only management may authorise transactions					

Employees may authorise transactions based on formal policies and/or procedures					
Employees may authorise transactions with management approval only					
Access controls are evident at entrances to the premises					
Access controls are evident at all doors					
Access controls are evident at tills and/or safes					
Access controls are evident at storage points					
Alarm systems are used					
CCTV (surveillance) cameras are used					
Security guards are used					
Inventory is located and/or stored in a safe location					
Staff are protected on premises (bars, security guards, etc.)					
Backup and disaster-recovery measures are in place					
Staff are supervised					
Staff are monitored (e.g. behaviour changes)					
Staff-performance reviews are conducted periodically					
Quality checks are performed on goods received					
Quality checks are performed on goods before they are sold					
Surprise cash checks are performed (at tills)					
Surprise cash checks are performed (petty cash)					
Inventory is periodically counted					
Cash is banked daily					
Independent audits are performed periodically					
Internal audits are performed periodically					
The bank account is regularly reconciled by an independent person					
The debtors' control account is regularly reconciled by an independent person					
The creditors' control account is regularly reconciled by an independent person					
The person authorising transactions does not record or execute them (e.g. the authorising of a delivery)					
The person recording the transactions does not authorise or execute them (e.g. the recording of delivery of goods)					
The person executing transactions does not authorise or record them (e.g. the actual delivery of goods)					

G2) For each statement below, indicate your level of agreement. The base sentence reads "The control activities above are ..." (tick the most appropriate box(es) below)

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Adaptable to changes in the immediate business environment					
Assist management with the execution of their responsibilities					
Robust					
Suitable for the industry of operation					
Supportive of policies and procedures					
Supportive of risk management strategies					

G3) The term "adequacy" relates to whether something is "good enough". How would you rate the adequacy of the business' internal control activities based on your answer(s) in G1 and G2? (Tick the most appropriate box below)

It is very adequate [ ] It is adequate [ ] It is neutral [ ] It is inadequate [ ]
It is very inadequate [ ] N/A, the business has no internal control activities [ ]

G4) The term "effectiveness" relates to whether something is "working as intended". How would you rate the effectiveness of the business' internal control activities based on your answer(s) in G1 and G2? (Tick the most appropriate box below)

It is very effective [ ] It is effective [ ] It is neutral [ ] It is ineffective [ ]
It is very ineffective [ ] N/A, the business has no internal control activities [ ]

SECTION H: MANAGERIAL CONDUCT

H1) For each statement, indicate your level of agreement. The base sentence reads: "The business' management ..." (tick the most appropriate box(es) below).

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Communicates well					
Has effective management practices					
Has industry-specific knowledge					
Has leadership skills					
Is on par with the latest trends in the industry					
Promotes accountability					
Promotes ethics					
Promotes proper values					
Promotes responsibility					
Promotes transparency					
Solves problems					

H2) For each statement, indicate your level of agreement. The base sentence reads: "I associate the business' management with the following values ..." (tick the most appropriate box(es) below).

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Accountability					
Adaptability					
Ambition					
Analytical					
Cautiousness					
Commitment					
Communicative					
Compassion					
Competitiveness					
Consistency					
Courageous					
Creativity					
Curiosity					
Dependable					
Discipline					
Diversity					
Enthusiastic					
Ethical					
Fairness					
Futuristic					
Generous					
Humble					
Inclusiveness					
Independence					
Innovation					
Logical					
Loyalty					
Optimiser					
Optimist					
Organised					
Realistic					
Responsibility					
Strategic					
Transparency					
Trustworthiness					

H3) For each statement, indicate your level of agreement. The base sentence reads: "The business' management's operating style is best described by ..." (tick the most appropriate box(es) below).

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Employees are given full control of taking action (chaotic)					
Employees are persuaded to management's view before taking action (persuasive)					
Employees' inputs are asked before taking action (democratic)					
Management gets input from some employees before taking action (semi-autocratic)					
Management has the final say before taking action (paternal)					
Management lets employees take action at their own pace (*laissez-faire*)					
Management only takes own views into account before taking action (autocratic)					

H4) Taking into account the nature of the business (size thereof, the industry in which it operates, etc.) how appropriate is the managerial conduct of management? (Tick the most appropriate box below)

It is very appropriate [ ] It is appropriate [ ] It is neutral [ ] It is inappropriate [ ]
It is very inappropriate [ ]

H5) For each statement, indicate your level of agreement. The base sentence reads: "The managerial conduct of the business' management has a direct influence on the ..." (tick the most appropriate box(es) below).

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Adequacy of the business' internal control activities (e.g. proper document design, proper authorisation, etc. – refer to Section G)					
Adequacy of the business' internal control system (e.g. helps prevent risks, detect risks and achieve business objectives – refer to Section F)					
Business decisions that are made					
Economic sustainability of the business					
Effectiveness of the business' internal control activities (e.g. proper document design, proper authorisation, etc. – refer to Section G)					
Effectiveness of the business' internal control system (e.g. helps prevent risks, detect risks and achieve business objectives – refer to Section F)					
Efficiency and effectiveness of business operations					
Going-concern status of the business					
Morale levels inside the business					
Productivity of employees					

SECTION I: PERSONAL INFORMATION	
Please provide the following information	
Name and Surname	
Name of business	
Your e-mail address	
Your telephone number	

Would you like to receive E-MAIL feedback regarding the findings of this study?
Yes [ ] No [ ]

Thank you very much for donating your valuable time in answering this questionnaire and adding value to the field of internal auditing.

ANNEXURE C: DEMOGRAPHICS OF SAMPLES

Business demographics

How would you describe the products that are sold by the business? Frequently sold by the business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	39	19.7	19.7	19.7
	No	159	80.3	80.3	100.0
	Total	198	100.0	100.0	

How would you describe the products that are sold by the business? Frequently consumed by customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	159	80.3	80.3	80.3
	No	39	19.7	19.7	100.0
	Total	198	100.0	100.0	

How would you describe the products that are sold by the business? Necessity products

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	52	26.3	26.3	26.3
	No	146	73.7	73.7	100.0
	Total	198	100.0	100.0	

How would you describe the products that are sold by the business? Non-necessity products

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	18	9.1	9.1	9.1
	No	180	90.9	90.9	100.0
	Total	198	100.0	100.0	

How would you describe the products that are sold by the business? Fast-moving consumer goods

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	35	17.7	17.7	17.7
	No	163	82.3	82.3	100.0
	Total	198	100.0	100.0	

How would you describe the geographical nature of the customers of the business Based in Cape Town only

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	183	92.4	92.4	92.4
	No	15	7.6	7.6	100.0
	Total	198	100.0	100.0	

How would you describe the geographical nature of the customers of the business Based in the greater Western Cape

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	14	7.1	7.1	7.1
	No	184	92.9	92.9	100.0
	Total	198	100.0	100.0	

How would you describe the geographical nature of the customers of the business Based in the Greater South Africa

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	1	.5	.5	.5
	No	197	99.5	99.5	100.0
	Total	198	100.0	100.0	

How would you describe the geographical nature of the customers of the business Based beyond South Africa

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	198	100.0	100.0	100.0

How would you describe the reach of the business apart from this outlet? This is the only outlet

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	151	76.3	76.3	76.3
	No	47	23.7	23.7	100.0
	Total	198	100.0	100.0	

How would you describe the reach of the business apart from this outlet? Another outlet(s) in Cape Town

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	40	20.2	20.2	20.2
	No	158	79.8	79.8	100.0
	Total	198	100.0	100.0	

How would you describe the reach of the business apart from this outlet? Another outlet(s) in the greater Western Cape

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	6	3.0	3.0	3.0
	No	192	97.0	97.0	100.0
	Total	198	100.0	100.0	

How would you describe the reach of the business apart from this outlet? Another outlet(s) in the greater South Africa

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	1	.5	.5	.5
	No	197	99.5	99.5	100.0
	Total	198	100.0	100.0	

How would you describe the reach of the business apart from this outlet? Another outlet(s) worldwide

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	198	100.0	100.0	100.0

What type of business is this? Retail store

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	46	23.2	23.2	23.2
	No	152	76.8	76.8	100.0
	Total	198	100.0	100.0	

What type of business is this? Wholesale store

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	15	7.6	7.6	7.6
	No	183	92.4	92.4	100.0
	Total	198	100.0	100.0	

What type of business is this? Caterer

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	14	7.1	7.1	7.1
	No	184	92.9	92.9	100.0
	Total	198	100.0	100.0	

What type of business is this? Restaurant

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	18	9.1	9.1	9.1
	No	180	90.9	90.9	100.0
	Total	198	100.0	100.0	

What type of business is this? Convenience store

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	21	10.6	10.6	10.6
	No	177	89.4	89.4	100.0
	Total	198	100.0	100.0	

What type of business is this? Café

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	17	8.6	8.6	8.6
	No	181	91.4	91.4	100.0
	Total	198	100.0	100.0	

What type of business is this? Spaza shop

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	26	13.1	13.1	13.1
	No	172	86.9	86.9	100.0
	Total	198	100.0	100.0	

What type of business is this? Tuck shop

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	9	4.5	4.5	4.5
	No	189	95.5	95.5	100.0
	Total	198	100.0	100.0	

What type of business is this? Pharmacy

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	11	5.6	5.6	5.6
	No	187	94.4	94.4	100.0
	Total	198	100.0	100.0	

What type of business is this? Other

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	35	17.7	17.7	17.7
	No	163	82.3	82.3	100.0
	Total	198	100.0	100.0	

Describe Other

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		163	82.3	82.3	82.3
	Art shop	1	.5	.5	82.8
	Bakery	2	1.0	1.0	83.8
	Butchery	1	.5	.5	84.3
	Clothing store	3	1.5	1.5	85.9
	Electrician	1	.5	.5	86.4
	Fisheries	2	1.0	1.0	87.4
	Fruit and vegetable store	2	1.0	1.0	88.4
	Hair salon	4	2.0	2.0	90.4
	Herbalist	1	.5	.5	90.9
	Kiosk	1	.5	.5	91.4
	Liquor store	4	2.0	2.0	93.4
	Salon	1	.5	.5	93.9
	Saloon	4	2.0	2.0	96.0
	Selling seafood, sauces and cigarettes	1	.5	.5	96.5
	Sports bar	1	.5	.5	97.0
	Supermarket	1	.5	.5	97.5
	Tavern	3	1.5	1.5	99.0
	Shisanyama	2	1.0	1.0	100.0
	Total	198	100.0	100.0	

What is the business' modus operandi? Buy products to sell to customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	196	99.0	99.0	99.0
	No	2	1.0	1.0	100.0
	Total	198	100.0	100.0	

What is the business' modus operandi? Buy products to sell to businesses

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	18	9.1	9.1	9.1
	No	180	90.9	90.9	100.0
	Total	198	100.0	100.0	

Is the business a franchised business or a non-franchised business?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Non-franchised	198	100.0	100.0	100.0

How many employees does the business employ?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0–5 employees	116	58.6	58.6	58.6
	6–10 employees	55	27.8	27.8	86.4
	11–50 employees	27	13.6	13.6	100.0
	Total	198	100.0	100.0	

How long has the business been in existence? # years

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	5	2.5	2.5	2.5
	2.00	11	5.6	5.6	8.1
	3.00	24	12.1	12.1	20.2
	4.00	15	7.6	7.6	27.8
	5.00	34	17.2	17.2	44.9
	6.00	14	7.1	7.1	52.0
	7.00	6	3.0	3.0	55.1
	8.00	13	6.6	6.6	61.6
	9.00	5	2.5	2.5	64.1
	10.00	18	9.1	9.1	73.2
	11.00	3	1.5	1.5	74.7
	12.00	13	6.6	6.6	81.3
	13.00	3	1.5	1.5	82.8
	14.00	1	.5	.5	83.3
	15.00	14	7.1	7.1	90.4
	16.00	4	2.0	2.0	92.4
	17.00	2	1.0	1.0	93.4
	18.00	4	2.0	2.0	95.5
	19.00	1	.5	.5	96.0
	20.00	3	1.5	1.5	97.5
	23.00	2	1.0	1.0	98.5
	36.00	1	.5	.5	99.0
	37.00	1	.5	.5	99.5
	45.00	1	.5	.5	100.0
	Total	198	100.0	100.0	

Management demographics (*n* = 119)

What is your exact position in the business?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Owner	48	24.2	40.3	40.3
	Manager	39	19.7	32.8	73.1
	Owner and manager	32	16.2	26.9	100.0
	Total	119	60.1	100.0	
Missing	System	79	39.9		
Total		198	100.0		

How long have you been in this position? # years

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	6	3.0	5.0	5.0
	2.00	24	12.1	20.2	25.2
	3.00	14	7.1	11.8	37.0
	4.00	14	7.1	11.8	48.7
	5.00	16	8.1	13.4	62.2
	6.00	8	4.0	6.7	68.9
	7.00	5	2.5	4.2	73.1
	8.00	4	2.0	3.4	76.5
	9.00	2	1.0	1.7	78.2
	10.00	6	3.0	5.0	83.2
	11.00	1	.5	.8	84.0
	12.00	6	3.0	5.0	89.1
	13.00	1	.5	.8	89.9
	15.00	6	3.0	5.0	95.0
	16.00	2	1.0	1.7	96.6
	18.00	1	.5	.8	97.5
	20.00	1	.5	.8	98.3
	23.00	2	1.0	1.7	100.0
	Total	119	60.1	100.0	
Missing	System	79	39.9		
Total		198	100.0		

What is you highest qualification?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Lower than Grade 12	22	11.1	18.5	18.5
	Grade 12	58	29.3	48.7	67.2
	National Higher Certificate	16	8.1	13.4	80.7
	Higher Diploma	14	7.1	11.8	92.4
	Bachelor’s	8	4.0	6.7	99.2
	Honours / postgraduate	1	.5	.8	100.0
	Total	119	60.1	100.0	
Missing	System	79	39.9		
Total		198	100.0		

Are you a South African citizen?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	115	58.1	96.6	96.6
	No	4	2.0	3.4	100.0
	Total	119	60.1	100.0	
Missing	System	79	39.9		
Total		198	100.0		

Employee demographics

What is your employment status?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Full-time	66	33.3	83.5	83.5
	Part-time	13	6.6	16.5	100.0
	Total	79	39.9	100.0	
Missing	System	119	60.1		
Total		198	100.0		

What is your highest qualification?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Lower than Grade 12	33	16.7	41.8	41.8
	Grade 12	36	18.2	45.6	87.3
	National Higher Certificate	3	1.5	3.8	91.1
	Higher Diploma	3	1.5	3.8	94.9
	Bachelor's	4	2.0	5.1	100.0
	Total	79	39.9	100.0	
Missing	System	119	60.1		
Total		198	100.0		

How long have you been in this position? # years

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	19	9.6	24.1	24.1
	2.00	18	9.1	22.8	46.8
	3.00	11	5.6	13.9	60.8
	4.00	12	6.1	15.2	75.9
	5.00	4	2.0	5.1	81.0
	6.00	5	2.5	6.3	87.3
	8.00	4	2.0	5.1	92.4
	9.00	1	.5	1.3	93.7
	10.00	2	1.0	2.5	96.2
	12.00	2	1.0	2.5	98.7
	20.00	1	.5	1.3	100.0
	Total	79	39.9	100.0	
Missing	System	119	60.1		
Total		198	100.0		

Are you a South African citizen?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	78	39.4	98.7	98.7
	No	1	.5	1.3	100.0
	Total	79	39.9	100.0	
Missing	System	119	60.1		
Total		198	100.0		

ANNEXURE D: FREQUENCIES OF ORDINAL DATA

Economic sustainability

The business: Has more income than expenses

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	21	10.6	10.6	10.6
	Disagree	24	12.1	12.1	22.7
	Neutral	37	18.7	18.7	41.4
	Agree	61	30.8	30.8	72.2
	Strongly agree	55	27.8	27.8	100.0
	Total	198	100.0	100.0	

The business: Has more assets than liabilities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	2.5	2.5	2.5
	Disagree	35	17.7	17.7	20.2
	Neutral	72	36.4	36.4	56.6
	Agree	65	32.8	32.8	89.4
	Strongly agree	21	10.6	10.6	100.0
	Total	198	100.0	100.0	

The business: Has sufficient cash on hand

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	11	5.6	5.6	5.6
	Disagree	19	9.6	9.6	15.2
	Neutral	56	28.3	28.3	43.4
	Agree	89	44.9	44.9	88.4
	Strongly agree	23	11.6	11.6	100.0
	Total	198	100.0	100.0	

The business: Has a good reputation among customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.5	.5	.5
	Neutral	4	2.0	2.0	2.5
	Agree	77	38.9	38.9	41.4
	Strongly agree	116	58.6	58.6	100.0
	Total	198	100.0	100.0	

The business: Has a good reputation among competitors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.5	.5	.5
	Neutral	43	21.7	21.7	22.2
	Agree	100	50.5	50.5	72.7
	Strongly agree	54	27.3	27.3	100.0
	Total	198	100.0	100.0	

The business: Has a good reputation among suppliers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	24	12.1	12.1	12.1
	Agree	98	49.5	49.5	61.6
	Strongly agree	76	38.4	38.4	100.0
	Total	198	100.0	100.0	

The business: Will remain in operation for the foreseeable future

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	1.5	1.5	1.5
	Neutral	42	21.2	21.2	22.7
	Agree	94	47.5	47.5	70.2
	Strongly agree	59	29.8	29.8	100.0
	Total	198	100.0	100.0	

Based on your answers in E1, how would you describe the overall economic sustainability of your business?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very bad	1	.5	.5	.5
	Bad	6	3.0	3.0	3.5
	Neutral	36	18.2	18.2	21.7
	Good	86	43.4	43.4	65.2
	Very good	69	34.8	34.8	100.0
	Total	198	100.0	100.0	

Internal control system

Does the business have a system of internal control?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	148	74.7	74.7	74.7
	No	50	25.3	25.3	100.0
	Total	198	100.0	100.0	

How would you describe the business' system of internal control? A process

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	48	24.2	24.2	24.2
	No	150	75.8	75.8	100.0
	Total	198	100.0	100.0	

How would you describe the business' system of internal control? Realised/implemented by management

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	31	15.7	15.7	15.7
	No	167	84.3	84.3	100.0
	Total	198	100.0	100.0	

How would you describe the business' system of internal control? Formal

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	51	25.8	25.8	25.8
	No	147	74.2	74.2	100.0
	Total	198	100.0	100.0	

How would you describe the business' system of internal control? Informal

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	48	24.2	24.2	24.2
	No	150	75.8	75.8	100.0
	Total	198	100.0	100.0	

How would you describe the business' system of internal control? Helps prevents risks from realising

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	43	21.7	21.7	21.7
	No	155	78.3	78.3	100.0
	Total	198	100.0	100.0	

How would you describe the business' system of internal control? Helps detect risks as they realise

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	30	15.2	15.2	15.2
	No	168	84.8	84.8	100.0
	Total	198	100.0	100.0	

How would you describe the business' system of internal control? Corrects loss events

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	31	15.7	15.7	15.7
	No	167	84.3	84.3	100.0
	Total	198	100.0	100.0	

How would you describe the business' system of internal control? Helps the business to achieve operational objectives

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	40	20.2	20.2	20.2
	No	158	79.8	79.8	100.0
	Total	198	100.0	100.0	

How would you describe the business' system of internal control? Helps the business to achieve compliance objectives

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	23	11.6	11.6	11.6
	No	175	88.4	88.4	100.0
	Total	198	100.0	100.0	

How would you describe the business' system of internal control? Helps the business to achieve reporting objectives

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	16	8.1	8.1	8.1
	No	182	91.9	91.9	100.0
	Total	198	100.0	100.0	

How would you describe the business' system of internal control? N/A, the business has no system of internal control

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	36	18.2	18.2	18.2
	No	162	81.8	81.8	100.0
	Total	198	100.0	100.0	

The business' system of internal controls is: Based on the COSO Framework

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	82	41.4	41.4	41.4
	No	116	58.6	58.6	100.0
	Total	198	100.0	100.0	

The business' system of internal controls is: Based on the CoCo Framework

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	48	24.2	24.2	24.2
	No	150	75.8	75.8	100.0
	Total	198	100.0	100.0	

The business' system of internal controls is: Based on the COBIT Framework

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	23	11.6	11.6	11.6
	No	175	88.4	88.4	100.0
	Total	198	100.0	100.0	

The business' system of internal controls is: Based on another framework

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	59	29.8	29.8	29.8
	No	139	70.2	70.2	100.0
	Total	198	100.0	100.0	

The business' system of internal controls is: Not based on any particular framework

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	48	24.2	24.2	24.2
	No	150	75.8	75.8	100.0
	Total	198	100.0	100.0	

The term "adequacy" relates to whether something is "good enough". How would you rate the adequacy of the business' internal control system based on your answer(s) in F2?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	13	6.6	6.6	6.6
	Adequate	101	51.0	51.0	57.6
	Very adequate	54	27.3	27.3	84.8
	N/A	30	15.2	15.2	100.0
	Total	198	100.0	100.0	

The term "effectiveness" relates to whether something is "working as intended". How would you rate the effectiveness of the business' internal control system based on your answer(s) in F2?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Ineffective	1	.5	.5	.5
	Neutral	15	7.6	7.6	8.1
	Effective	94	47.5	47.5	55.6
	Very effective	58	29.3	29.3	84.8
	N/A	30	15.2	15.2	100.0
	Total	198	100.0	100.0	

Internal control activities

In the business: Source documents are used when goods are bought

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	106	53.5	53.5	53.5
	Disagree	1	.5	.5	54.0
	Neutral	5	2.5	2.5	56.6
	Agree	5	2.5	2.5	59.1
	Strongly agree	81	40.9	40.9	100.0
	Total	198	100.0	100.0	

In the business: Source documents are used when goods are received

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	101	51.0	51.0	51.0
	Neutral	1	.5	.5	51.5
	Agree	9	4.5	4.5	56.1
	Strongly agree	87	43.9	43.9	100.0
	Total	198	100.0	100.0	

In the business: Source documents are used when goods are sold

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	53	26.8	26.8	26.8
	Disagree	5	2.5	2.5	29.3
	Neutral	10	5.1	5.1	34.3
	Agree	28	14.1	14.1	48.5
	Strongly agree	102	51.5	51.5	100.0
	Total	198	100.0	100.0	

In the business: Source documents are used when payments are made

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	82	41.4	41.4	41.4
	Disagree	2	1.0	1.0	42.4
	Neutral	6	3.0	3.0	45.5
	Agree	23	11.6	11.6	57.1
	Strongly agree	85	42.9	42.9	100.0
	Total	198	100.0	100.0	

In the business: Source documents are used when money is received

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	76	38.4	38.4	38.4
	Disagree	3	1.5	1.5	39.9
	Neutral	14	7.1	7.1	47.0
	Agree	32	16.2	16.2	63.1
	Strongly agree	73	36.9	36.9	100.0
	Total	198	100.0	100.0	

In the business: Copies of all relevant source documents used, are kept

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	65	32.8	32.8	32.8
	Disagree	6	3.0	3.0	35.9
	Neutral	8	4.0	4.0	39.9
	Agree	26	13.1	13.1	53.0
	Strongly agree	93	47.0	47.0	100.0
	Total	198	100.0	100.0	

In the business: All relevant source documents used are pre-numbered

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	34	17.2	17.2	17.2
	Disagree	7	3.5	3.5	20.7
	Neutral	28	14.1	14.1	34.8
	Agree	61	30.8	30.8	65.7
	Strongly agree	68	34.3	34.3	100.0
	Total	198	100.0	100.0	

In the business: Unused source documents are kept safe

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	48	24.2	24.2	24.2
	Disagree	7	3.5	3.5	27.8
	Neutral	18	9.1	9.1	36.9
	Agree	53	26.8	26.8	63.6
	Strongly agree	72	36.4	36.4	100.0
	Total	198	100.0	100.0	

In the business: All relevant source documents used have spaces for the date of transaction

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	38	19.2	19.2	19.2
	Disagree	1	.5	.5	19.7
	Neutral	7	3.5	3.5	23.2
	Agree	43	21.7	21.7	44.9
	Strongly agree	109	55.1	55.1	100.0
	Total	198	100.0	100.0	

In the business: All relevant source documents used have spaces for signatures

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	57	28.8	28.8	28.8
	Disagree	1	.5	.5	29.3
	Neutral	3	1.5	1.5	30.8
	Agree	31	15.7	15.7	46.5
	Strongly agree	106	53.5	53.5	100.0
	Total	198	100.0	100.0	

In the business: All relevant source documents used are simple to complete

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	57	28.8	28.8	28.8
	Disagree	1	.5	.5	29.3
	Neutral	3	1.5	1.5	30.8
	Agree	42	21.2	21.2	52.0
	Strongly agree	95	48.0	48.0	100.0
	Total	198	100.0	100.0	

In the business: Only management may authorise transactions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	96	48.5	48.5	48.5
	Neutral	3	1.5	1.5	50.0
	Agree	16	8.1	8.1	58.1
	Strongly agree	83	41.9	41.9	100.0
	Total	198	100.0	100.0	

In the business: Employees may authorise transactions based on formal policies and/or procedures

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	44	22.2	22.2	22.2
	Disagree	4	2.0	2.0	24.2
	Neutral	17	8.6	8.6	32.8
	Agree	35	17.7	17.7	50.5
	Strongly agree	98	49.5	49.5	100.0
	Total	198	100.0	100.0	

In the business: Employees may authorise transactions with management approval only

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	83	41.9	41.9	41.9
	Disagree	1	.5	.5	42.4
	Neutral	18	9.1	9.1	51.5
	Agree	26	13.1	13.1	64.6
	Strongly agree	70	35.4	35.4	100.0
	Total	198	100.0	100.0	

In the business: Access controls are evident at entrances to the premises

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	61	30.8	30.8	30.8
	Disagree	6	3.0	3.0	33.8
	Neutral	18	9.1	9.1	42.9
	Agree	29	14.6	14.6	57.6
	Strongly agree	84	42.4	42.4	100.0
	Total	198	100.0	100.0	

In the business: Access controls are evident at all the doors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	44	22.2	22.2	22.2
	Disagree	3	1.5	1.5	23.7
	Neutral	22	11.1	11.1	34.8
	Agree	29	14.6	14.6	49.5
	Strongly agree	100	50.5	50.5	100.0
	Total	198	100.0	100.0	

In the business: Access controls are evident at tills and/or safes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	65	32.8	32.8	32.8
	Disagree	3	1.5	1.5	34.3
	Neutral	18	9.1	9.1	43.4
	Agree	34	17.2	17.2	60.6
	Strongly agree	78	39.4	39.4	100.0
	Total	198	100.0	100.0	

In the business: Access controls are evident at storage points

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	52	26.3	26.3	26.3
	Disagree	5	2.5	2.5	28.8
	Neutral	19	9.6	9.6	38.4
	Agree	19	9.6	9.6	48.0
	Strongly agree	103	52.0	52.0	100.0
	Total	198	100.0	100.0	

In the business: Alarm systems are used

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	90	45.5	45.5	45.5
	Disagree	6	3.0	3.0	48.5
	Neutral	12	6.1	6.1	54.5
	Agree	13	6.6	6.6	61.1
	Strongly agree	77	38.9	38.9	100.0
	Total	198	100.0	100.0	

In the business: CCTV (surveillance) cameras are used

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	81	40.9	40.9	40.9
	Disagree	17	8.6	8.6	49.5
	Neutral	28	14.1	14.1	63.6
	Agree	17	8.6	8.6	72.2
	Strongly agree	55	27.8	27.8	100.0
	Total	198	100.0	100.0	

In the business: Security guards are used

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	66	33.3	33.3	33.3
	Disagree	20	10.1	10.1	43.4
	Neutral	44	22.2	22.2	65.7
	Agree	17	8.6	8.6	74.2
	Strongly agree	51	25.8	25.8	100.0
	Total	198	100.0	100.0	

In the business: Inventory is located and/or stored in a safe location

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	56	28.3	28.3	28.3
	Disagree	12	6.1	6.1	34.3
	Neutral	11	5.6	5.6	39.9
	Agree	33	16.7	16.7	56.6
	Strongly agree	86	43.4	43.4	100.0
	Total	198	100.0	100.0	

In the business: Staff are protected on premises (bars, security guards etc.)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	73	36.9	36.9	36.9
	Disagree	1	.5	.5	37.4
	Neutral	7	3.5	3.5	40.9
	Agree	21	10.6	10.6	51.5
	Strongly agree	96	48.5	48.5	100.0
	Total	198	100.0	100.0	

In the business: Backup and disaster-recovery measures are in place

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	49	24.7	24.7	24.7
	Disagree	3	1.5	1.5	26.3
	Neutral	7	3.5	3.5	29.8
	Agree	53	26.8	26.8	56.6
	Strongly agree	86	43.4	43.4	100.0
	Total	198	100.0	100.0	

In the business: Staff are supervised

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	58	29.3	29.3	29.3
	Neutral	3	1.5	1.5	30.8
	Agree	27	13.6	13.6	44.4
	Strongly agree	110	55.6	55.6	100.0
	Total	198	100.0	100.0	

In the business: Staff are monitored (e.g. behaviour changes)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	57	28.8	28.8	28.8
	Neutral	4	2.0	2.0	30.8
	Agree	33	16.7	16.7	47.5
	Strongly agree	104	52.5	52.5	100.0
	Total	198	100.0	100.0	

In the business: Staff-performance reviews are conducted periodically

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	42	21.2	21.2	21.2
	Disagree	5	2.5	2.5	23.7
	Neutral	7	3.5	3.5	27.3
	Agree	45	22.7	22.7	50.0
	Strongly agree	99	50.0	50.0	100.0
	Total	198	100.0	100.0	

In the business: Quality checks are performed on goods received

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	84	42.4	42.4	42.4
	Disagree	4	2.0	2.0	44.4
	Neutral	9	4.5	4.5	49.0
	Agree	25	12.6	12.6	61.6
	Strongly agree	76	38.4	38.4	100.0
	Total	198	100.0	100.0	

In the business: Quality checks are performed on goods before they are sold

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	65	32.8	32.8	32.8
	Disagree	2	1.0	1.0	33.8
	Neutral	11	5.6	5.6	39.4
	Agree	28	14.1	14.1	53.5
	Strongly agree	92	46.5	46.5	100.0
	Total	198	100.0	100.0	

In the business: Surprise cash checks are performed (at tills)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	67	33.8	33.8	33.8
	Disagree	3	1.5	1.5	35.4
	Neutral	16	8.1	8.1	43.4
	Agree	40	20.2	20.2	63.6
	Strongly agree	72	36.4	36.4	100.0
	Total	198	100.0	100.0	

In the business: Surprise cash checks are performed (petty cash)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	58	29.3	29.3	29.3
	Disagree	2	1.0	1.0	30.3
	Neutral	14	7.1	7.1	37.4
	Agree	47	23.7	23.7	61.1
	Strongly agree	77	38.9	38.9	100.0
	Total	198	100.0	100.0	

In the business: Inventory is periodically counted

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	54	27.3	27.3	27.3
	Disagree	3	1.5	1.5	28.8
	Neutral	7	3.5	3.5	32.3
	Agree	36	18.2	18.2	50.5
	Strongly agree	98	49.5	49.5	100.0
	Total	198	100.0	100.0	

In the business: Cash is banked daily

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	34	17.2	17.2	17.2
	Disagree	43	21.7	21.7	38.9
	Neutral	37	18.7	18.7	57.6
	Agree	36	18.2	18.2	75.8
	Strongly agree	48	24.2	24.2	100.0
	Total	198	100.0	100.0	

In the business: Independent audits are performed periodically

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	67	33.8	33.8	33.8
	Disagree	4	2.0	2.0	35.9
	Neutral	25	12.6	12.6	48.5
	Agree	35	17.7	17.7	66.2
	Strongly agree	67	33.8	33.8	100.0
	Total	198	100.0	100.0	

In the business: Internal audits are performed periodically

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	67	33.8	33.8	33.8
	Disagree	5	2.5	2.5	36.4
	Neutral	21	10.6	10.6	47.0
	Agree	25	12.6	12.6	59.6
	Strongly agree	80	40.4	40.4	100.0
	Total	198	100.0	100.0	

In the business: The bank account is regularly reconciled by an independent person

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	46	23.2	23.2	23.2
	Disagree	7	3.5	3.5	26.8
	Neutral	30	15.2	15.2	41.9
	Agree	48	24.2	24.2	66.2
	Strongly agree	67	33.8	33.8	100.0
	Total	198	100.0	100.0	

In the business: The debtors' control account is regularly reconciled by an independent person

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	52	26.3	26.3	26.3
	Disagree	4	2.0	2.0	28.3
	Neutral	23	11.6	11.6	39.9
	Agree	52	26.3	26.3	66.2
	Strongly agree	67	33.8	33.8	100.0
	Total	198	100.0	100.0	

In the business: The creditors' control account is regularly reconciled by an independent person

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	51	25.8	25.8	25.8
	Disagree	4	2.0	2.0	27.8
	Neutral	27	13.6	13.6	41.4
	Agree	53	26.8	26.8	68.2
	Strongly agree	63	31.8	31.8	100.0
	Total	198	100.0	100.0	

In the business: The person authorising transactions does not record or execute them (e.g. the authorising of a delivery)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	38	19.2	19.2	19.2
	Disagree	20	10.1	10.1	29.3
	Neutral	45	22.7	22.7	52.0
	Agree	34	17.2	17.2	69.2
	Strongly agree	61	30.8	30.8	100.0
	Total	198	100.0	100.0	

In the business: The person recording the transactions does not authorise or execute them (e.g. the recording of delivery of goods)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	43	21.7	21.7	21.7
	Disagree	22	11.1	11.1	32.8
	Neutral	42	21.2	21.2	54.0
	Agree	36	18.2	18.2	72.2
	Strongly agree	55	27.8	27.8	100.0
	Total	198	100.0	100.0	

In the business: The person executing transactions does not authorise or record them (e.g. the actual delivery of goods)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	42	21.2	21.2	21.2
	Disagree	23	11.6	11.6	32.8
	Neutral	47	23.7	23.7	56.6
	Agree	33	16.7	16.7	73.2
	Strongly agree	53	26.8	26.8	100.0
	Total	198	100.0	100.0	

The control activities above are: Adaptable to changes in the immediate business environment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	6	3.0	3.0	3.5
	Neutral	35	17.7	17.7	21.2
	Agree	92	46.5	46.5	67.7
	Strongly agree	64	32.3	32.3	100.0
	Total	198	100.0	100.0	

The control activities above: Assist management with the execution of their responsibilities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.5	.5	.5
	Neutral	30	15.2	15.2	15.7
	Agree	124	62.6	62.6	78.3
	Strongly agree	43	21.7	21.7	100.0
	Total	198	100.0	100.0	

The control activities above are: Robust

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.0	1.0	1.0
	Neutral	62	31.3	31.3	32.3
	Agree	66	33.3	33.3	65.7
	Strongly agree	68	34.3	34.3	100.0
	Total	198	100.0	100.0	

The control activities above are: Suitable for industry of operation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	1.5	1.5	1.5
	Neutral	27	13.6	13.6	15.2
	Agree	123	62.1	62.1	77.3
	Strongly agree	45	22.7	22.7	100.0
	Total	198	100.0	100.0	

The control activities above are: Supportive of policies and procedures

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.0	1.0	1.0
	Neutral	37	18.7	18.7	19.7
	Agree	103	52.0	52.0	71.7
	Strongly agree	56	28.3	28.3	100.0
	Total	198	100.0	100.0	

The control activities above are: Supportive of risk management strategies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	2	1.0	1.0	1.5
	Neutral	50	25.3	25.3	26.8
	Agree	103	52.0	52.0	78.8
	Strongly agree	42	21.2	21.2	100.0
	Total	198	100.0	100.0	

The term "adequacy" relates to whether something is "good enough". How would you rate the adequacy of the business' internal control system based on your answer(s) in G1 and G2?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very inadequate	2	1.0	1.0	1.0
	Inadequate	2	1.0	1.0	2.0
	Neutral	25	12.6	12.6	14.6
	Adequate	98	49.5	49.5	64.1
	Very adequate	44	22.2	22.2	86.4
	N/A	27	13.6	13.6	100.0
	Total	198	100.0	100.0	

The term "effectiveness" relates to whether something is "working as intended". How would you rate the effectiveness of the business' internal control system based on your answer(s) in G1 and G2?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Ineffective	2	1.0	1.0	1.0
	Neutral	24	12.1	12.1	13.1
	Effective	90	45.5	45.5	58.6
	Very effective	54	27.3	27.3	85.9
	N/A	28	14.1	14.1	100.0
	Total	198	100.0	100.0	

Managerial conduct

The business' management: Communicates well

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	1.5	1.5	1.5
	Neutral	3	1.5	1.5	3.0
	Agree	77	38.9	38.9	41.9
	Strongly agree	115	58.1	58.1	100.0
	Total	198	100.0	100.0	

The business' management: Has effective management practices

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.0	1.0	1.0
	Neutral	14	7.1	7.1	8.1
	Agree	122	61.6	61.6	69.7
	Strongly agree	60	30.3	30.3	100.0
	Total	198	100.0	100.0	

The business' management: Has industry-specific knowledge

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.5	.5	.5
	Neutral	41	20.7	20.7	21.2
	Agree	107	54.0	54.0	75.3
	Strongly agree	49	24.7	24.7	100.0
	Total	198	100.0	100.0	

The business' management: Has leadership skills

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	2	1.0	1.0	1.5
	Neutral	25	12.6	12.6	14.1
	Agree	101	51.0	51.0	65.2
	Strongly agree	69	34.8	34.8	100.0
	Total	198	100.0	100.0	

The business' management: Is on par with the latest trends in the industry

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	2	1.0	1.0	1.5
	Neutral	62	31.3	31.3	32.8
	Agree	89	44.9	44.9	77.8
	Strongly agree	44	22.2	22.2	100.0
	Total	198	100.0	100.0	

The business' management: Promotes accountability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.0	1.0	1.0
	Neutral	35	17.7	17.7	18.7
	Agree	107	54.0	54.0	72.7
	Strongly agree	54	27.3	27.3	100.0
	Total	198	100.0	100.0	

The business' management: Promotes ethics

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.5	.5	.5
	Neutral	30	15.2	15.2	15.7
	Agree	108	54.5	54.5	70.2
	Strongly agree	59	29.8	29.8	100.0
	Total	198	100.0	100.0	

The business' management: Promotes proper values

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	1.5	1.5	1.5
	Neutral	12	6.1	6.1	7.6
	Agree	100	50.5	50.5	58.1
	Strongly agree	83	41.9	41.9	100.0
	Total	198	100.0	100.0	

The business' management: Promotes responsibility

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.5	.5	.5
	Neutral	13	6.6	6.6	7.1
	Agree	88	44.4	44.4	51.5
	Strongly agree	96	48.5	48.5	100.0
	Total	198	100.0	100.0	

The business' management: Promotes transparency

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	1.5	1.5	1.5
	Neutral	44	22.2	22.2	23.7
	Agree	99	50.0	50.0	73.7
	Strongly agree	52	26.3	26.3	100.0
	Total	198	100.0	100.0	

The business' management: Solves problems

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	1.5	1.5	1.5
	Neutral	19	9.6	9.6	11.1
	Agree	103	52.0	52.0	63.1
	Strongly agree	73	36.9	36.9	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Accountability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	3	1.5	1.5	2.0
	Neutral	30	15.2	15.2	17.2
	Agree	96	48.5	48.5	65.7
	Strongly agree	68	34.3	34.3	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Adaptability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	6	3.0	3.0	3.5
	Neutral	23	11.6	11.6	15.2
	Agree	111	56.1	56.1	71.2
	Strongly agree	57	28.8	28.8	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Ambition

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.5	.5	.5
	Neutral	27	13.6	13.6	14.1
	Agree	86	43.4	43.4	57.6
	Strongly agree	84	42.4	42.4	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Analytical

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	4	2.0	2.0	2.0
	Neutral	69	34.8	34.8	36.9
	Agree	103	52.0	52.0	88.9
	Strongly agree	22	11.1	11.1	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Cautiousness

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	1	.5	.5	1.0
	Neutral	33	16.7	16.7	17.7
	Agree	112	56.6	56.6	74.2
	Strongly agree	51	25.8	25.8	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Commitment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	3	1.5	1.5	2.0
	Neutral	9	4.5	4.5	6.6
	Agree	93	47.0	47.0	53.5
	Strongly agree	92	46.5	46.5	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Communicative

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.0	1.0	1.0
	Disagree	1	.5	.5	1.5
	Neutral	14	7.1	7.1	8.6
	Agree	91	46.0	46.0	54.5
	Strongly agree	90	45.5	45.5	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Compassion

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.0	1.0	1.0
	Neutral	26	13.1	13.1	14.1
	Agree	111	56.1	56.1	70.2
	Strongly agree	59	29.8	29.8	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Competitiveness

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.5	.5	.5
	Neutral	34	17.2	17.2	17.7
	Agree	107	54.0	54.0	71.7
	Strongly agree	56	28.3	28.3	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Consistency

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Neutral	34	17.2	17.2	17.7
	Agree	112	56.6	56.6	74.2
	Strongly agree	51	25.8	25.8	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Courageous

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.5	.5	.5
	Neutral	41	20.7	20.7	21.2
	Agree	108	54.5	54.5	75.8
	Strongly agree	48	24.2	24.2	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Creativity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.0	1.0	1.0
	Neutral	37	18.7	18.7	19.7
	Agree	97	49.0	49.0	68.7
	Strongly agree	62	31.3	31.3	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Curiosity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.0	1.0	1.0
	Disagree	5	2.5	2.5	3.5
	Neutral	47	23.7	23.7	27.3
	Agree	106	53.5	53.5	80.8
	Strongly agree	38	19.2	19.2	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Dependable

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	1.5	1.5	1.5
	Disagree	1	.5	.5	2.0
	Neutral	26	13.1	13.1	15.2
	Agree	114	57.6	57.6	72.7
	Strongly agree	54	27.3	27.3	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Discipline

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Neutral	17	8.6	8.6	9.1
	Agree	106	53.5	53.5	62.6
	Strongly agree	74	37.4	37.4	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Diversity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.0	1.0	1.0
	Neutral	41	20.7	20.7	21.7
	Agree	99	50.0	50.0	71.7
	Strongly agree	56	28.3	28.3	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Enthusiastic

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Neutral	44	22.2	22.2	22.7
	Agree	120	60.6	60.6	83.3
	Strongly agree	33	16.7	16.7	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Ethical

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.0	1.0	1.0
	Neutral	61	30.8	30.8	31.8
	Agree	101	51.0	51.0	82.8
	Strongly agree	34	17.2	17.2	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Fairness

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	1	.5	.5	1.0
	Neutral	26	13.1	13.1	14.1
	Agree	108	54.5	54.5	68.7
	Strongly agree	62	31.3	31.3	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Futuristic

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	1	.5	.5	1.0
	Neutral	36	18.2	18.2	19.2
	Agree	100	50.5	50.5	69.7
	Strongly agree	60	30.3	30.3	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Generous

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	4	2.0	2.0	2.0
	Neutral	34	17.2	17.2	19.2
	Agree	121	61.1	61.1	80.3
	Strongly agree	39	19.7	19.7	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Humble

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.0	1.0	1.0
	Neutral	29	14.6	14.6	15.7
	Agree	84	42.4	42.4	58.1
	Strongly agree	83	41.9	41.9	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Inclusiveness

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	1	.5	.5	1.0
	Neutral	42	21.2	21.2	22.2
	Agree	112	56.6	56.6	78.8
	Strongly agree	42	21.2	21.2	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Independence

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	1.5	1.5	1.5
	Disagree	1	.5	.5	2.0
	Neutral	35	17.7	17.7	19.7
	Agree	103	52.0	52.0	71.7
	Strongly agree	56	28.3	28.3	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Innovation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	1	.5	.5	1.0
	Neutral	40	20.2	20.2	21.2
	Agree	96	48.5	48.5	69.7
	Strongly agree	60	30.3	30.3	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Logical

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	3	1.5	1.5	2.0
	Neutral	50	25.3	25.3	27.3
	Agree	110	55.6	55.6	82.8
	Strongly agree	34	17.2	17.2	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Loyalty

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.0	1.0	1.0
	Neutral	27	13.6	13.6	14.6
	Agree	104	52.5	52.5	67.2
	Strongly agree	65	32.8	32.8	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Optimiser

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	4	2.0	2.0	2.5
	Neutral	52	26.3	26.3	28.8
	Agree	99	50.0	50.0	78.8
	Strongly agree	42	21.2	21.2	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Optimist

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.0	1.0	1.0
	Disagree	2	1.0	1.0	2.0
	Neutral	50	25.3	25.3	27.3
	Agree	98	49.5	49.5	76.8
	Strongly agree	46	23.2	23.2	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Organised

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	4	2.0	2.0	2.5
	Neutral	10	5.1	5.1	7.6
	Agree	88	44.4	44.4	52.0
	Strongly agree	95	48.0	48.0	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Realistic

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	12	6.1	6.1	6.1
	Agree	109	55.1	55.1	61.1
	Strongly agree	77	38.9	38.9	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Responsibility

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	2	1.0	1.0	1.5
	Neutral	19	9.6	9.6	11.1
	Agree	89	44.9	44.9	56.1
	Strongly agree	87	43.9	43.9	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Strategic

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.5	.5	.5
	Neutral	45	22.7	22.7	23.2
	Agree	111	56.1	56.1	79.3
	Strongly agree	41	20.7	20.7	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Transparency

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	6	3.0	3.0	3.0
	Neutral	49	24.7	24.7	27.8
	Agree	100	50.5	50.5	78.3
	Strongly agree	43	21.7	21.7	100.0
	Total	198	100.0	100.0	

I associate the business' management with the following values: Trustworthiness

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.0	1.0	1.0
	Neutral	11	5.6	5.6	6.6
	Agree	93	47.0	47.0	53.5
	Strongly agree	92	46.5	46.5	100.0
	Total	198	100.0	100.0	

The business' management's operating style is best described by: Employees are given full control of taking action(s) (chaotic)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	33	16.7	16.7	16.7
	Disagree	44	22.2	22.2	38.9
	Neutral	44	22.2	22.2	61.1
	Agree	46	23.2	23.2	84.3
	Strongly agree	31	15.7	15.7	100.0
	Total	198	100.0	100.0	

The business' management's operating style is best described by: Employees are persuaded to management's view(s) before taking actions(s) (persuasive)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	7	3.5	3.5	3.5
	Disagree	32	16.2	16.2	19.7
	Neutral	60	30.3	30.3	50.0
	Agree	77	38.9	38.9	88.9
	Strongly agree	22	11.1	11.1	100.0
	Total	198	100.0	100.0	

The business' management's operating style is best described by: Employees' inputs are asked before actions(s) (democratic)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	2.5	2.5	2.5
	Disagree	20	10.1	10.1	12.6
	Neutral	54	27.3	27.3	39.9
	Agree	81	40.9	40.9	80.8
	Strongly agree	38	19.2	19.2	100.0
	Total	198	100.0	100.0	

The business' management's operating style is best described by: Management gets input from some employees before taking action(s) (semi-autocratic)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	6	3.0	3.0	3.0
	Disagree	13	6.6	6.6	9.6
	Neutral	55	27.8	27.8	37.4
	Agree	93	47.0	47.0	84.3
	Strongly agree	31	15.7	15.7	100.0
	Total	198	100.0	100.0	

The business' management's operating style is best described by: Management has the final say before taking action(s) (paternal)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	2.5	2.5	2.5
	Neutral	46	23.2	23.2	25.8
	Agree	74	37.4	37.4	63.1
	Strongly agree	73	36.9	36.9	100.0
	Total	198	100.0	100.0	

The business' management's operating style is best described by: Management lets employees take action(s) at their own pace (*laissez-faire*)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	25	12.6	12.6	12.6
	Disagree	49	24.7	24.7	37.4
	Neutral	66	33.3	33.3	70.7
	Agree	47	23.7	23.7	94.4
	Strongly agree	11	5.6	5.6	100.0
	Total	198	100.0	100.0	

The business' management's operating style is best described by: Management only takes own view(s) into account before taking action(s) (autocratic)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	10	5.1	5.1	5.1
	Disagree	27	13.6	13.6	18.7
	Neutral	74	37.4	37.4	56.1
	Agree	56	28.3	28.3	84.3
	Strongly agree	31	15.7	15.7	100.0
	Total	198	100.0	100.0	

Taking into account the nature of the business, how appropriate is the managerial conduct of management?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very inappropriate	56	28.3	28.3	28.3
	Inappropriate	4	2.0	2.0	30.3
	Neutral	39	19.7	19.7	50.0
	Appropriate	99	50.0	50.0	100.0
	Total	198	100.0	100.0	

The managerial conduct of the business' management has a direct influence on the: Adequacy of the business' internal control activities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.0	1.0	1.0
	Disagree	4	2.0	2.0	3.0
	Neutral	77	38.9	38.9	41.9
	Agree	75	37.9	37.9	79.8
	Strongly agree	40	20.2	20.2	100.0
	Total	198	100.0	100.0	

The managerial conduct of the business' management has a direct influence on the: Adequacy of the business' internal control system

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	1.5	1.5	1.5
	Disagree	4	2.0	2.0	3.5
	Neutral	77	38.9	38.9	42.4
	Agree	89	44.9	44.9	87.4
	Strongly agree	25	12.6	12.6	100.0
	Total	198	100.0	100.0	

The managerial conduct of the business' management has a direct influence on the: Business decisions that are made

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	2	1.0	1.0	1.5
	Neutral	32	16.2	16.2	17.7
	Agree	93	47.0	47.0	64.6
	Strongly agree	70	35.4	35.4	100.0
	Total	198	100.0	100.0	

The managerial conduct of the business' management has a direct influence on the: Economic sustainability of the business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	1.5	1.5	1.5
	Neutral	35	17.7	17.7	19.2
	Agree	99	50.0	50.0	69.2
	Strongly agree	61	30.8	30.8	100.0
	Total	198	100.0	100.0	

The managerial conduct of the business' management has a direct influence on the: Effectiveness of the business' internal control activities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	2.5	2.5	2.5
	Neutral	65	32.8	32.8	35.4
	Agree	97	49.0	49.0	84.3
	Strongly agree	31	15.7	15.7	100.0
	Total	198	100.0	100.0	

The managerial conduct of the business' management has a direct influence on the: Effectiveness of the business' internal control system

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	2	1.0	1.0	1.5
	Neutral	60	30.3	30.3	31.8
	Agree	105	53.0	53.0	84.8
	Strongly agree	30	15.2	15.2	100.0
	Total	198	100.0	100.0	

The managerial conduct of the business' management has a direct influence on the: Efficiency and effectiveness of the business operations

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	.5	.5	.5
	Disagree	1	.5	.5	1.0
	Neutral	31	15.7	15.7	16.7
	Agree	91	46.0	46.0	62.6
	Strongly agree	74	37.4	37.4	100.0
	Total	198	100.0	100.0	

The managerial conduct of the business' management has a direct influence on the: Going-concern status of the business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	68	34.3	34.3	34.3
	Agree	100	50.5	50.5	84.8
	Strongly agree	30	15.2	15.2	100.0
	Total	198	100.0	100.0	

The managerial conduct of the business' management has a direct influence on the: Morale levels inside the business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	1.5	1.5	1.5
	Neutral	37	18.7	18.7	20.2
	Agree	93	47.0	47.0	67.2
	Strongly agree	65	32.8	32.8	100.0
	Total	198	100.0	100.0	

The managerial conduct of the business' management has a direct influence on the: Productivity of employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	1.0	1.0	1.0
	Neutral	23	11.6	11.6	12.6
	Agree	88	44.4	44.4	57.1
	Strongly agree	85	42.9	42.9	100.0
	Total	198	100.0	100.0	

ANNEXURE E: VIEWS OF MEMBERS OF MANAGMENT

Correlations between the managerial conduct of members of management and internal control activities (responses of management only)

Managerial conduct The business' management… Internal control activities In the business…		Communicates well	Has effective management practices	Has industry-specific knowledge	Has leadership skills	Is on par with the latest trends in the industry	Promotes account-ability	Promotes ethics	Promotes proper values	Promotes responsibility	Promotes transparency	Solves problems
Source documents are used when goods are bought	*Correlation Coefficient*	-0.440**	-0.208*	0.132	0.056	0.031	-0.113	-0.175	-0.260**	-0.126	-0.133	-0.176
	Sig. (2-tailed)	0.000	0.023	0.153	0.549	0.737	0.220	0.058	0.004	0.173	0.150	0.056
Source documents are used when goods are received	*Correlation Coefficient*	-0.336**	-0.220*	0.135	-0.061	0.154	0.036	-0.138	-0.073	-0.242**	0.086	-0.099
	Sig. (2-tailed)	0.000	0.016	0.143	0.513	0.096	0.698	0.134	0.430	0.008	0.353	0.282
Source documents are used when goods are sold	*Correlation Coefficient*	-0.292**	0.043	0.077	-0.162	0.133	-0.021	-0.060	-0.143	-0.186*	-0.093	-0.246**
	Sig. (2-tailed)	0.001	0.640	0.404	0.078	0.149	0.819	0.520	0.121	0.043	0.313	0.007
Source documents are used when payments are made	*Correlation Coefficient*	-0.397**	-0.232*	0.132	-0.052	0.051	-0.071	-0.179	-0.253**	-0.409**	-0.098	-0.223*
	Sig. (2-tailed)	0.000	0.011	0.153	0.575	0.584	0.440	0.051	0.005	0.000	0.291	0.015
Source documents are used when money is received	*Correlation Coefficient*	-0.405**	-0.163	0.113	-0.151	0.115	-0.185*	-0.076	-0.158	-0.295**	-0.069	-0.300**
	Sig. (2-tailed)	0.000	0.077	0.221	0.101	0.211	0.044	0.413	0.087	0.001	0.457	0.001
Copies of all relevant source documents used are kept	*Correlation Coefficient*	-0.243**	-0.082	-0.014	-0.111	0.033	0.061	-0.140	-0.295**	-0.210*	0.036	-0.096
	Sig. (2-tailed)	0.008	0.374	0.884	0.229	0.721	0.508	0.129	0.001	0.022	0.700	0.300
All relevant source documents used are pre-numbered	*Correlation Coefficient*	-0.160	0.009	0.110	-0.093	0.139	-0.014	-0.104	-0.130	-0.111	-0.111	-0.127
	Sig. (2-tailed)	0.082	0.920	0.236	0.313	0.130	0.883	0.262	0.160	0.230	0.228	0.169
Unused source documents are kept safe	*Correlation Coefficient*	-0.339**	-0.072	0.092	-0.100	0.172	-0.076	-0.197*	-0.250**	-0.064	-0.207*	-0.245**
	Sig. (2-tailed)	0.000	0.434	0.317	0.278	0.062	0.413	0.031	0.006	0.490	0.024	0.007
All relevant source documents used have spaces for the date of transaction	*Correlation Coefficient*	-0.168	-0.060	0.141	0.015	0.168	0.071	-0.028	-0.027	-0.054	-0.258**	-0.067
	Sig. (2-tailed)	0.067	0.516	0.126	0.871	0.068	0.443	0.762	0.770	0.563	0.005	0.469
All relevant source documents used have	*Correlation Coefficient*	-0.422**	-0.114	0.065	0.033	0.048	-0.202*	0.010	-0.161	-0.129	-0.151	-0.371**

Managerial conduct The business' management… Internal control activities In the business…		Communicates well	Has effective management practices	Has industry-specific knowledge	Has leadership skills	Is on par with the latest trends in the industry	Promotes account-ability	Promotes ethics	Promotes proper values	Promotes responsibility	Promotes transparency	Solves problems
spaces for signatures	*Sig. (2-tailed)*	0.000	0.219	0.480	0.720	0.605	0.028	0.915	0.080	0.163	0.101	0.000
All relevant source documents used are simple to complete	*Correlation Coefficient*	-0.353**	-0.122	0.023	-0.009	0.055	0.108	-0.038	-0.094	-0.091	-0.083	-0.037
	Sig. (2-tailed)	0.000	0.186	0.800	0.919	0.556	0.244	0.678	0.312	0.324	0.371	0.691
Only management may authorise transactions	*Correlation Coefficient*	-0.336**	-0.094	0.035	-0.174	0.183*	0.044	-0.032	-0.140	-0.149	0.027	-0.135
	Sig. (2-tailed)	0.000	0.310	0.707	0.059	0.046	0.632	0.728	0.130	0.105	0.771	0.144
Employees may authorise transactions based on formal policies and/or procedures	*Correlation Coefficient*	-0.070	0.002	0.189*	0.089	0.178	0.080	-0.046	-0.049	-0.147	-0.112	-0.052
	Sig. (2-tailed)	0.448	0.979	0.040	0.336	0.053	0.387	0.621	0.595	0.111	0.227	0.572
Employees may authorise transactions with management approval only	*Correlation Coefficient*	-0.136	-0.056	0.181*	0.091	0.193*	-0.042	0.050	-0.103	-0.094	-0.139	-0.155
	Sig. (2-tailed)	0.141	0.545	0.049	0.327	0.035	0.648	0.593	0.264	0.307	0.132	0.093
Access controls are evident at entrances to the premises	*Correlation Coefficient*	-0.427**	-0.145	0.064	-0.009	0.023	0.083	-0.190*	-0.265**	-0.120	-0.134	-0.110
	Sig. (2-tailed)	0.000	0.116	0.492	0.919	0.807	0.372	0.039	0.004	0.195	0.146	0.234
Access controls are evident at all the doors	*Correlation Coefficient*	-0.219*	-0.037	-0.017	0.166	0.172	0.120	-0.262**	-0.306**	-0.055	-0.162	-0.182*
	Sig. (2-tailed)	0.017	0.691	0.858	0.072	0.062	0.192	0.004	0.001	0.554	0.079	0.048
Access controls are evident at tills and/or safes	*Correlation Coefficient*	-0.163	-0.036	0.092	-0.003	0.273**	-0.044	-0.203*	-0.100	-0.265**	-0.017	-0.287**
	Sig. (2-tailed)	0.077	0.694	0.319	0.971	0.003	0.632	0.027	0.279	0.004	0.852	0.002
Access controls are evident at storage points	*Correlation Coefficient*	-0.191*	-0.007	0.030	-0.065	0.003	0.152	0.051	-0.224*	-0.211*	-0.132	-0.219*
	Sig. (2-tailed)	0.037	0.943	0.744	0.485	0.978	0.100	0.580	0.014	0.022	0.152	0.017
Alarm systems are used	*Correlation Coefficient*	-0.354**	-0.198*	0.183*	-0.008	0.097	0.020	-0.111	-0.263**	-0.287**	-0.051	-0.169
	Sig. (2-tailed)	0.000	0.031	0.046	0.935	0.293	0.833	0.230	0.004	0.002	0.581	0.067
CCTV (surveillance) cameras are used	*Correlation Coefficient*	-0.244**	-0.141	0.115	-0.014	0.146	-0.074	-0.089	-0.197*	-0.329**	-0.117	-0.115
	Sig. (2-tailed)	0.008	0.127	0.214	0.882	0.112	0.422	0.337	0.032	0.000	0.206	0.214
Security guards are used	*Correlation Coefficient*	-0.254**	-0.175	0.134	-0.093	0.225*	-0.087	0.042	-0.097	-0.191*	-0.087	-0.240**

Managerial conduct The business' management… Internal control activities In the business…		Communicates well	Has effective management practices	Has industry-specific knowledge	Has leadership skills	Is on par with the latest trends in the industry	Promotes account-ability	Promotes ethics	Promotes proper values	Promotes responsibility	Promotes transparency	Solves problems
	Sig. (2-tailed)	0.005	0.057	0.145	0.315	0.014	0.345	0.653	0.295	0.038	0.349	0.008
Inventory is located and/or stored in a safe location	*Correlation Coefficient*	-0.354**	-0.147	-0.087	-0.044	-0.120	0.005	-0.220*	-0.257**	-0.281**	-0.237**	-0.113
	Sig. (2-tailed)	0.000	0.112	0.345	0.635	0.193	0.958	0.016	0.005	0.002	0.009	0.222
Staff are protected on premises (bars, security guards etc.)	*Correlation Coefficient*	-0.253**	-0.191*	0.176	0.023	0.126	-0.168	0.024	-0.052	-0.153	-0.025	-0.188*
	Sig. (2-tailed)	0.005	0.037	0.056	0.802	0.171	0.067	0.798	0.576	0.096	0.789	0.041
Backup and disaster-recovery measures are in place	*Correlation Coefficient*	-0.354**	-0.138	0.192*	-0.024	0.073	-0.025	-0.080	-0.150	-0.390**	-0.128	-0.322**
	Sig. (2-tailed)	0.000	0.134	0.036	0.795	0.431	0.785	0.387	0.103	0.000	0.165	0.000
Staff are supervised	*Correlation Coefficient*	-0.264**	-0.292**	0.069	0.039	0.151	-0.096	-0.044	-0.205*	-0.183*	-0.238**	-0.073
	Sig. (2-tailed)	0.004	0.001	0.458	0.673	0.101	0.297	0.637	0.025	0.047	0.009	0.433
Staff are monitored (e.g. behaviour changes)	*Correlation Coefficient*	-0.141	-0.103	0.121	-0.077	0.100	0.033	-0.106	0.049	-0.192*	-0.290**	-0.110
	Sig. (2-tailed)	0.127	0.263	0.189	0.408	0.279	0.723	0.253	0.596	0.037	0.001	0.233
Staff-performance reviews are conducted periodically	*Correlation Coefficient*	-0.148	-0.118	0.125	-0.061	0.253**	0.054	0.167	-0.110	-0.217*	-0.105	-0.140
	Sig. (2-tailed)	0.108	0.201	0.176	0.509	0.006	0.560	0.069	0.235	0.018	0.257	0.128
Quality checks are performed on goods received	*Correlation Coefficient*	-0.364**	-0.185*	-0.016	0.033	-0.047	-0.219*	-0.181*	-0.299**	-0.138	-0.183*	-0.292**
	Sig. (2-tailed)	0.000	0.044	0.864	0.724	0.609	0.017	0.049	0.001	0.134	0.046	0.001
Quality checks are performed on goods before they are sold	*Correlation Coefficient*	-0.161	-0.041	0.034	-0.135	0.107	0.161	0.147	-0.207*	-0.329**	-0.019	-0.209*
	Sig. (2-tailed)	0.080	0.658	0.710	0.144	0.246	0.081	0.110	0.024	0.000	0.837	0.022
Surprise cash checks are performed (at tills)	*Correlation Coefficient*	-0.315**	0.052	0.199*	-0.066	0.029	-0.063	-0.143	-0.074	-0.237**	-0.027	-0.193*
	Sig. (2-tailed)	0.000	0.573	0.030	0.474	0.750	0.497	0.121	0.421	0.009	0.771	0.036
Surprise cash checks are performed (petty cash)	*Correlation Coefficient*	-0.059	-0.039	0.207*	0.165	0.209*	0.007	-0.111	-0.013	-0.240**	0.081	-0.068
	Sig. (2-tailed)	0.523	0.672	0.024	0.072	0.022	0.941	0.231	0.885	0.009	0.383	0.465
Inventory is periodically counted	*Correlation Coefficient*	-0.310**	-0.084	0.190*	0.115	0.192*	-0.142	-0.104	-0.260**	-0.194*	-0.070	-0.265**
	Sig. (2-tailed)	0.001	0.363	0.038	0.213	0.036	0.123	0.258	0.004	0.034	0.450	0.004
Cash is banked daily	*Correlation*	-0.344**	-0.221*	-0.019	-0.244**	0.019	-0.027	-0.058	-0.140	-0.403**	-0.055	-0.169

Managerial conduct The business' management… Internal control activities In the business…		Communicates well	Has effective management practices	Has industry-specific knowledge	Has leadership skills	Is on par with the latest trends in the industry	Promotes account-ability	Promotes ethics	Promotes proper values	Promotes responsibility	Promotes transparency	Solves problems
	Coefficient											
	Sig. (2-tailed)	0.000	0.016	0.835	0.007	0.838	0.768	0.531	0.129	0.000	0.556	0.066
Independent audits are performed periodically	*Correlation Coefficient*	-0.252**	0.030	0.176	0.173	0.242**	0.182*	-0.063	-0.078	-0.201*	-0.160	-0.222*
	Sig. (2-tailed)	0.006	0.746	0.055	0.060	0.008	0.048	0.493	0.399	0.029	0.082	0.015
Internal audits are performed periodically	*Correlation Coefficient*	-0.363**	-0.075	0.227*	0.159	0.219*	-0.047	0.070	-0.173	-0.208*	-0.048	-0.352**
	Sig. (2-tailed)	0.000	0.417	0.013	0.085	0.017	0.612	0.446	0.060	0.023	0.602	0.000
The bank account is regularly reconciled by an independent person	*Correlation Coefficient*	-0.120	0.116	0.022	0.042	0.234*	0.160	-0.032	-0.035	-0.116	-0.123	-0.290**
	Sig. (2-tailed)	0.195	0.207	0.814	0.654	0.010	0.082	0.727	0.708	0.211	0.181	0.001
The debtors' control account is regularly reconciled by an independent person	*Correlation Coefficient*	-0.209*	-0.032	0.030	0.134	0.248**	0.167	0.032	-0.088	-0.223*	0.068	-0.254**
	Sig. (2-tailed)	0.023	0.728	0.748	0.145	0.007	0.070	0.728	0.343	0.015	0.459	0.005
The creditors' control account is regularly reconciled by an independent person	*Correlation Coefficient*	-0.130	-0.101	0.186*	0.190*	0.246**	0.066	0.064	0.012	-0.211*	-0.044	-0.034
	Sig. (2-tailed)	0.160	0.276	0.043	0.038	0.007	0.474	0.487	0.896	0.021	0.632	0.712
The person authorising transactions does not record or execute them (e.g. the authorising of a delivery)	*Correlation Coefficient*	-0.406**	-0.015	0.204*	-0.091	0.352**	0.003	-0.015	-0.299**	-0.257**	-0.034	-0.383**
	Sig. (2-tailed)	0.000	0.871	0.026	0.326	0.000	0.978	0.874	0.001	0.005	0.715	0.000
The person recording the transactions does not authorise or execute them (e.g. the recording of delivery of goods)	*Correlation Coefficient*	-0.222*	-0.039	0.156	0.024	0.404**	0.075	0.071	-0.221*	-0.399**	0.054	-0.271**
	Sig. (2-tailed)	0.015	0.674	0.091	0.793	0.000	0.415	0.446	0.016	0.000	0.562	0.003
The person executing transactions does not authorise or record them (e.g. the actual delivery of goods)	*Correlation Coefficient*	-0.368**	-0.094	0.192*	0.088	0.213*	0.052	-0.058	-0.130	-0.324**	-0.058	-0.199*
	Sig. (2-tailed)	0.000	0.309	0.037	0.339	0.020	0.572	0.528	0.160	0.000	0.528	0.030

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

Managerial conduct The business' management… Internal control activities In the business…	Communicates well	Has effective management practices	Has industry-specific knowledge	Has leadership skills	Is on par with the latest trends in the industry	Promotes account-ability	Promotes ethics	Promotes proper values	Promotes responsibility	Promotes transparency	Solves problems
** Correlation is significant at the 0.05 level (2-tailed).*											

ANNEXURE F: VIEWS OF EMPLOYEES

Correlations between the managerial conduct of members of management and internal control activities (responses of employees only)

Managerial conduct The business' management… / Internal control activities In the business…		Communicates well	Has effective management practices	Has industry-specific knowledge	Has leadership skills	Is on par with the latest trends in the industry	Promotes account-ability	Promotes ethics	Promotes proper values	Promotes responsibility	Promotes transparency	Solves problems
Source documents are used when goods are bought	Correlation Coefficient	-0.315**	0.000	0.056	0.086	0.096	-0.051	-0.006	-0.107	-0.097	-0.287*	-0.101
	Sig. (2-tailed)	0.005	0.997	0.624	0.450	0.399	0.654	0.957	0.347	0.397	0.010	0.378
Source documents are used when goods are received	Correlation Coefficient	-0.105	0.079	0.103	0.073	0.116	-0.037	0.103	-0.120	-0.078	-0.206	-0.073
	Sig. (2-tailed)	0.358	0.491	0.365	0.522	0.310	0.745	0.367	0.291	0.493	0.068	0.525
Source documents are used when goods are sold	Correlation Coefficient	-0.077	0.034	0.037	0.166	0.037	-0.181	0.043	0.011	-0.111	-0.087	0.067
	Sig. (2-tailed)	0.500	0.768	0.746	0.143	0.743	0.110	0.706	0.926	0.332	0.447	0.558
Source documents are used when payments are made	Correlation Coefficient	-0.099	-0.159	0.156	0.063	0.174	-0.055	0.181	0.059	-0.023	-0.131	0.216
	Sig. (2-tailed)	0.384	0.162	0.171	0.583	0.124	0.632	0.111	0.605	0.840	0.252	0.056
Source documents are used when money is received	Correlation Coefficient	-0.164	0.227*	0.246*	0.199	0.200	-0.104	0.216	-0.223*	0.049	0.040	0.115
	Sig. (2-tailed)	0.150	0.044	0.029	0.079	0.077	0.363	0.055	0.048	0.665	0.727	0.312
Copies of all relevant source documents used, are kept	Correlation Coefficient	0.155	0.185	0.225*	0.121	0.165	0.227*	0.216	0.008	-0.098	-0.164	0.118
	Sig. (2-tailed)	0.173	0.102	0.047	0.288	0.146	0.044	0.056	0.943	0.389	0.147	0.300
All relevant source documents used are pre-numbered	Correlation Coefficient	-0.006	0.102	0.027	-0.185	-0.064	0.006	0.152	0.155	0.217	0.226*	0.097
	Sig. (2-tailed)	0.958	0.371	0.816	0.102	0.576	0.956	0.180	0.173	0.054	0.045	0.397
Unused source documents are kept safe	Correlation Coefficient	-0.024	-0.063	-0.014	-0.048	0.085	0.083	0.122	0.320**	0.043	-0.043	0.093
	Sig. (2-tailed)	0.832	0.582	0.902	0.673	0.457	0.466	0.285	0.004	0.709	0.709	0.413
All relevant source documents used have spaces for the date of transaction	Correlation Coefficient	-0.054	0.102	0.150	0.074	0.078	0.046	-0.001	-0.198	0.146	-0.091	0.041
	Sig. (2-tailed)	0.636	0.371	0.188	0.516	0.494	0.685	0.996	0.080	0.199	0.424	0.720
All relevant source documents used have	Correlation Coefficient	0.082	-0.041	0.030	0.232*	0.221	-0.014	0.044	0.135	0.053	0.114	0.199

Managerial conduct The business' management… Internal control activities In the business…		Communicates well	Has effective management practices	Has industry-specific knowledge	Has leadership skills	Is on par with the latest trends in the industry	Promotes account-ability	Promotes ethics	Promotes proper values	Promotes responsibility	Promotes transparency	Solves problems
spaces for signatures	Sig. (2-tailed)	0.475	0.718	0.794	0.040	0.051	0.902	0.698	0.235	0.641	0.315	0.079
All relevant source documents used are simple to complete	Correlation Coefficient	-0.002	0.165	0.115	0.136	0.004	0.037	-0.019	0.075	0.073	-0.003	0.082
	Sig. (2-tailed)	0.985	0.147	0.314	0.232	0.972	0.743	0.868	0.510	0.525	0.980	0.473
Only management may authorise transactions	Correlation Coefficient	-0.033	-0.031	-0.003	0.048	0.055	0.055	-0.005	0.078	-0.005	0.024	-0.155
	Sig. (2-tailed)	0.776	0.787	0.979	0.675	0.630	0.629	0.964	0.496	0.966	0.833	0.174
Employees may authorise transactions based on formal policies and/or procedures	Correlation Coefficient	-0.124	-0.065	0.148	0.013	0.109	-0.048	0.041	-0.006	-0.011	0.005	0.315**
	Sig. (2-tailed)	0.278	0.572	0.192	0.907	0.340	0.673	0.717	0.955	0.923	0.963	0.005
Employees may authorise transactions with management approval only	Correlation Coefficient	-0.087	0.078	0.016	-0.148	-0.132	-0.091	0.005	0.156	-0.066	-0.123	-0.037
	Sig. (2-tailed)	0.447	0.492	0.887	0.192	0.245	0.423	0.962	0.169	0.561	0.279	0.745
Access controls are evident at entrances to the premises	Correlation Coefficient	-0.028	0.089	0.064	0.023	-0.021	0.054	-0.016	-0.160	0.057	-0.016	0.114
	Sig. (2-tailed)	0.803	0.433	0.578	0.844	0.852	0.636	0.888	0.159	0.616	0.888	0.317
Access controls are evident at all the doors	Correlation Coefficient	0.082	0.089	-0.004	0.110	0.018	-0.005	0.091	0.287*	0.046	0.055	0.093
	Sig. (2-tailed)	0.471	0.437	0.969	0.335	0.875	0.968	0.427	0.010	0.687	0.632	0.414
Access controls are evident at tills and/or safes	Correlation Coefficient	-0.182	-0.039	-0.013	-0.083	0.086	-0.006	0.010	0.105	0.012	-0.145	-0.069
	Sig. (2-tailed)	0.108	0.730	0.906	0.468	0.453	0.960	0.932	0.359	0.915	0.202	0.548
Access controls are evident at storage points	Correlation Coefficient	-0.045	-0.046	-0.124	0.091	-0.022	0.122	-0.083	0.016	-0.213	-0.080	-0.044
	Sig. (2-tailed)	0.694	0.688	0.276	0.428	0.847	0.283	0.466	0.887	0.059	0.482	0.701
Alarm systems are used	Correlation Coefficient	-0.260*	-0.030	0.159	0.130	0.188	-0.042	-0.124	-0.118	-0.098	-0.286*	-0.076
	Sig. (2-tailed)	0.020	0.791	0.163	0.252	0.098	0.713	0.277	0.299	0.392	0.011	0.508
CCTV (surveillance) cameras are used	Correlation Coefficient	-0.193	0.006	0.132	0.068	0.009	-0.212	-0.159	-0.138	-0.210	-0.183	0.089
	Sig. (2-tailed)	0.089	0.956	0.246	0.551	0.937	0.061	0.161	0.225	0.063	0.106	0.434
Security guards are	Correlation	-0.048	-0.039	0.270*	0.113	0.344**	-0.096	-0.062	-0.059	-0.108	0.015	-0.045

Managerial conduct The business' management… Internal control activities In the business…		Communicates well	Has effective management practices	Has industry-specific knowledge	Has leadership skills	Is on par with the latest trends in the industry	Promotes account-ability	Promotes ethics	Promotes proper values	Promotes responsibility	Promotes transparency	Solves problems
used	Coefficient											
	Sig. (2-tailed)	0.674	0.731	0.016	0.320	0.002	0.398	0.589	0.604	0.344	0.892	0.691
Inventory is located and/or stored in a safe location	Correlation Coefficient	-0.164	0.008	-0.205	0.056	-0.136	0.023	0.114	-0.010	0.022	-0.111	0.067
	Sig. (2-tailed)	0.148	0.943	0.069	0.626	0.233	0.842	0.315	0.933	0.845	0.328	0.556
Staff are protected on premises (bars, security guards etc.)	Correlation Coefficient	-0.079	0.064	0.291**	0.111	0.320**	-0.289**	0.155	-0.150	-0.114	-0.108	0.145
	Sig. (2-tailed)	0.487	0.577	0.009	0.332	0.004	0.010	0.173	0.187	0.316	0.342	0.204
Backup and disaster recovery measures are in place	Correlation Coefficient	0.002	0.061	0.022	0.059	-0.024	-0.103	-0.008	0.150	0.223*	-0.105	0.103
	Sig. (2-tailed)	0.983	0.596	0.850	0.607	0.835	0.368	0.942	0.188	0.048	0.359	0.365
Staff are supervised	Correlation Coefficient	-0.150	-0.113	0.109	-0.055	-0.129	0.011	0.156	-0.059	-0.189	-0.001	0.091
	Sig. (2-tailed)	0.188	0.320	0.341	0.629	0.257	0.924	0.170	0.605	0.095	0.994	0.425
Staff are monitored (e.g. behaviour changes)	Correlation Coefficient	-0.092	-0.115	0.066	-0.029	0.045	-0.182	-0.260*	-0.042	0.045	0.083	0.136
	Sig. (2-tailed)	0.419	0.314	0.562	0.798	0.693	0.109	0.021	0.711	0.691	0.466	0.230
Staff-performance reviews are conducted periodically	Correlation Coefficient	0.039	0.216	0.001	0.008	0.149	-0.011	0.126	0.186	0.229*	0.176	0.076
	Sig. (2-tailed)	0.731	0.056	0.991	0.944	0.190	0.923	0.270	0.100	0.042	0.121	0.504
Quality checks are performed on goods received	Correlation Coefficient	0.060	-0.143	0.141	0.040	0.147	0.107	-0.109	-0.129	-0.028	-0.171	0.061
	Sig. (2-tailed)	0.596	0.208	0.217	0.728	0.195	0.347	0.341	0.257	0.804	0.131	0.592
Quality checks are performed on goods before they are sold	Correlation Coefficient	0.126	-0.026	0.139	0.012	-0.117	0.038	0.014	0.119	-0.089	-0.170	-0.008
	Sig. (2-tailed)	0.267	0.822	0.222	0.919	0.303	0.738	0.903	0.297	0.433	0.134	0.942
Surprise cash checks are performed (at tills)	Correlation Coefficient	-0.104	-0.062	0.096	0.150	0.203	0.021	0.151	-0.123	-0.101	-0.096	0.062
	Sig. (2-tailed)	0.364	0.587	0.402	0.187	0.073	0.854	0.184	0.282	0.376	0.401	0.587
Surprise cash checks are performed (petty cash)	Correlation Coefficient	-0.047	-0.004	-0.107	0.062	-0.032	0.202	0.032	0.049	-0.020	0.094	0.069
	Sig. (2-tailed)	0.678	0.975	0.349	0.585	0.782	0.075	0.781	0.666	0.858	0.412	0.546
Inventory is periodically counted	Correlation Coefficient	0.034	0.053	0.332**	0.206	0.302**	0.045	-0.141	0.021	0.005	-0.171	0.002
	Sig. (2-tailed)	0.768	0.640	0.003	0.069	0.007	0.696	0.214	0.855	0.968	0.132	0.985

Managerial conduct The business' management… Internal control activities In the business…		Communicates well	Has effective management practices	Has industry-specific knowledge	Has leadership skills	Is on par with the latest trends in the industry	Promotes account-ability	Promotes ethics	Promotes proper values	Promotes responsibility	Promotes transparency	Solves problems
Cash is banked daily	Correlation Coefficient	0.014	-0.032	0.031	-0.109	0.059	-0.122	-0.098	-0.046	-0.254*	-0.080	-0.063
	Sig. (2-tailed)	0.905	0.778	0.788	0.340	0.606	0.284	0.391	0.684	0.024	0.481	0.578
Independent audits are performed periodically	Correlation Coefficient	0.087	0.002	0.350**	0.367**	0.164	0.090	0.150	0.051	-0.123	-0.017	0.145
	Sig. (2-tailed)	0.446	0.988	0.002	0.001	0.149	0.432	0.187	0.654	0.279	0.881	0.202
Internal audits are performed periodically	Correlation Coefficient	-0.053	0.030	0.004	0.276*	0.010	-0.087	0.056	0.068	-0.114	-0.137	0.006
	Sig. (2-tailed)	0.643	0.792	0.972	0.014	0.928	0.447	0.623	0.549	0.317	0.227	0.958
The bank account is regularly reconciled by an independent person	Correlation Coefficient	0.172	0.074	0.094	-0.027	0.104	0.228*	0.140	0.125	0.075	-0.006	0.105
	Sig. (2-tailed)	0.130	0.517	0.410	0.810	0.360	0.043	0.219	0.271	0.509	0.961	0.359
The debtors' control account is regularly reconciled by an independent person	Correlation Coefficient	0.016	-0.069	0.074	0.044	0.117	0.085	-0.140	0.119	0.056	-0.020	0.210
	Sig. (2-tailed)	0.886	0.544	0.517	0.698	0.303	0.455	0.219	0.294	0.623	0.858	0.064
The creditors' control account is regularly reconciled by an independent person	Correlation Coefficient	0.066	0.147	0.267*	0.116	0.037	0.216	0.083	-0.103	0.083	0.013	0.088
	Sig. (2-tailed)	0.564	0.197	0.017	0.309	0.749	0.056	0.469	0.367	0.465	0.910	0.438
The person authorising transactions does not record or execute them (e.g. the authorising of a delivery)	Correlation Coefficient	0.019	-0.130	0.187	0.111	0.183	0.128	-0.143	0.100	-0.060	0.172	0.070
	Sig. (2-tailed)	0.866	0.254	0.098	0.328	0.106	0.261	0.208	0.380	0.598	0.129	0.537
The person recording the transactions does not authorise or execute them (e.g. the recording of delivery of goods)	Correlation Coefficient	0.110	-0.089	0.176	0.094	0.113	0.121	0.055	0.100	-0.326**	0.027	0.056
	Sig. (2-tailed)	0.335	0.438	0.121	0.410	0.320	0.286	0.629	0.381	0.003	0.813	0.622
The person executing transactions does not authorise or record them (e.g. the actual delivery of goods)	Correlation Coefficient	0.043	-0.092	0.176	0.038	0.007	0.144	-0.052	0.088	-0.103	-0.017	0.039
	Sig. (2-tailed)	0.706	0.420	0.121	0.739	0.953	0.204	0.646	0.440	0.367	0.879	0.731

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

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