

# Internal Control System and the Employee Turnover in Small and Medium Enterprises in South West, Nigeria

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## Abstract

The study was on assessment of internal control on the employee turnover in Small and Medium Enterprises (SMEs) in Ekiti, Ogun and Osun states. Three sectors were selected for the study and they were, Food and Beverages, Bakery and Wood Processing. The study was carried out to determine the effect of internal control system on employee turnover and measures to make internal control effective on employee turnover in SMEs. Leadership style and training and development were used as indicators for employee turnover. The population for the study was Four Thousand, Five Hundred and Seventy Six (4,576) registered SMEs under CAMA (2004). The sample size was Three Hundred and Forty Six (346) SMEs in the study area using Krejcie and Morgan sample formula, out of which Three Hundred (300) were received from the respondents. Both inferential and descriptive statistics methods were used to analyse the collected data for the study. Inferential statistics used were Ordinary Least Square (OLS) Regression method, while descriptive statistics used were Likert ratings, frequency count, percentage and Relative importance index. Questionnaire were administered to collect the data for the study. The result showed that all types of internal controls existed in most of the SMEs in the study area, though not very effective. The study revealed that personnel management and organisational controls have significant effect on the training and development of the SMEs in the study area having coefficients value of (0.689;  $\alpha = 0.007$ ), (1.162;  $\alpha = 0.000$ ) and (0.886;  $\alpha = 0.012$ ) respectively. It was also revealed that the internal control which significantly has effect on leadership style of the SMEs in the study area includes personnel control (1.093;  $\alpha = 0.000$ ), physical control (0.633;  $\alpha = 0.034$ ), arithmetic and accounting control (0.915;  $\alpha = 0.024$ ), organisational control (0.963;  $\alpha = 0.003$ ), budget and budgetary control (1.132;  $\alpha = 0.008$ ) and supervisory control (0.823;  $\alpha = 0.028$ ). This is an indication that internal control has effect on employee turnover of SMEs in the study area. The conclusion drawn from the study was that moderate positive relationship exists between the internal control and the employee turnover in the SMEs. It was recommended that SMEs should ensure improvement on effectiveness of internal control on employee training and development on the leadership style in order to improve on retention of employee in their organisations.

**Keywords:** Organisation, Leadership Style, Training and Development, Management, motivation

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## 1. Introduction

Small and Medium Enterprise (SMEs) have and are still playing very important role in any country's economy. Elbasanit (2018), stated that SMEs are the major segment of economic activities throughout both developing and developed countries by providing goods and service likewise, other indirect support throughout the world. According to report of (ADB, 2020), SMEs are seen as the live wire of the economy in any country. The role of SMEs cannot be undermined and Nigeria government have initiated and implemented concerted efforts in terms of policy guidelines and interventions at all levels to accelerate the growth and viability of the SME sector (Lionel & Samuel, 2018). It is the general expectation of people to see that SMEs are performing credibly well but the performance of SMEs are below the expectation of the populace.

One of the strategies for SMEs to be viable and continue to exist is the existence of internal control system which encompasses the policies, processes, tasks, behaviours and other aspects that facilitate effectiveness and efficiency of operation of an organisation. According to Adewale (2014), internal control includes the safeguarding of assets from inappropriate use, loss or fraud and ensuring that liabilities are identified and managed; help ensure the quality of internal and external reporting. Iskandar (2018) internal control system as a concept which express the essential features of the structure of any business organisation's integrity, ethical values and all other activities that ensure balance in moving towards optimality. Establishment of internal control system in any business entity is very important for the viability and continuity of such business including human resources management and this will have positive effect on the rate of employee turnover in SME.

Employee turnover is the rate at which employee leave service of an organisation. When the rate is high it shows that there is problem of retention of employee which may have adverse effect on the employee turnover of an organisation. Employee is the backbone of organisation (Arindan, 2016). When there is high employee's turnover, it has negative effect on the employee turnover of any organisation.

Small and Medium Enterprises (SMEs) are very important in every country's economy because of their

contribution to the economy in terms of provision of employment, wealth creation leading to economic growth and development of a country. It is the expectation of the populace that SMEs should perform credibly well but SMEs have fallen short of expectations in contributing to the economic and national development in Nigeria despite government institutional and policy support introduced in enhancing their capacity (Osotimehin, Jegede, Akinlabi & Olajide, 2012). One of the major shortcomings of many SMEs is their failure to establish system of internal control and high rate of employee turnover that could lead to reduction of the operational efficiency in the organisation. Business failures most often results from non-existence of internal control which includes lack of experienced manpower, poor record keeping, poor procurement procedure and poor leadership style (Agwu & Emeti, 2014). The incidence of employee turnover in SMEs is very alarming and the past researchers have no or little focus on the effect of internal control system on the employee turnover in SMEs, hence the reason for this study in the selected SMEs. The types of control which are; Physical control, authorisation and approval, personnel, arithmetic and accounting, management control, organisational control, segregation of duty, supervisory control, acknowledgement of financial performance and budget and budgetary control were related to the selected employee turnover indicators which were leadership style and training and development.

### 1.2 Objective of the Study

The objectives of this study are: to assess the effect of internal control system on the employee turnover in Small and Medium Enterprise in South West, Nigeria;

- ii. examine the challenges militating against internal control system on the financial performance of SMEs in the study area; and
- iii analyse the measures to adopt to make internal control system effectively contribute to financial performance of SMEs in the study area.

### 1.3 Research Hypotheses

Ho Internal control system has effect on the employee turnover of SMEs in South Western, Nigeria.

H1 Internal control system has no effect on the asset turnover of SMEs in South Western, Nigeria.

## 2. Small Scale and Medium Enterprises:

Medium Enterprises have no universally accepted definition, it varies from country to country and from time to time and according to institutions. The Nigerian government has used various definitions and criteria in classifying businesses into small, and medium. Though, the asset base criterion is mostly used in Nigeria. The definition of SMEs is important to distinguish between the different categories of the production units in terms of factors such as number of employees, characteristics of management, the value of fixed assets, capital employed production capacity and level of technology employed. Small Enterprises are those enterprises whose total assets are less than Five Million Naira (N5m) (excluding land and building), with number of employee not exceeding ten (10) (Eniola & Etebang, 2014). Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and National Bureau of Statistics (2013), stated that medium enterprises are referred to, as enterprises with total assets (excluding land and building) above Fifty Million Naira (N50m), but not exceeding Five Hundred Million Naira (N500m) with a total workforce of between fifty (50) people and One Hundred and Ninety Nine (199) employees. CBN (2010) also defined SMEs as those enterprises with total assets between Fifty Million Naira (N50m) and Five Hundred Million Naira (N500m), having labour force of between Eleven (11) and Three Hundred (300) employees.

CBN (2017) came up with another definition of SME in its circular on guidelines for the operations of the Agricultural/Small and Medium Enterprises Investment Scheme as any enterprise that meets at least 2 of the following criteria: Sales turnover not exceeding N4.5 billion, total assets not exceeding N4.5 billion, or number of taxpaying employees not more than 250. SMEs are expected to perform credibly well and promote the economic and socio-economic situation of the country. This expectation brought about the introduction of different policies by the Federal and State governments such as introduction of the Industries Credit Scheme (ICS) to assist in funding of SMEs in 1971, Nigeria Bank of Commerce and Industry in 1978 for granting of soft loans to help in the development of SMEs and National Directorate of Employment (NDE) which was introduced in 1987.

### 2.1 Internal Control System

One of the strategies for SMEs to be viable is the establishment of internal control system which encompasses the policies, processes, tasks, behaviours and other aspects that facilitate effectiveness and efficiency of operation of an organisation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks in achieving the company's objectives (Olatunji, Dada & Bankole, 2008). According to Adewale (2014), internal control includes the safeguarding of assets from inappropriate use, prevention of loss or fraud and ensuring identification of liabilities and to be well managed; it ensures the quality of internal and external reporting. The operational standards (guideline), defines internal control as the whole system of controls, financial

or non-financial which is established by the management to assist in achieving the company's objectives. Internal control involves internal auditing, administrative and other accounting controls set up by the management in order to ensure achievements of organisation planned objectives which entail keeping of appropriate records, ensuring strict adherence to the established management policies. (Adewale, 2014). Internal control is the whole system of controls, financial or otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner to ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records (Vu, 2016).

## 2.2 Types of Internal Control:

Internal control is very important in managing the entire organisation to ensure efficient and effectiveness of the operations of the business. The various types of internal controls are discussed below:

**Personnel Control:** According to Hayes, Dassen, Schilder and Wellage (2005), the most important element in the control environment is personnel. There should be proper control in respect of the selection and training of employees, it is very necessary that the appointment of employee into any position to be on merit basis; individuals should have the appropriate personal qualities, experience and qualifications required for a position. Organisation should establish good policy relating to hiring, orientation, training evaluation, counselling, promotion and compensation of employee. Monday, Inneh and Ojo (2014) opined that personnel controls should commensurate with their responsibilities.

**Segregation of duties:** These are controls which ensure that separate individuals or groups of individuals carry out the main functions of an organisation of authorisation, execution, custody and recording, as noted by Tandon, Sudharsanam and Sundharabahu (2012), that there is need for effective control by way of separation of duties that the person handling an asset cannot make entries for the transactions without any counter check. In order to ensure control, the work of one person should act as a check on the work of the other.

**Physical control:** These are those procedures and measures set up to secure proper custody over valuable corporate assets. According to Ainapure and Ainapure (2009), organisation needs to ensure the existence of accountability over each fixed asset is established by maintaining appropriate record which facilitates physical verification and utilisation control should ensure that the fixed assets have been properly used for objective of the enterprise.

**Authorisation and approval:** Effective internal control procedures require that all transactions should be authorised and approved by appropriate responsible person possibly in writing. Ingman (2016) opined that requiring specific manager to authorise certain types of spending transactions, can add a layer of responsibility to accounting records by proofing that transactions have been seen, analysed and approved by appropriate authority.

**Management control:** Management controls are controls exercised by management outside the day to day routine of the system. This includes overall supervisory controls exercised by the management. Simangunsong (2014) opined that management control includes the function of the management in achieving the set goals of the organisation.

**Supervisory control:** Supervision is overseeing of the work of other individuals by someone in a position of responsibility. Supervisory controls help to ensure that individuals do the job they are required to do and perform them properly. Ravas and Ravas (2015), stated that internal control in general is based on a system comprising the development and implementation of policies and procedures with good supervisory and control system.

**Organisation control:** Organisation controls refer to the controls provided by the organisation's structure which include establishment of reporting lines within the organisation, coordinating the activities of different departments or groups, delegating authority within the organisation. The delegation of authority and responsibility within an organisation should be clearly specified (Olowokere, 2014).

**Arithmetic and accounting control:** Arithmetic and Accounting control is an important element of internal control. According to Ravas and Ravas (2015), in order to assess the effectiveness of internal control in an organisation, there must be assurance that all operations have been accounted for, without omission and not repeating the same operations several time. Hoshin, Fizzell and Cherry (2015), viewed that another important function of accounting system is to establish and maintain control over the organisation's operations, resources and records.

**Acknowledgement of Performance :** This control states that for every activity performed, the person that performs the activity must acknowledge in writing that he/she performs the activity (Monday, Inneh & Ojo, 2014). The level of acknowledgement varies from simply signing-off with date or doing it with brief comment on the activity carried out.

**Budgeting and Budgetary Control:** Abdullahi (2011) defined budget as a plan, forecast, standard or even production of the organisation revenue and expenditure for a specific period of time. According to Monday, Inneh and Ojo (2014), budgeting and budgetary controls are the controls that set targets for activities, volumes and other financial issues of the organisations and they form reasonable basis for assessing staff efforts.

### 2.3 Employee turnover

This is the rate at which employee leave organization for another one or for other reason. When employee exit from organization, it becomes necessary to be replaced by another which is additional and may have negative effect on the organisation. Employee turnover which in turn impact on productivity. The loss of skilled, relevant and talented employees could stagnate organizational performance and productivity or reduce the overall performance of any organisation especially SMEs. Chen, Tsou, & Huang, 2010 opined that employee turnover always cause additional cost in respect of recruiting and training of new staff.

### 2.4 Causes of Employee Turnover

It is true the decision for an employee to quit working with an organisation can arise as a result of many reasons. Fitz-Enz (2009) underlines that the majority of the employee turnover is due to the leadership style, i.e. behaviour demonstrated by their supervisors. Reasons for employee turnover may also be one of the following: Absence of staff training and development policy, poor salary, no job satisfaction, lack of motivation, poor working environment. Tumisang and Swami, (2014) opined that another underlined reason for employee turnover is the poor selection and recruitment policy and lack of opportunity given to the staff for growth, when there is a lack of such opportunities, the staff may decides to leave. Another factor that can cause quitting from one company to another is lack of career development opportunities.

### 2.5 Strategies to Reduce Rate of Employee Turnover in SMEs

It is very important to reduce the incidence of high employee turnover in SMEs because it has serious negative effect on the growth and stability of any organisation. When it comes to the success of organization Shaw (2011), stated that there are two main pillars it depends on; retention and employee satisfaction. The rate of employee turnover can also be reduced if there is payment of attractive salary. Shaw further stated that the key step in reducing the employee turnover is the creation of strong intra-organizational networks. SMEs should identify the causes of high employee turnover in their system and improve on: motivation of staff, establish career development in respect of staff training and development, establish conducive working environment, adoption of good leadership style and to improve on any area that can cause high employee turnover.

The measurement parameters used in this study were; Leadership style and Training and Development of employee.

**i. Leadership Style:** Leadership style is the combination of attitude and behaviour of a leader in dealing with the subordinates. (Dubrin, 2004), the leadership style within an organisation has a bearing on encouraging or inhibiting employee's turnover (Armstrong & Murlis, 2004). The effect of leadership on employee is very important. A good leader has motivative effect on his subordinates, also instils confidence and evokes enthusiasm with regard to their work; whereas if a leader engages in aggressive and punitive behaviour these may discourage any employee to continue working with such leader and can eventually lead to high rate of employee turnover.

**ii. Training and Development:** According to Kylar and Serkan (2010), job training is a set of planned activities which increase the job knowledge and skills or to modify the attitude and social behaviour of organisation employees in ways consistent with the organisational goals and the requirements of the job. Training and development is defined as the process by which people acquire various skills and knowledge that increases their effectiveness in a number of ways, which include leading and leadership, guiding, organizing, and influencing others etc. (Hancock, Allen, Bosco, McDaniel, and Pierce, (2013)). Training has been proved to reduce employee turnover because of the benefits to be derived by the employee through the development of employee knowledge, skills, ability, competencies and behaviour (Appiah, 2010). Training is important for employees in any organisation for several reasons. It enables the employee to positively contribute to the development of such organisation. The knowledge acquired from training increases the quality of service provided by the organisation. Employee training tends to foster effective utilization of organisational resources and also have a direct positive influence on job security, increase in productivity and improves employee staying on the job (Gimbert, Bisbe, & Mendoza, 2010).

### 2.6 Conceptual Framework:

The independent variables for this study are the types of internal control which are; Physical Control, Authorisation and Approval, Personnel Control, Arithmetic and Accounting, Management Control, Organisational Control, Supervisory Control, Budgeting and Budgetary, Segregation of Duties, Acknowledgement of Financial performance. The dependent variables are the financial performance indicators of SMEs which are: Profitability, Sales growth, Asset Turnover Rate and Staff Turnover.

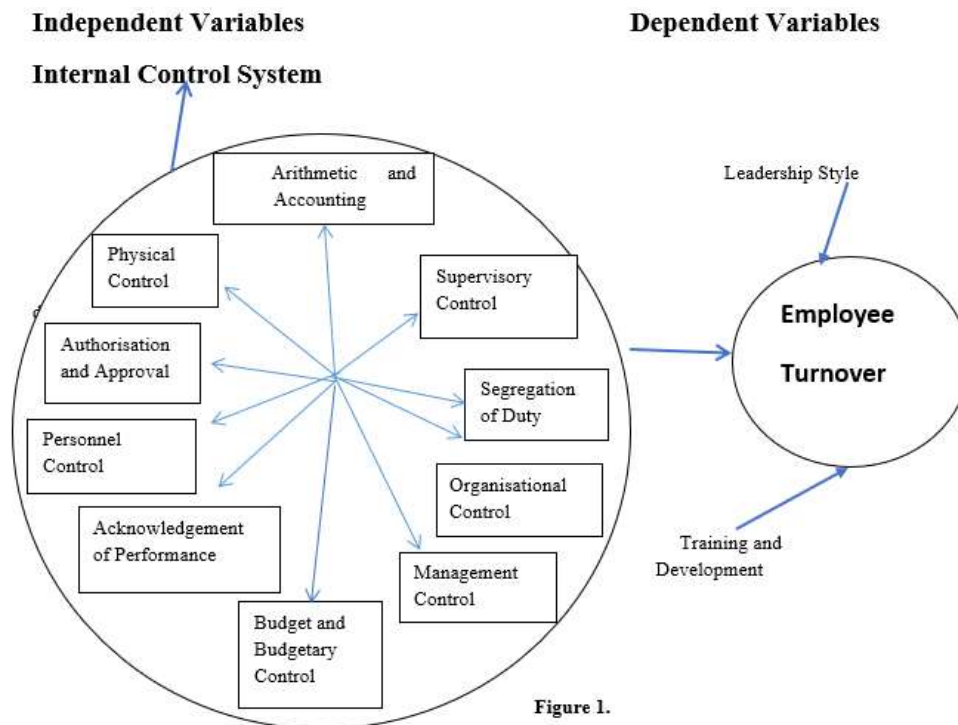


Figure 1.

### 3. Methodology

This study adopted the Ex-post facto research design. The dependent variable was the employee turnover of Small and Medium Enterprises (SMEs) while the independent variable was internal control system. Information relating to internal control system and employee turnover in the SMEs registered under Company and Allied Matter Act (CAMA) Cap 20 LFN 2004 in Ekiti, Ogun, and Osun States, Nigeria were elicited.

The population of the the study consist of 4,576 employees that were selected from the area of study. The sample size was 346 employees using Krejcie Morgan formular. Multi-stage sampling procedure was used for this study. At the first stage: Three States (Ekiti, Ogun and Osun) were selected due to the large number and diversity of SMEs in the chosen sectors. Second stage: three sectors consisting of Food and Beverages, Bakery and Wood Processing enterprises were selected for the study. Third stage: Stratified sampling technique was used to select respondents from each state. Three Hundred and Forty Six (346) copies of questionnaire were administered using Krejcie Morgan (1970) formula, 300 copies were received, screened and used for the study.

Primary data were collected using structured questionnaire and unstructured data.

The variables for this study were dependent and independent variables. The dependent variables are the employee turnover indicators which are: leadership style and employee training and development. The independent variables are the types of internal control system which are: physical control, authorization and approval, personnel control, arithmetic control, management control, organisational control, supervisory control, budgeting and budgetary control, segregation of duties and acknowledgement of performance.

#### 3.1 Model Specification

Ordinary Least Square Regression was used to analysis data collected for this study.

The model is as follows:

$$TDT_i = \beta_0 + \beta_1PHYC_i + \beta_2AUTA_i + \beta_3PERC_i + \beta_4ARIC_i + \beta_5MANC_i + \beta_6ORGC_i + \beta_7SUPC_i + \beta_8BBUC_i + \beta_9SEGD_i + \beta_{10}ACHP_i + \epsilon_i \text{-----} 3.1$$

$$LDS_i = \beta_0 + \beta_1PHYC_i + \beta_2AUTA_i + \beta_3PERC_i + \beta_4ARIC_i + \beta_5MANC_i + \beta_6ORGC_i + \beta_7SUPC_i + \beta_8BBUC_i + \beta_9SEGD_i + \beta_{10}ACHP_i + \epsilon_i \text{-----} 3.2$$

Where: LDT1 = Leadership Style

TDT2 = Training and Development

INTC<sub>i</sub> = the 10 controls are as below:

- |                            |                                      |
|----------------------------|--------------------------------------|
| PHYC = Physical Control    | AUTA = Authorisation and Approval    |
| PERC = Personnel Control   | ARRC = Arithmetical and Recording    |
| MANC = Management Control  | ORGC = Organisational Control        |
| SUPC = Supervisory Control | BBUC = Budgets and Budgetary Control |



SEGD = Segregation of Duties      ACKP = Acknowledgement of performance  
 $\beta_0$  = Constant       $\epsilon$  = the error term  
 $\beta_1$  -----  $\beta_{10}$  = the matrix of the independent variables coefficients whose values are to be estimated by applying four models:

#### 4. Data Analysis

This study adopted both descriptive and inferential statistical analysis. The descriptive statistics included percentages, frequency counts, likert scale and relative importance measurements. The inferential statistics which is Ordinary Least Square (OLS) was used to assess the effect of internal control on employee turnover of SMEs.

##### Effect of Internal Control on Leadership Style of SME

The study shows the effect of internal control on leadership style of the SMEs in the study area. The selected SMEs in the study area as shown in table 1, revealed that segregation of duties ( $\bar{X} = 2.79$ ), physical control ( $\bar{X} = 2.82$ ) personnel control ( $\bar{X} = 2.74$ ), organisational control ( $\bar{X} = 2.74$ ) supervisory control ( $\bar{X} = 23.74$ ) and management control ( $\bar{X} = 2.37$ ) were effective in the study area. However, arithmetic and accounting control ( $\bar{X} = 3.1$ ), budget and budgetary control ( $\bar{X} = 3.26$ ), authorisation and approval ( $\bar{X} = 3.14$ ), supervisory control (3.74) and acknowledgement of performance ( $\bar{X} = 3.28$ ) were fairly effective on leadership style in SME in the study area. This study therefore revealed that not all types of internal control system have serious effect on employee turnover.

##### Effect of Internal Control on Employee training and Development of SME

The study shows the effect of internal control on employee training and development of the SMEs in the study area. The selected SMEs in the study area as shown in table 2, revealed that segregation of duties ( $\bar{X} = 3.1$ ), physical control ( $\bar{X} = 3.0$ ) arithmetic and accounting ( $\bar{X} = 3.1$ ), authorisation and approval ( $\bar{X} = 3.0$ ) and acknowledgement of performance ( $\bar{X} = 2.8$ ) were fairly effective in the study area. However, management control ( $\bar{X} = 2.4$ ), organisational control ( $\bar{X} = 2.1$ ), budget and budgetary control ( $\bar{X} = 2.7$ ), ( $\bar{X} = 3.14$ ), supervisory control (2.6) and personnel control ( $\bar{X} = 2.3$ ) were effective on leadership style in SME in the study area. This study therefore revealed that not all types of internal control system have serious effect on employee turnover.

**Table 1: Effect of Internal Control on leadership style**

Internal Control	Very effective	Effective	Fairly effective	Ineffective	Very Ineffective	F	Fx	X	Decision
Segregation of duties	70	55	45	40	50	260	725	2.79	Effective
Personnel control	63	43	31	69	55	261	753	2.74	Effective
Supervisory control	89	75	44	41	71	278	730	3.74	Fairly Effective
Organisational Control	68	40	28	70	59	265	807	2.74	Efective
Arithmetic and accounting control	50	59	31	70	64	274	861	3.1	Fairly effective
Authorisation and approval	35	62	35	45	60	237	744	3.14	Fairly effective
Budget and budgetary control	45	42	48	95	55	285	928	3.26	Fairly effective
acknowledgement of performance	51	40	51	82	70	294	962	3.28	Fairly effective
Management Control	78	44	31	69	78	300	925	2.37	Effective
Physical control	60	82	43	80	35	300	848	2.82	Effective

Note: <1.0= Very effective; 1.0 – 1.99 = effective; 2.0 –2.99 = fairly effective; 3.0 – 3.99 = Ineffective; 4.0 = Very Ineffective

**Table 2: Effect of Internal Control on Employee Training and Development**

Internal Control	Very effective	Effective	Fairly effective	Ineffective	Very Ineffective	F	fx	X	Decision
Segregation of duties	91	5	20	42	81	239	738	3.1	Fairly effective
Personnel control	99	65	19	37	23	243	547	2.3	Effective
Physical control	19	123	29	38	63	272	819	3.0	Fairly effective
Organisational Control	150	38	19	23	39	269	570	2.1	Effective
Arithmetic and accounting control	41	123	19	41	81	298	913	3.1	Fairly effective
Authorisation and approval	81	68	41	10	93	294	877	3.0	Fairly effective
Budget and budgetary control	78	77	21	45	55	276	750	2.7	Effective
acknowledgement of performance	67	75	41	20	60	255	720	2.8	Fairly effective
Management Control	95	62	20	50	21	248	591	2.4	Effective
Supervisory control	88	75	29	71	31	294	759	2.6	Effective

**Note:** <1.0= Very effective; 1.0 – 1.99 = effective; 2.0 –2.99 = fairly effective; 3.0 – 3.99 = Ineffective; 4.0 = Very Ineffective

### Challenges militating against Internal Control System in SMEs

Internal control system can only be effective if it is complied with. SMEs are faced with challenges in the implementation of internal control which have serious negative impact on their efficiency and growth (Nyakundi, Nyamita & Tinega, 2014).

As shown in table 3, the study presents the factors affecting internal control system of the SMEs in the study area. The respondents fairly agreed that limitation of human resources ( $\bar{X} = 3.6$ ), inadequate staff training ( $\bar{X} = 3.75$ ), bypass of protocol by senior managers ( $\bar{X} = 3.3$ ) and collusion between two or more staff ( $\bar{X} = 3.0$ ) are factors affecting internal control system of the SMEs in the study area. Staff training is very important method of improving employee's retention and performance, when there is inadequate training of staff, it limits the effectiveness of internal control (Appiah, 2010). All the respondents agreed that there are factors affecting internal control system of the SMEs in the study area. The conclusion of this study shows that there are challenges militating against internal control system in SMEs in the study area.

### Measures to make internal control system effective in SMEs

The study was able to highlight some measures that are important in making internal control to be effective in SMEs in the study area. It was revealed in table 4 that the highest ranked factors that can improve the effectiveness of the internal control system among the SMEs is Proper documentation of internal control system in procedure manuals (RII = 0.745), the second measure that can make internal control more effective is adequate staff training and development (RII = 0.735), while the third measure that can make internal control system to be more effective is good policy for selection and recruitment of staff (RII = 0.711). The fourth measure is good leadership style (RII = 0.692). The last factor considered in this study is Adherence of hierarchical structure (RII = 0.691). The study shows that there are measures to be taken by SMEs to make internal control system to be effective in SME.

**Table 3: Challenges militating against effectiveness of Internal Control System of the SMEs**

Factors	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	F	Fx	$\bar{X}$	Decision
	1	2	3	4	5				
<b>Limitation of human resources</b>	-	100	-	130	70	300	1070	3.6	Agree
<b>Inadequate Staff training</b>	-	50	40	145	65	300	1125	3.75	Agree
<b>Bypass of protocol by senior managers</b>	45	35	-	130	75	280	925	3.3	Agree
<b>Collusion between two or more staff</b>	50	30	-	129	190	299	907	3.0	Agree

Note: <1.0 = Strongly disagree; 1.0– 1.99 = Disagree; 2– 2.99 = Fairly agree; 3.0 –3.99 = Agree;  $\geq 4.0$  = Strongly agree

**Table 4: Measures to make Internal Control Effective on Employee Turnover in SMEs**

Measures to Make Internal Control System Effective	Options					N	$\Sigma W$	A	A*N	RII	Rank
	RO	SO	LO	O	VO						
	1	2	3	4	5						
<b>Adherence of hierarchical structure</b>	42	21	88	78	85	300	1085	5	1570	0.691	5th
<b>Good policy for Selection and Recruitment</b>	125	95	40	137	71	300	1116	5	1570	0.711	3rd
<b>Adequate Staff Training and development</b>	98	85	41	46	44	300	1154	5	1570	0.735	2nd
<b>Proper documentation of internal control system in procedures manuals</b>	101	82	49	43	39	300	1170	5	1570	0.745	1st
<b>Good Leadership Style</b>	22	62	62	85	83	300	1087	5	1570	0.692	4th

RO = Rarely Often; SO = Seldom Often; LO = Less Often; O = Often; VO =Very Often

Results of Pearson Moment Correlation Coefficient (PPMC)

The result of Pearson Product Moment Correlation Coefficient (PPMC) for the hypothesis stated in as follows: Internal control system has relationship with the employee turnover of SMEs in the study area. It was revealed that personnel control have a positive significant relationship with the training and development ( $p = .157$ ), leadership style ( $p = .175$ ),of the SMEs in the study area. This is an indication that personnel control style has positive effect on employee turnover of the SMEs in the study area. It was also revealed that organisational control was found to have a significant relationship with training and development ( $p = .167$ ), leadership style ( $p = .186$ ), This implied that increase in organisational control by the SMEs positively affect the employee turnover and vice versa. This is an indication that leadership style, and training and development have significant effect on the employee turnover of the of the SMEs in the study area.



**Table 5: Result of Pearson Moment Correlation Coefficient (PPMC)**

		Training and Development	Leadership Style
<b>Segregation of duties</b>	Pearson Correlation	.007	.031
<b>Personnel control</b>	Pearson Correlation	.175**	.156**
<b>Physical control</b>	Pearson Correlation	.079	.008
<b>Authorization and approval</b>	Pearson Correlation	.001	.031
<b>Arithmetic and accounting control</b>	Pearson Correlation	.103	.010
<b>Management control</b>	Pearson Correlation	.033	.140*
<b>Organisational control</b>	Pearson Correlation	.167**	.186**
<b>Budget and budgetary control</b>	Pearson Correlation	.063	.031
<b>acknowledgement of performance</b>	Pearson Correlation	.070	.065
<b>Supervisory control</b>	Pearson Correlation	.007	.002

**Regression Analysis on Effects of Internal Control System on Employee Turnover of SMEs**

The study shows the effects of internal control system on employee turnover of SMEs in the study area. It was revealed in table 6 that the internal control factors that significantly affect the training and development of the SMEs in the study area include personnel control (0.689;  $\alpha = 0.007$ ), organisational control (1.162;  $\alpha = 0.000$ ) and management control (0.886;  $\alpha = 0.012$ ). It was further revealed that a significant positive relationship exists between the internal control measures and the training and development ( $p = .175$ ), of the SMEs. This suggests that increase in the use of personnel control, organisational control and budget and budgetary control will significantly have positive impact on the training and development of the SMEs in the study area, and vice versa. The coefficient of multiple determination ( $R^2$ ) value of 0.115 implied that 11.5% of the employee turnover of SMEs were explained by the independent variables included in the model.

**Table 6: Regression Analysis on Effects of Internal Control System on employee turnover**

Variables	Coefficients	Std. Error	t-value	Sig.
(Constant)	3.222	0.316	10.181	0.000
<b>Segregation of duties</b>	0.090	0.206	0.438	0.662
<b>Personnel control</b>	0.689**	0.252	2.734	0.007
<b>Physical control</b>	0.080	0.246	0.326	0.745
<b>Authorization and approval</b>	0.029	0.321	0.092	0.927
<b>Arithmetic and accounting control</b>	0.304	0.335	0.908	0.300
<b>Management control</b>	0.277	0.303	0.914	0.361
<b>Organisational control</b>	1.162**	0.269	4.300	0.000
<b>Budget and budgetary control</b>	0.886**	0.351	2.523	0.012
<b>acknowledgement of performance</b>	0.235	0.262	0.899	0.369
<b>Supervisory control</b>	0.120	0.309	0.388	0.698

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.340a	.115	.086	1.09033

**a. Predictors: (Constant), Supervisory control, Segregation of duties, Organisational control, Personnel control, Physical control, Authorization and approval, Management control, acknowledgement of performance, Arithmetic and accounting control, Budget and budgetary control**

Dependent Variable: employee turnover while  $\alpha = 0.05$  of SMEs

Table 7 presents the effects of internal control system on asset turnover of SMEs in the study area. It was revealed that the internal control factors that significantly affect the leadership style of the SMEs in the study area include personnel control (1.093;  $\alpha = 0.000$ ), physical control (0.633;  $\alpha = 0.034$ ), arithmetic and accounting control (0.915;  $\alpha = 0.024$ ), organisational control (0.963;  $\alpha = 0.003$ ), budget and budgetary control (1.132;  $\alpha = 0.008$ ) and supervisory control (0.823;  $\alpha = 0.028$ ). It was further revealed that a positive relationship exists between the significant internal control measures and the leadership style of the SMEs. This suggests that increase in the use of personnel control, physical control, arithmetic and accounting control, organisational control, budget and budgetary control and supervisory control will significantly increase the leadership style of the SMEs in the study

area, and vice versa. The coefficient of multiple determination (R<sup>2</sup>) value of 0.115 implied that 11.5% of the employee turnover of SMEs was accounted for by the independent variables included in the model.

**Table 7: Regression Analysis on Effects of Internal Control System on Asset Turnover of SMEs**

Variables	Coefficients	Std. Error	t-value	Sig.
(Constant)	3.949	0.382	10.331	0.000
Segregation of duties	0.258	0.249	1.037	0.300
Personnel control	1.093**	0.305	3.589	0.000
Physical control	0.633**	0.297	2.131	0.034
Authorization and approval	0.756	0.387	1.952	0.052
Arithmetic and accounting control	0.915**	0.404	2.264	0.024
Management control	0.135	0.366	0.370	0.712
Organisational control	0.963**	0.325	2.960	0.003
Budget and budgetary control	1.132**	0.424	2.670	0.008
Acknowledgement of financial performance	0.364	0.316	1.152	0.250
Supervisory control	0.823**	0.373	2.207	0.028
<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.339a	.115	.086	1.31712
<b>a. Predictors: (Constant), Supervisory control, Segregation of duties, Organisational control, Personnel control, Physical control, Authorization and approval, Management control, Acknowledgement of financial performance, Arithmetic and accounting control, Budget and budgetary control</b>				

Dependent Variable: Asset Turnover  
 $\alpha = 0.05$

### 5. Summary, conclusion and recommendation

The study assessed the internal control system on the employee turnover of Small and Medium Enterprises (SME) in South western Nigeria. Ekiti, Ogun and Osun states were selected for the study. Food and Beverages, Bakery and Wood Processing registered under CAMA (cap C20, L.F.N. 2004) SMEs were selected for the study. The sample size was 346 SMEs using Krejcie and Morgan formula of which 300 were received for analyses. Inferential and descriptive statistics were employed in analyzing the data collected for the study. Inferential statistics used were Ordinary Least Square (OLS) Regression method, Chi Square while descriptive statistics include percentage, frequency count, Likert ratings and relative importance index. The result shows that all types of internal controls existed in most of the SMEs in the study area but they are not adequate and complied with.

The effects of internal control system were examined on the employee turnover in SMEs using Leadership style and Training and Development. The study revealed that segregation of duties ( $\bar{X} = 2.79$ ), physical control ( $\bar{X} = 2.82$ ) personnel control ( $\bar{X} = 2.74$ ), organisational control ( $\bar{X} = 2.74$ ) and supervisory control ( $\bar{X} = 23.74$ ) and management control ( $\bar{X} = 2.37$ ) physical, were effective on employee turnover while arithmetic and accounting control ( $\bar{X} = 3.1$ ), budget and budgetary control ( $\bar{X} = 3.26$ ), authorisation and approval ( $\bar{X} = 3.14$ ), supervisory control ( $\bar{X} = 3.74$ ) and acknowledgement of performance ( $\bar{X} = 3.28$ ) were fairly effective on leadership style in SME in the study area. This shows that not all the types of internal control has significant relationship with employee turnover in SMEs. The study revealed that acknowledgement of performance ( $\bar{X} = 2.8$ ), management control ( $\bar{X} = 2.4$ ) and supervisory control ( $\bar{X} = 2.6$ ), personnel control ( $\bar{X} = 2.3$ ), Organisational Control ( $\bar{X} = 2.1$ ) and budget and budgetary control ( $\bar{X} = 2.7$ ) were effective on training and development of employee among the SMEs in the study area, while segregation of duties ( $\bar{X} = 3.1$ ) arithmetic and accounting control ( $\bar{X} = 3.0$ ), physical control ( $\bar{X} = 3.0$ ), as well as authorisation and approval ( $\bar{X} = 3.0$ ) were fairly effective on training and development of employee in the study area. The finding of this study on the effect of internal control on the employee turnover of SMEs using leadership style and employee training and development as the employee turnover indicator revealed that internal control system has significant effect on the employee turnover of SMEs in the study area.

The study revealed that internal control have moderate effect on the employee turnover of the SMEs as measured by leadership style and training and development. The study concluded that a moderate positive relationship exists between the internal control measures and the employee turnover in the SMEs and if SMEs are to serve as engine of industrial growth, the internal control system in this organisation must be improved to retain good employee in the system.

Based on the findings of this study in respect of the problem identified the following suggestions and recommendations are made to improve the internal control system of SMEs so as to be to retain highly skilled and competent employee in the organisation which will boost their financial performance and eventually improve the

industrial growth.

SMEs should ensure that various types of the internal controls are effective especially in the area of personnel which will ensure square peg in a square whole. Attractive salary should be introduced so as to increase employees' productivities and to retain them in the system.

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