

**INTERNAL CONTROL AND ORGANIZATIONAL PERFORMANCE OF DALDHIS  
CONSTRUCTION COMPANY, SOMALIA**

**BY**

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**A THESIS REPORT SUBMITTED TO THE COLLEGE OF HIGHER DEGREES AND  
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### DECLARATION

I' ABDIRAHMAN MOHAMED AHMED hereby declare that "This Thesis Report is my original work and has not been presented for a degree or any other academic award in any university or institution of learning".

Signed:  .....

Date: 03/11/2016 .....

## APPROVAL

"I confirm that the work in this thesis report was carried out by the candidate under my Supervision".

DR. NAFIU L-A

Signed ..... 

Date: 03/11/2022 .....

## **DEDICATION**

I dedicate this project to dear mother MARIAM my brother ABDILAH I and sister NADIRA  
All this would have not been possible if it were not for your undying support and love  
that has always been forthcoming, than you.

## **ACKNOWLEDGEMENT**

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## **ABSTRACT**

This study carried out an investigation on the role of internal control in influencing organizational performance of Daldhis Construction Company of Mogadishu, Somalia. The objectives of the study were 1) to examine the internal control procedures at Daldhis Construction Company, Mogadishu, Somalia, 2) to determine the organizational performance levels in at Daldhis Construction Company, Mogadishu, Somalia and 3) to establish whether there is a significant relationship between internal control and organizational performance in at Daldhis Construction Company, Mogadishu, Somalia. The design of the study was descriptive correlational. In data collection the researcher used questionnaires which were divided into three. Section A dealt with profile of respondents, B dealt with internal control and C dealt with organizational performance of the company. The population of the company was 140 and a sample of 104 was arrived at by use of the Slovenes formula. In identifying this sample within the population, simple random sampling, stratified sampling and purposive sampling procedures were applied. Analysis entailed frequencies, percentages, means, standard deviation, t statistic, ranks, charts and interpretations. From the findings, it was clear that the internal control employed in the company were not effective. Additionally, the organizational performance of the company was found to be low and at unacceptable levels. It was also established that there was a relationship between internal control and organizational performance and this was calculated at a value of 0.837 on the Pearson Correlation scale and this denoted a strong and positive relationship. Internal control were also found to significantly influence organizational performance of the company at an R Squared coefficient of 0.701. The study recommended confirmation of transactions, job rotation and training of employees.

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## **LIST OF ACRONYMS**

COSO	COMMITTEE OF SPONSORING ORGANISATIONS
DV	DEPENDENT VARIABLE
IV	INDEPENDENT VARIABLE
OECD	ORGANISATION FOR ECONOMIC, COOPERATION AND DEVELOPMENT
SAS	STATEMENT OF ACCOUNTING STANDARDS
SPSS	STATISTICAL PACKAGE FOR SOCIAL SCIENCES
SOG	SEGREGATION OF DUTIES

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Introduction**

This chapter deals with the problem and its scope. It is composed of ten subsections each of which describes some different aspect of the topic on internal control and organizational performance at Daldhis Construction Company of Mogadishu, Somalia. These subsections are introduction, background of the study, statement of the problem, purpose, objectives, research questions, hypothesis, and significance of study, scope and operational definitions of key terms.

### **1.1 Background of the Study**

The background of the study is presented in four perspectives namely historical perspective, theoretical perspective, conceptual perspective and contextual perspective.

#### **1.1.1 Historical Perspective**

Internal control in the construction industry reports the 3rd highest median losses per case compared to other industries and has had a negative effect on the performance of these firms. The construction industry was hit hard by economic crises causing companies to lay off workers, decrease pay, or even shut their doors for good. This has put a financial strain on people working in the industry and gives them the motivation and rationalization to commit fraud. Items have been reported stolen from the jobsite and sold for extra cash. Project managers have been reported receiving kickbacks from vendors. The Association of Certified Fraud Examiners' 2012 Report to the Nations on Occupational Fraud and Abuse reported the top five fraud schemes in the construction industry were from billing (36.2%), corruption (34.0%), check tampering (21.3%), non-cash (21.3%), and payroll (19.1%). There are still many opportunities for fraud to be committed but proper internal control are helping to mitigate some of the risk CBS (2014).

The need for infrastructure improvements in the construction industry continues to be a challenge for construction firms in Europe. Whether or not a utility has an internal audit

group, the use of construction audit and review techniques has been critical in mitigating enterprise risk for large construction projects. Efforts in assembling a construction compliance review team, no matter its size, have yielded some project cost savings to many of the firms in this zone. When a utility undertakes a construction project for plants, buildings, or large transmission or distribution projects, they have been forced to consider review techniques to ensure effective spend and allocation of resources is made. Establishing a robust internal control process over the construction segment has been key to yielding risk mitigation and positive results no matter the size or cost of construction activities Cooper (1998).

In order to create a collaborative environment between the internal audit or compliance professionals for a review of construction activities, it has been necessary for English construction firms to build construction chops, that is to demonstrate a working knowledge of the construction process. In this way, internal teams have been able to speak the language of contractors. The times when such firms are without this knowledge, the team has been unable to ask probing questions of senior leaders, construction project managers and personnel to determine proper application of controls or areas for further review COSO (2001).

For various reasons, contractors in the USA historically have had weaker internal control than in other industries. That's alarming because even the best of companies are at risk. U.S. businesses lose more than 5% of annual revenues to fraud, according to the Association of Certified Fraud Examiners Inc. That translates to more than \$652 billion in fraud losses each year. Fraud isn't the only reason contractors have had to think about adopting formal internal control. Controls have helped streamline processes, reduce waste and strengthen accounting functions. This all helped to improve the business. During even the best of economic times, fraud is not uncommon in the construction industry within the States. During periods of recession, however, it's a problem that has been known to grow appreciably worse Crisantos, (2005).

In the African construction industry, internal controls are particularly valuable because contractors tend to have operations scattered over various work sites. Fiscal controls are important because contractors, particularly in West Africa, tend to be small to mid-

size companies that often do not have enough bookkeeping personnel to properly segregate accounting responsibilities. While this lack of gatekeepers makes it easier to commit fraud, it also fosters a higher number of honest mistakes. For example, masonry contractors in Nigeria have had to pay for a higher quality of stone than was actually delivered; or an invoice not including a discount that was promised; or an invoice being correct, but inadvertently paid twice. Mistakes can be prevented when all transactions are cross-checked, but that requires more than one or two people making accounting decisions, which has not been the case for Nigerian construction firms. The few formal internal control has helped reduce honest and dishonest accounting mistakes Deche (2008).

In Somalia, there are many ways such internal controls could be implemented, and contractors have been receiving guidance from construction industry certified public accounts both from within and outside Somalia. The only directing document has been a contractor's budget. The trend has been that as a project completes, the cost is compared to what was budgeted. Any large or unexpected variances are researched and documented. The problem has been taking of action which has not proved timely. Part of this review has focused on gross profits of each project, with special attention to any shifting of cost from one job to another. Contractors have always paid particular attention to costs that are included in the results of a job with significant profit fade, and this has been detrimental to those with minor profit margin despite the fact that they are always the majority. The contractors in Somalia are yet to figure out that a job that is creating unexpected profit should have its costs compared to the original or updated job budget. Change orders have been known over time to create the most budget surprises. Internal control have not included the requirement that more than one person should be in charge of approval of any change orders Daldhis company report (2014).

### **1.1.2 Theoretical perspective**

The study was guided by Juran's (1993) theory of Total Quality Management. The theory states that in order for there to be total quality management there must be quality planning, control and improvement and that if any of these is missing, total

quality may not be achieved as desired. Quality planning involves building an awareness of the need to improve, setting goals and planning for ways goals can be reached. This begins with management's commitment to planned change. It also requires a highly trained and qualified staff. Quality control means to develop ways to test products and services for quality. Any deviation from the standard will require changes and improvements. Quality improvement is a continuous pursuit toward perfection. Management analyzes processes and systems and reports back with praise and recognition when things are done right (Juran, 1993). The theory was selected to underpin this study because total quality management is a function of internal control and which is also responsible for performance of organizations.

Therefore the study was linked to this study due to its functionality in relation to total quality management and in order to ensure proper internal control in the organization there is a need to adopt a theory that can guide the service providers for quality planning, control and improvement and that if any of these is missing, total quality may not be achieved as desired. Quality planning involves building an awareness of the need to improve, setting goals and planning for ways goals can be reached

### **1.1.3 Conceptual perspective**

According to statement of accounting standards, (SAS) internal control is the combined plan, method and procedures which can safeguard the firm's assets promote operational efficiency and encourage adherence to prescribed policies." Also according to (Robertson, 2005) "internal control is a set of client procedures both computerized and manual imposed on the accounting system for the purpose of preventing, detecting and correcting errors and irregularities that might enter the system and thereby affect the firm's financial statement. Foulks (2010) defines these procedures to include; segregation of duties, authorization of transactions, job rotations, reconciliations, proper documentation, to mention but a few. In this study, internal control included organizational controls, segregation of duties, internal audit, authorization and approval.

Yeng (1997) emphasizes that performance in organizations is looked at in terms of economy, efficiency and effectiveness. Cooper (1998) is of the contention that performance should be measured in terms of customer satisfaction. He argues that in



order to be able to perform, organizations should critically look at their customers and know how best they are satisfying their needs. He adds that organizations should continuously improve on their services through innovations and great value. Sonntag (1998) assert that availability and level of resources can also be used to analyze the performance of an organization. He contends that resources which may include assets finances, employee skills and organizational process are key indicators of the organizations performance. Operationally, organizational performance comprised of growth, liquidity and profitability.

#### **1.1.4 Contextual perspective**

The sound of bullets that was once so common in the Somali capital of Mogadishu has been replaced by the noise of construction. New buildings and business are emerging from the carnage and lawlessness that pervaded the east African country for more than two decades. Workers here struggle with bags of cement and plaster as they repair damaged buildings and embark on new construction projects. With so many people from the diaspora coming back, demand for properties and accommodation far exceeds supply, tripling rental prices in the prime areas of the city. In other words, retail estate is booming in Mogadishu. Although people are snapping up land and some have grand ambitions to develop, in many cases the land is unregistered or ownership cannot be proven. There have been cases of fraud and land being sold to multiple people. But most people are willing to take a risk and buy on a discounted price of 50% because ownership cannot be proven. Some of those buildings which were ruined during the civil war are currently being reconstructed. Reconstruction is expensive, but those who can are repairing their homes, plastering and painting over bullet-pocked walls, and blocking up holes punched into masonry by rocket-propelled grenades. In a Hotel Conference in Nairobi in the year 2013, Jazeera Palace Hotel managing director, Abdulkarim Siad, claimed that there is need to start building a bigger hotel with bigger conference facilities. In two years we will be hosting 1,000 or more visitors in Mogadishu. This is enough to suggest that there are going to be a busier construction industry than what could be evident now.

## **1.2 Statement of the Problem**

Daldhis Company has suffered from poor performance with regards to its operations as a construction company (Daldhis Company Report, 2014). Surprisingly, this comes in the wake of a boom in its industry whose trends have been observed to be escalating at a very high rate (Ministry of Finance, 2014). There has been low profitability in the company with its financial statements attesting to this for over three consecutive years (Daldhis Company Report, 2014). Its management has gone on record to lament on their low profitability in their periodicals. In terms of liquidity, the company is seen as one which is failing to honor its debts which have since accumulated to very high levels. In 2013, an Abdullahi (2010) claimed that the company had had to secure a new loan in order to pay for accumulated salaries, expenses and loans. This has raised the question of their credibility as a construction company; construction companies are usually not paid before they complete their job and are supposed to take care of their day to day financial needs from their own pockets. The company's growth has been stagnant relative to its rivals within the industry. Geedi Contractors Company is an example of a company which Daldhis Construction Company may be compared with. There seems to be a huge contrast between the two companies in terms of their growth in favor of Geedi Contractors Company. This therefore begs the questions of what Daldhis Construction Company could be doing wrong. A critical examination of literature has proved that no proper studies have been carried out on the internal control of the company has had an effect on its performance. The only efforts which have been seen to be shown by the company in a bid to improve its performance are through retrenchment exercises conducted in 2011 and 2013. These served to have a negative impact on the company, as most of its prolific workers ended up joining other rival companies. In trying to solve the performance problem of Daldhis, this study attempted to investigate the role played by internal control in influencing performance of the construction firm.

## **1.3 Purpose of the Study**

The purpose of the study was to evaluate the role of internal control in organizational performance of Daldhis Construction Company of Mogadishu, Somalia.

## **1.4 Objectives of the Study**

1. To examine the internal control procedures at Daldhis Construction Company of Mogadishu, Somalia
2. To determine the organizational performance levels at Daldhis Construction Company of Mogadishu, Somalia
3. To establish whether there is a significant relationship between internal control and organizational performance in Daldhis Construction Company of Mogadishu, Somalia

## **1.5 Research Questions**

1. How are the internal control procedures at Daldhis Construction Company of Mogadishu, Somalia?
2. How is the organizational performance at Daldhis Construction Company of Mogadishu, Somalia?
3. Is there a significant relationship between internal control and organizational performance at Daldhis Construction Company of Mogadishu, Somalia?

## **1.6 Scope of Study**

### **1.6.1 Geographical Scope:**

This study was carried out at Daldhis Construction Company headquarters in Mogadishu, Somalia. Mogadishu is the largest city in Somalia and the nation's capital. Located in the coastal Banaadir region on the Indian Ocean, the city has served as an important commercial hub for the entire southern region.

### **1.6.2 Content Scope:**

The study focused on internal control and Organizational performance of Daldhis Construction Company of Mogadishu, Somalia. In examining internal control, four policies were addressed which were organizational controls, segregation of duties, internal audit, and authorization & approval. On the other hand organizational performance was indicated by growth, liquidity and profitability.

### **1.6.3 Time Scope**

The time scope agreed for this study was 2 years (2013-2015)

### **1.7 Significances of the Study**

The study provides relevant information regarding the weaknesses with the internal control of Daldhis Construction Company and the importance of internal control as well.

The following parties stand to benefit from this study.

**Future Researchers:** The study adds to existing literature regarding the relationship between internal control and organizational performance to the benefit of future users, investors in the related field, scholars to mention but a few.

**To the Researcher:** The research helped the researcher achieve the award of a degree of Master of Business Administration of Kampala International University.

**Construction Management:** This research will also help managers in all other institutions and organizations in making informed decisions with regards to how to effectively apply internal control in their respective organizations.

### **1.8 Operational Definition of Key Terms**

**Internal control:** For the purpose of this study, Internal control shall be taken to be the systems of control financial or otherwise established by the management in order to carry out business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter presents views of the related literature on the nature of internal control and organizational performance. It highlights the internal control in areas of dire needs and weakness in the controls those areas. Review of literature is also conducted herein where internal control and organizational performance are analyzed at a closer scrutiny.

#### **2.1 Theoretical Review**

The study was underpinned by the theory of Total Quality Management as propounded in Juran (1993). Dr. Joseph Moses Juran was the first to broaden the understanding of quality control, emphasizing the importance of the managerial aspect. His work is very detailed and comprehensive. It has to be pointed out that Juran first published his Quality Control Handbook as early as 1951 which highlights the importance Juran has achieved for his contribution towards our understanding of TQM. Juran's approach suggests that quality control has to be conducted as an integral part of the management function, broadened the understanding of quality at the time (Mccue et al, 2008).

Intrinsic to Juran's message is the belief that quality does not happen by accident; it must be planned. Juran sees quality planning as part of the quality trilogy of quality planning, quality control, and quality improvement (Gonzalez, 2001). The key elements in implementing company-wide strategic quality planning are in turn seen as: identifying customers and their needs; establishing optimal quality goals; creating measurements of quality; planning processes capable of meeting quality goals under operating conditions; and producing continuing results in improved market share, premium prices, and a reduction of error rates in the office and factory (Leslie, 1993). Juran's formula for results is to establish specific goals to be reached, and then to establish plans for reaching those goals; assign clear responsibility for meeting the goals; and base the rewards on results achieved. Juran believes that the majority of quality problems are

the fault of poor management, not poor workmanship, and that long-term training to improve quality should start at the top with senior management.

Jones et al., (2004) refer to four main limitations of Juran's approach include. First, Juran's critics argue that his emphasis on management's responsibilities for quality fails to get to grips with the extensive literature on motivation, leadership and culture change. Secondly, Juran's methods (quality planning, control and improvement) are mainly traditional and old-fashioned, failing to deal adequately with the human dimension of organisations, particularly cultural and political issues. Thirdly, Juran's methodology fails to address the issue of managerial politics involved in effecting a change in people's attitudes to work, which is the core of any change program (Lorino, 2012). Fourthly, a failure to effect a drastic change in people's attitudes and behaviors towards work, whilst implementing TQM, would amount only to a rearrangement of functional boxes and not to a concerted effort to change the way work gets done.

## 2.2 Conceptual Framework

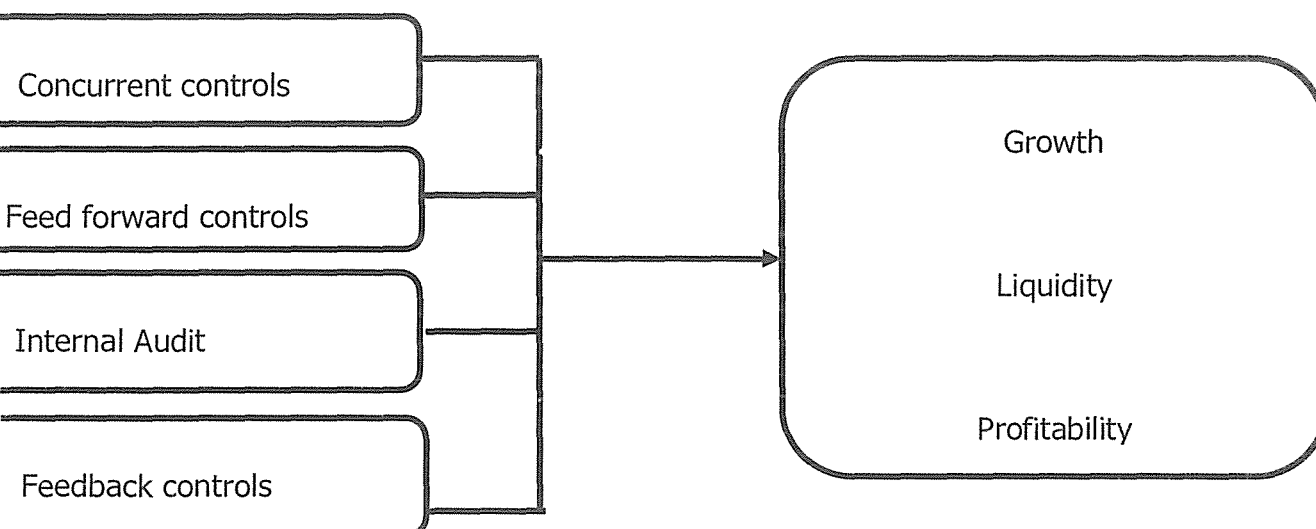
**Figure 2. 1: Conceptual Framework for the Study**

### INDEPENDENT VARIABLE

### DEPENDENT VARIABLE

#### INTERNAL CONTROL

#### ORGANIZATIONAL PERFORMANCE



Analytical accounting of public institution (2011)

## 2.3 Internal control

According to Chambers (2010), internal control is the term generally used to describe how management assures that an organization does meet its financial and other objectives. Internal control not only contributes to managerial effectiveness but is also important duties of corporate boards of directors. Chambers (2010) argued that there are two types of major internal control associated with the management of large firms, particularly diversified firms, which have an important effect on firm innovation, these are; strategic controls and financial controls.

### 2.3.1 Organizational Control

Shepahrd (2001) considers organizational control as the process by which an organization influences its subunits and members to behave in ways that lead to the attainment of organizational goals and objectives. When properly designed, such controls should lead to better performance because an organization is able to execute its strategy better. An organization should have a plan of its activities which should define and allocate responsibilities that is every function should be monitored by a specific person who may be called "responsible officer." Adequate lines reporting for all aspect the organization operations, including controls should be clearly stated and the delegation of authority and responsibility should be clearly specified (Shephard, 2001)

Mackena (1997) goes ahead to explain that control focuses on events before, during, or after a process. He cites the example of a local automobile dealer who focuses on activities before, during, or after sales of new cars. Careful inspection of new cars and cautious selection of sales employees are ways to ensure high quality or profitable sales even before those sales take place. Monitoring how salespeople act with customers is a control during the sales task. Counting the number of new cars sold during the month and telephoning buyers about their satisfaction with sales transactions are controls after sales have occurred. These types of controls are formally called Feed forward, concurrent, and feedback, respectively

1. **Feed forward controls** sometimes called preliminary or preventive controls, attempt to identify and prevent deviations in the standards before they occur.

Feed forward controls focus on human, material, and financial resources within the organization. These controls are evident in the selection and hiring of new employees. For example, organizations attempt to improve the likelihood that employees will perform up to standards by identifying the necessary job skills and by using tests and other screening devices to hire people with those skills.

2. **Concurrent controls** monitor ongoing employee activity to ensure consistency with quality standards. These controls rely on performance standards, rules, and regulations for guiding employee tasks and behaviors. Their purpose is to ensure that work activities produce the desired results. As an example, many manufacturing operations include devices that measure whether the items being produced meet quality standards. Employees monitor the measurements; if they see that standards are not being met in some area, they make a correction themselves or let a manager know that a problem is occurring.
3. **Feedback controls** involve reviewing information to determine whether performance meets established standards. For example, suppose that an organization establishes a goal of increasing its profit by 12 percent next year. To ensure that this goal is reached, the organization must monitor its profit on a monthly basis. After three months, if profit has increased by 3 percent, management might assume that plans are going according to schedule (Shephard, 2001).

### **2.3.2 Segregation of Duties**

Lloyd (2003) writes that segregation of Duties (SOD) is a basic building block of sustainable risk management and internal control for a business. The principle of SOD is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Without this separation in key processes, fraud and error risks are far less manageable (Pendlebury, 2000). The purpose of segregating responsibilities is to prevent occupational fraud in the form of asset misappropriation and intentional financial misstatement. SOD can be simplified by



staying focused on this purpose and leveraging a practical risk assessment. This means abandoning the "scorched earth" approach (typically supported by automated scripts) often used by IT auditors in the past, and focusing on unmitigated, material fraud risks.

Mccue et al (2008) finds that one of the prime means of control in the construction industry is the separation of duties. This reduces the risk of internal manipulation, accidental error and increases the element of checking. Functions which should be separated in an organization financial management include: initiation (officer or person who decides to give out cash), execution (the person who keeps the money) and recording (the person who records the whole process in the book). System development and daily operations have to be considered in molding the internal control to be full proof against fraud (Chrisantos, 2005).

Emotions, coercion, blackmail, fraud, human error and disinformation could cause grave and expensive one-sided actions that can't be corrected. Emekekwe (2003) cites the example of a software engineer who has the authority to move code into production without oversight, quality assurance or access rights' authentication. Without SOD, either of these scenarios clearly shows the possibility of disastrous outcomes. As a result, the risk management goal of SOD controls is to prevent unilateral actions from occurring in key processes where irreversible affects are beyond an organization's tolerance for error or fraud (Emekekwe, 2003).

In the wake of guidance such as the U.S. Public Company Accounting Oversight Board's Audit Standard No. 5, the American Institute of Certified Public Accountants' (AICPA's) Statement on Auditing Standards No. 99, and the U.S. Securities and Exchange Commission's (SEC's) Guidance Regarding Management's Report on Internal Control Over Financial Reporting, the SEC and the AICPA increased their focus on segregation of duties (SOD). Chris (2014) laments that, unfortunately, few auditors, external auditors included, paused to contemplate the spirit of this guidance before plunging into remediation efforts and implementing new SOD policies. The results are overly complex systems of internal control that are difficult to maintain, increased audit fees, and reduced focus on higher risk audit areas. It may be time for organizations that still suffer from these symptoms to simplify their SOD approach (Ngache, 2009).

### **2.3.3 Internal audit**

Lorino (2012) considers internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. He finds it effective in helping an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. In another study by Mickel (2001), there is mention that internal auditing is a catalyst for improving an organization's performance, risk management and management controls by providing insight and recommendations based on analyses and assessments of data and business processes. He reasons that with commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. Professionals called internal auditors are employed by organizations to perform the internal auditing activity (Chrisantos, 2005).

Emekekwe (2003) writes that the scope of internal auditing within an organization is broad and may involve topics such as an organization's governance, risk management and management controls over: efficiency/effectiveness of operations (including safeguarding of assets), the reliability of financial and management reporting, and compliance with laws and regulations. Internal auditing may also involve conducting proactive fraud audits to identify potentially fraudulent acts; participating in fraud investigations under the direction of fraud investigation professionals, and conducting post investigation fraud audits to identify control breakdowns and establish financial loss (Emekekwe, 2003). All these are on record to significantly improve the performance of an entity.

### **2.3.4 Authorization and Approval**

All transactions should require authorization by an appropriate responsible person (Lloyd, 2003). He finds this as very important in the financial system of an organization where large amount of money is handled so therefore it is appropriate for these money which are used for are used for various transactions to be authorized by a trusted and responsible person. He goes ahead to explain its relevance in organizational performance by stating that authorization and approval controls are established to

ensure that a transaction must not proceed unless an authorized individual has given his approval, possibly in writing. For spending transactions, an organisation might establish authorization limits, whereby an individual manager is authorized to approve certain types of transaction up to a certain maximum value.

## **2.4 Organizational Performance**

According to (Jones et al, 2004) performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, (Lorino, 2012) asserts that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process (Adams & Kirst, 1998). (Sonnentag, 1998) believes that many firms' low performance is the result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. A common reason for such errors is managerial hubris (Massel, 1997) or overvaluation of managerial capability in the acquisition process.

### **2.4.1 Growth**

Based upon research (Morrison & Phelps, 1999), an organizational growth "life cycle" model was built that identifies seven predictable stages of organizational growth. These stages are: New venture, Expansion, Professionalization, Consolidation, Diversification, Institutionalization and Decline.

In the model, growth is defined in terms of an organization's revenue (if it is "for-profit") or budget (if it is "not-for-profit"). At certain points in revenue/budget growth, an organization needs to "transition to the next stage of development." An effective or successful transition is achieved only when the organization has developed the infrastructure (systems, processes, structure, etc.) needed to effectively support its operations at that size. If an organization's infrastructure is not aligned with its size (that is, if it is underdeveloped), it will experience Growing Pains.

At each stage of growth in the model, one or more of the six building blocks of success needs to be focused upon as the organization's management works to achieve a specific overriding objective for that stage. Far too many companies fail to achieve their growth targets in revenue and profitability. However, the probability of achieving profitable growth is heightened whenever an organization has a clear growth strategy and strong execution infrastructure. One without the other impairs the probability of success. This author describes why and prescribes strategies.

### **2.4.2 Liquidity**

Liquidity is the ability of a financial institution to honor all cash payment commitments as they fall due. These commitments can be met either by drawing from a stock of cash holdings, by using current cash inflows, by borrowing cash or by converting liquid assets into cash (Robertson, 2005). Liquidity risk is financial risk due to uncertain liquidity. An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causes counterparties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity (Wokingson, 1992).

Market and funding liquidity risks compound each other as it is difficult to sell when other investors face funding problems and it is difficult to get funding when the collateral is hard to sell. Liquidity risk also tends to compound other risks. If a trading organization has a position in an illiquid asset, its limited ability to liquidate that position at short notice will compound its market risk. Suppose a firm has offsetting cash flows with two different counterparties on a given day. If the counterparty that owes it a payment defaults, the firm will have to raise cash from other sources to make its payment. Should it be unable to do so, it too will default. Here, liquidity risk is compounding credit risk (Sonntag, 1998).

A position can be hedged against market risk but still entail liquidity risk. This is true in the above credit risk example—the two payments are offsetting, so they entail credit risk but not market risk. Another example is the 1993 Metallgesellschaft debacle. Futures contracts were used to hedge an Over-the-counter finance OTC obligation. It is debatable whether the hedge was effective from a market risk standpoint, but it was

the liquidity crisis caused by staggering margin calls on the futures that forced Metallgesellschaft to unwind the positions (Schulze, 2002).

Accordingly, liquidity risk has to be managed in addition to market, credit and other risks. Because of its tendency to compound other risks, it is difficult or impossible to isolate liquidity risk. In all but the most simple of circumstances, comprehensive metrics of liquidity risk do not exist. Certain techniques of asset-liability management can be applied to assessing liquidity risk. A simple test for liquidity risk is to look at future net cash flows on a day-by-day basis. Any day that has a sizeable negative net cash flow is of concern. Such an analysis can be supplemented with stress testing. Look at net cash flows on a day-to-day basis assuming that an important counterparty defaults (Chambers, 2010).

#### **2.4.3 Profitability**

Internal control provide better profitability. In the construction industry, this information is critical. There are logistical challenges due to the fact that operations are spread out over several jobsites, the incomes from ventures fluctuate suddenly, and the success of a job is subject to everything from the weather to financing to bonding capacity (Mwesigwa, 2003). One needs real-time, accurate information to estimate, manage the projects, control costs, and improve cash collections. The benefit of improving controls is a more profitable business. It's important to re-assess and re-evaluate existing procedures.

For instance the ability to accurately estimate project costs is an absolute requirement to successfully and competitively bid contracts. By applying these controls, management will be able to make decisions with increased reliance on estimates, more effectively pinpoint jobs with possible profit fade, and gain insight into improving the bid preparation process for the next contract.

#### **2.5 Challenges Faced in Internal Control Administration**

Many challenges have been documented to have been borne out of internal control and their administration. For instance Budget issues in many cases have resulted in staff reductions at all levels within a business entity. The resultant staff reductions may put

pressure on the internal control environment and make it difficult for an enterprise to maintain or monitor the controls in order to protect assets and insure accurate financial reporting (Chambers, 2010).

Lesluie (1993) affirms that performance of duties in these areas should not be assigned to individuals who have limited or no previous experience in a specific area. It is understandable that separation of duties is difficult when there is limited staff and management involvement in the day-to-day operations. However, the appropriate governing body is responsible to take steps to assure proper controls and oversights are in place to prevent fraud or erroneous financial reporting (Leslie, 1993). Compensating controls must be designed and implemented in order to achieve a reasonable level of assurance that adequate safeguards are in place within a municipality. Written job descriptions for each employee and having a well-documented written policies and procedures manual are basic practices and controls within a government which will assist in dealing with these issues.

Robertson (2005) relates that Lack of well skilled personnel working as internal auditors is also an issue that has for long been hampering the process of internal control in organizations. Nepotism and favoritism in the recruitment process has resulted in incompetent people holding the auditing offices which require high levels of analytical and conceptual skills. Staff support may be limited in some cases. This occurs most especially where the personnel feel intimidated by the presence of the auditor who is perceived as a blood hound who is always after discerning inconsistencies. Cooperation from such staff is always not forthcoming thereby making the process of implementing internal control a huge and impeded task (Leslie, 1993). Corruption is also another form of hindrance towards administration of internal control procedures. People holding high ranks in organizations may not favor or sanction installation of important procedures which they feel would bring their evils the light if installed (Lloyd, 2003). Here, is where they opt to bribe their way out of such environments and stick to the unscrupulous procedures which are breeding grounds for even worse corrupt deals.

## **2.5 Relationships between Internal control and Organizational Performance**

Liem (2011) purports that effective risk-based internal control lead to powerful benefits, such as lower borrowing and financing costs by ensuring more accurate reporting and compliance with debt agreements; an increase in interest from private equity investors and venture-backed firms who seek companies with strong and well-documented internal control; and readiness for an initial public offering. Indeed, the global economic downturn showcased a breakdown of companies caused by lack of internal control. To conserve cash, many private companies turned to cost-cutting and downsizing efforts, but wound up as victims to a host of consequences, including financial fraud. The line between acceptable and unacceptable behavior is often blurred in times of economic uncertainty. Reduction in the number of staff, for example, often limits the ability to monitor business activity, leaving the business susceptible to fraud and other internal control issues. Lack of internal control can lead to legal and financial consequences by failing to manage organizational risks.

Karanja (2010) conducted a study to establish the relationship between internal control and corporate governance in hotels in Kenya. The researcher conducted a survey of all the 45 hotels in Kenya. It was concluded that most of the hotels had incorporated the various parameters which are used for gauging internal control and corporate governance. This was indicated by the means which were obtained enquiring on the same and this showed that the respondents agreed that their hotels had instituted good corporate governance with a strong system of internal control and that there is a relationship between internal control and good corporate governance.

Using the analytical approach and focusing on control activities and monitoring, Foulks (2010) investigated the effect of penalties and other internal control on employees' propensity to be fraudulent. Data was collected from both managerial and non-managerial employees. The results showed that the presence of the control activities, separation of duties, increases the cost of committing fraud. Thus, the benefit from committing fraud has to outweigh the cost in an environment of segregated duties for an employee to commit fraud. Further, it was established that segregation of duties is a

"least-cost" fraud deterrent for non-managerial employees, but for managerial employees, maximum penalties are the "least-cost" fraud disincentives. The results suggest the effectiveness of preventive controls control activities such as segregation of duties is dependent on detective controls.

Nalwanga (2012) conducted a research on effects of internal control on financial performance in institution of higher learning Uganda. In her study she investigated and sought to establish the relationship between internal control and financial performance in an institution of higher learning in Uganda. Internal control were looked at from the perspective of control environment, internal audit and control activities whereas financial performance focused on liquidity, accountability and reporting as the measures of financial performance. The researcher set out to establish the causes of persistent poor financial performance from the perspective of internal control. The study established a significant relationship between internal control and financial performance. The investigation recommends competence profiling in the internal audit department which should be based on what the university expects the internal audit to do and what appropriate number staff would be required to do this job. The study therefore acknowledged role of internal audit department to establish internal control which have an effect on the financial performance of organizations.

Romar and Moberg (2003) conducted a case study that showed the following could have contributed to WorldCom scandal in 2002: unrealistic growth targets when expectations were low, management philosophy was aggressive; inadequate assessment of internal and external factors, and objectives before setting aggressive targets; poor segregation of duties; access to data entry and manipulation was not properly segregated and there was a lack of stringent monitoring of the internal control and therefore quality of the controls around the posting of journal entries to the general ledger was not identified as weak.

## **2.6 Research gaps**

The studies reviewed were all out of context of Somalia and Mogadishu for that matter. The findings and recommendations may not be applicable to the situation in Daldhis Construction Company. There was also a problem whereby the researchers insisted on



using historical data for analysis. As much as this is a great way to establish trends, it might not be applicable in social science researches which are mostly descriptive in nature. Lastly some of the studies are from way back in time. This is a disadvantage since the construction industry is highly volatile and dynamic. This necessitates another study to be conducted in order to capture the state as it currently is in Mogadishu and the company as well. It was not clear from the studies reviewed which data collection instruments the researchers used to arrive at their conclusions and therefore the validity of the studies is hard to determine and is in fact questionable. This motivated the researcher even further to pursue this topic.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0 Introduction

This chapter provided a description of research designs that were used to collect, process and analyze data; sample size, study population, data collection methods and instruments and sample designs.

#### 3.1 Research Design

The study employed a descriptive and correlational design to fulfill its objectives. This design was preferred since cases study researches are done on single entities where the findings can be projected to other related entities. In this case Daldhis Construction Company was the entity under investigation and its findings was related to other such firms in Mogadishu and elsewhere. Also the study was cross-sectional by design because data was collected at one point and not repeatedly. In terms of the approaches used, the study considered both qualitative and quantitative approaches. It was necessary that this be so because the study collected both numerical data (questionnaires) and non-numerical data (interview guide) for analysis.

#### 3.2 Population

The target population was 140 respondents who were at that time working at Daldhis Construction Company. This population was composed of Directors (4), Auditing Staff (25), Accountants (18), Management (18) and General Staff (68). This information was obtained from the company's latest annual periodical (Daldhis Company Report, 2014).

#### 3.3 Sample Size

The sample size for the study was **104** respondents. This was reached after its computation from the population size by use of the Slovene's formula as illustrated mathematically below

$$n = \frac{N}{1 + N(e^2)}$$

### Equation 3. 1: Slovene's Formula

n= sample size

N= population size

e= level of significance = 0.05

$$e^2 = 0.05^2$$

$$n = \frac{140}{1 + 140(0.0025)}$$

$$n = \frac{140}{1 + 0.35} = \frac{140}{1.35}$$

**n=104 respondents**

**The minimum sample size will be 104 respondents**

The researcher used 104 respondents and they were distributed as follows.

**Table 3. 1: Summary of Population and Sample Size**

Position	Population	Sample Size	Procedure
Directors	4	4	Purposive sampling
Accountants	18	13	Simple Random sampling
Management	25	19	Simple Random sampling
Internal Audit Staff	25	19	Simple random sampling
General Staff	68	50	Simple Random sampling
<b>Total</b>	<b>140</b>	<b>104</b>	<b>100.00%</b>

### **3.4 Sampling procedure**

The research was scientific in nature. Such that in selecting respondents, the researcher used both stratified sampling and simple random sampling which involved dividing the study population into groups of strata (with close characteristics), according to their work responsibilities after which the researcher picked a random sample out of the strata. The researcher visited the company's departments from which he ascertained the list and the details of all employees in the there. The researcher then classified the employees using stratified random sampling method according to the different departments they were attached to. Finally, purposive sampling was also use to identify the most prolific respondents who were thought to have crucial information on the study. These were basically the auditing staff, accountants and directors.

### **3.5 Data Collection Methods**

#### **3.5.1 Questionnaires**

Questionnaires were developed and designed in the most understandable way for the respondents with simple language, simple questions that could easily be answered without consuming the time of the respondents. Questionnaires were preferred to be used because they facilitate collection of huge volumes of data from many respondents in a shorter period of time compared to other methods. These were used mainly to gather primary data where respondents will be expected to react usually in writing and return them filled with answers for analysis by the researcher. They were designed in a way that makes them look easy and understandable not to consume most of the respondents time. The answering options on a Likert's scale, ranging from 1= strongly agree to 5 strongly disagree will be used to make the questionnaire easy to fill. This instrument was used on general staffs, accountants, and some management officers.

#### **3.5.2 Interview Guide**

An interview guide is an oral administration of a questionnaire and it gives a general plan to follow for data collection (Amin, 2005). An interview guide was also preferred because it encouraged face to face interaction with the respondents so that issues can be clarified therefore gaining in-depth information on the subject. However, the

interview guide was time consuming which limited responses to just a small number of respondents. In addition, the interview guide was be used to supplement the information given in the questionnaires (See Appendix III). This instrument was used on some management officers, auditing staffs and company directors.

### **3.6 Validity and Reliability of the Instrument**

#### **3.6.1 Validity**

Validity of the instrument was ensured through expert judgment and the researcher made sure the coefficient of validity to be at least 70%. The researcher consulted his supervisor for expert knowledge on questionnaire construction. After the assessment of the questionnaire, the necessary adjustments were made bearing in mind of the objectives of the study. The formula that was used to calculate the validity of the instrument was

$$CVI = \frac{\text{no of items declared valid}}{\text{total no of items}}$$

Equation 3. 2: CVI Equation

From the examination of the questionnaires by experts, out of 24 questions, 22 were found to be relevant while four were found not to be relevant. From these figures, the content validity index for the instrument was calculated as

$$\frac{22}{24} = 0.917$$

Since this value is above 0.7, the instrument was declared valid

#### **3.6.1 Reliability**

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Muganda & Mugenda, 2003). Reliability of the instrument was established through a test-retest technique. The researcher conducted a pre-test of the instrument on group of subjects and waited one week then administered the same test to the same subjects a second time.

The results of the test are presented in the table below

**Table 3. 2: Reliability Test Results**

<b>Variables</b>	<b>Alpha</b>	<b>Number of Items</b>
Organizational Controls	0.84	3
Segregation of Duties	0.74	3
Internal control	0.92	3
Authorization and Approval	0.85	3
Growth	0.75	4
Liquidity	0.81	4
Profitability	0.83	4
<b>Mean Alpha and Total Number of Questions</b>	<b>0.82</b>	<b>24</b>

Since the alpha was found to be above 0.7, reliability of internal consistency of the instrument was confirmed.

### **3.7 Data gathering procedures**

#### **3.7.1 Before the administration of the questionnaires**

1. An introduction letter was obtained from the College of Higher Degrees and Research for the researcher to solicit approval to conduct the study from respective managers.
2. When approved, the researcher secured a list of the eligible respondents from the authorities in charge and select through systematic random sampling from this list to arrive at the minimum sample size.
3. The respondents were explained to about the study and were requested to sign the Informed Consent Form
4. The researcher then produced more than enough questionnaires for distribution.
5. The researcher then selected research assistants who assisted him in the data collection; they were briefed and oriented in order to be consistent in administering the questionnaires.

### 3.7.2 During the administration of the questionnaires

1. The respondents were requested to answer completely and not to leave any part of the questionnaires unanswered.
2. The researcher and assistants emphasized retrieval of the questionnaires within six days from the date of distribution.
3. On retrieval, all returned questionnaires were checked if all were answered.

### 3.7.3 After the administration of the questionnaires

The data gathered was collated, encoded into the computer and statistically treated using the Statistical Package for Social Sciences (SPSS)

## 3.8 Data Analysis

The frequency and percentage distribution were used to determine the demographic characteristics of the respondents. The rest of the analysis of the primary data collected will be done objective by objective.

Objective one and two: This objective dealt with the effectiveness of internal control and organizational performance. The mean and ranks of the indicators and construct variables were applied for the types of internal control and organizational performance in Daldhis Construction Company. An item analysis illustrated the strengths and weaknesses based on the indicators in terms of mean and rank. The following mean range was used to arrive at the mean of the individual indicators and interpretation

**Table 3. 3: Mean Range Interpretation Table**

Mean Range	Response Mode	Interpretation
3.26-4.00	Strongly agree	Very high
2.51-3.25	Agree	High
1.76-2.50	Disagree	Low
1.00-1.75	Strongly disagree	Very low

Objective three: A multiple correlation coefficient and regression was used to test the null hypothesis ( $H_0$ ) of no significant relationship between effectiveness of internal control and organizational performance Daldhis Construction Company. The regression analysis  $R^2$  (coefficient of determination) was computed to determine the influence of the independent variable (internal control) on the dependent variable (organizational performance).

### **3.9 Ethical considerations**

All of the participants were treated in accordance to the ethical guidelines of the American Psychological Association (APA) and the University of Nebraska Institutional Review Board (IRB). Although there were no identifiable risks for participating in this study, a couple of considerations were kept in mind when dealing with immigrant families. First, all of the respondents were interviewed and talked about their experiences as being workers and administrators at Daldhis Company. Secondly, there was the possibility that respondents might feel uncomfortable discussing their experiences or talk about sensitive information which may be personal or incriminating. For this reason there was always an accommodation of letting questions pass in both the questionnaires and interview guide. All these considerations were incorporated during the research design stage. Every caution was taken to ensure that the all respondents felt safe, comfortable, and have the freedom to withdraw from the study if they felt the need to.



## **CHAPTER FOUR**

### **FINDINGS PRESENTATIONS AND ANALYSIS**

#### **4.0 Introduction**

This chapter analyzes and presents the findings of the study. The findings are presented using the frequency and distribution tables, percentages, charts, means, standard deviation, t statistic, correlations, regression procedures are also used in analysis. The findings are guided by the following objectives:

1. To ascertain the demographic characteristics of respondents in the study
2. To examine the internal control procedures at Daldhis Construction Company of Mogadishu, Somalia
3. To determine the organizational performance levels at Daldhis Construction Company of Mogadishu, Somalia
4. To establish whether there is a significant relationship between internal control and organizational performance in Daldhis Construction Company of Mogadishu, Somalia

The questionnaire return rate was superb as out of the 130 questionnaires issued, 115 were returned. In anticipation of likelihood of questionnaires not being returned, the researcher issued out more than enough questionnaires. In the end only the first 104 questionnaires returned were considered for analysis because this was the sample size for the study.

#### **4.1 Demographic Characteristics of Respondents**

Frequency tables and percentages were used to determine the demographic characteristics of the respondents. The table below shows the summary of the data obtained.

**Table 4. 1: Demographic Characteristics of Respondents**

<b>Demographic Characteristics Of Respondents</b>			
		Frequency	Percent
Gender of Respondents	Male	90	80
	Female	14	20
	<b>Total</b>	<b>104</b>	<b>100</b>
Age Of Respondents	20-30	42	40.4
	31-40	40	38
	41 & Above	22	21.6
	<b>Total</b>	<b>104</b>	<b>100</b>
Level Of Education	Secondary	12	11.7
	Certificate	33	31.6
	Diploma	13	12.3
	Degree	29	28.1
	Master	17	16.4
	<b>Total</b>	<b>104</b>	<b>100</b>
Work Experience	1-2 Years	37	35.7
	3-4 Years	32	31
	5-6 Years	21	20.5
	6-7 Years	9	8.2
	>8 Years	5	4.7
	<b>Total</b>	<b>104</b>	<b>100</b>

Source: Daldhis Company Report, 2014

The above table signifies that there were more males than female respondents. The males accounted for 80% of the 104 respondents while the rest of the 20% was composed of the female gender. This means that there is bias by the recruitment exercise to favor the masculine gender. This is thought to be so and also the fact that Somali female gender is not much educated and therefore they are not eligible for technical jobs such as the ones offered at the organization.

Majority of the respondents were between 20-30 years old constituting with 40.4%, followed by 31-40 years at 38.0% and finally those above 40 years were 21.6% of the total number of 104 respondents. Daldhis Construction Company was seen to be youth centered which is an initiative by the company to ensure youth participation in the economy from the year 2010 (Daldhis Company Report, 2014).

Most respondents had the Certificate as their highest academic achievement whose contribution to the total tally stood at 31.6%. They were followed by bachelor's degree

holders at 28.1%, then by Master's degree holders at 16.4%, then diploma holders at 12.3%, and lastly secondary schools certificate holders who contributed a mere 11.7%. This is quite disturbing considering the fact that construction companies usually require personnel who are well trained and with high degrees of competence.

With regards to work experience, most staff belonged to the 1-2 years bracket contributing 35.7%, followed by 3-4 years at 31.0%, then by 5-6 years at 20.5%, then by 7-8 years and above at 8.2% and finally those above 8 years at 4.7%. Considering the fact that the company has been there for more than 5 years, this is enough evidence to prove that there is very high labor turnover. Such levels of labor turnover are unfavorable since it means the staffs are not allowed to develop fully at the organization.

#### **4.2 Objective One: Internal Control Techniques**

The following table represents the descriptive statistics about the responses obtained from the questionnaire about the internal control techniques employed by Daldhis Construction Company.

**Table 4. 2: Descriptive Statistics on Internal Control Variables**

	Indicators	Mean	Construct mean	Std Dev	T Stat	Interpretation	Rank
Authorization	There are effective controls on what time people should be working	1.77	1.69	0.18	9.39	Very Low	4
	There are effective controls on who is above who in authority	1.48					
	There are effective controls on the where one should be working	1.82					
Duties	There is proper division of labor and specialization in our company	1.57	1.79	0.2	8.95	Low	3
	Ideal people perform the duties they are best fit for in our company	1.85					
	There is good job rotation in our company	1.96					
Internal Audit	We have a strong internal audit department in our company	2.03	1.82	0.4	4.8	Low	3
	Our staff are supportive to the internal audit department	1.55					
	The staff within the internal audit department are competent enough	1.88					
Authorization and Approval	There is due process for payment processing in our company	1.99	1.92	0.25	7.28	Low	1
	There is little bureaucracy in our company	2.27					
	Transactions are not delayed due to absentee consent officers	1.49					
<b>Total</b>		<b>1.81</b>					

Source: Daldhis Company Report, 2014

Generally the internal control was found to be LOW as evidenced by the mean of 1.81 which according to the mean scale of interpretation reads as low. The construct that was significantly higher than any other was authorization and approval whose mean was measured at 1.92 which was rated as low. The construct that fared poorest of the

four examined hereunder was organizational control which was measured at 1.69 (very low). This means that the internal control was defective of fundamental requirements. From the interviews, the same was reiterated by the respondents:-

"We do have internal control which are exercised within our company...the problem is enforcement...these controls are easily ignored and perpetrators of such are not brought to book...In fact of particular interest is that we do not have the internal control documented somewhere...they are mostly implied...I would regard enforcement as what is significantly lacking in administering internal control in Daldhis Company...people are not afraid of defaulting on these measures...people just see them as rules which people are at liberty to follow or default..."

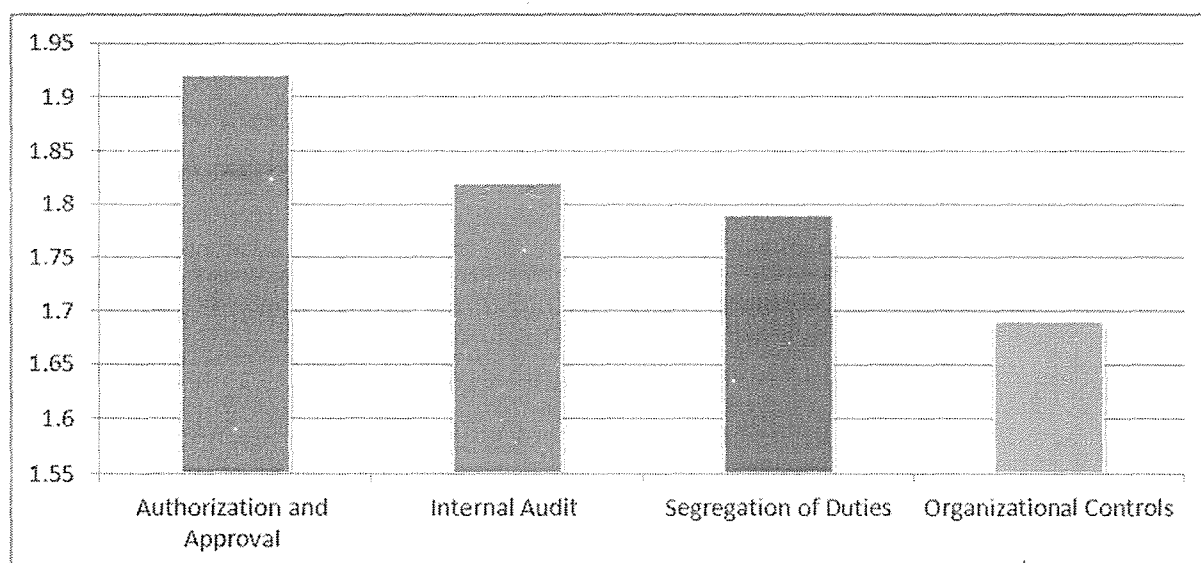
Segregation of duties as a form of internal control scored a mean of 1.79 which was interpreted as low. This majorly meant that assignment of responsibilities within the company examined was not done in a proper manner. Within this variable of internal control, internal audit was found to be low and at a mean of 1.82. This was mostly brought down due to the incompetence of the staffs within the internal audit department. This was confirmed from both the questionnaires and the interview responses.

"...As much as we might be patriotic to our company, it is inevitable to note that we do not have competent auditors within the departments in our organization...It is a fact we need some improvement in the level of competence of the audit officers...yes, it is an area which needs improvement, probably training and expert mentoring would come in handy in this situation...There are several errors made by accountants in the course of accomplishing their tasks...these are the drivers of the organization and so if they seem to be lost then all of us will be..."

### 4.2.3 Ranking of Construct Variables within Internal control

The graph below shows the ranking of the rankings of the variables within the independent variable of internal control. It can be noted that authorization & approval came first followed by internal audit, segregation of duties, and organizational controls in that order.

**Figure 4. 1: Ranking of Construct Variables for Organizational Performance**



Source: Daldhis Company Report, 2014

### 4.3 Objective Two: Organizational Performance

The following table represents the descriptive statistics about the responses obtained from the questionnaire about performance of Daldhis Construction Company. Means, standard deviation, t statistic and ranks were also used in analysis.

**Table 4. 3: Descriptive Statistics on organizational Performance Construct Variables**

	Indicators	Mean	Construct mean	Std Dev	T Stat	Interpretation	Rank
Growth	Our company has significantly grown over time	1.94	1.91	0.33	5.87	Low	1
	Our customer base is always on the increase	1.55					
	The products offered to our clients are in constant improvement	1.73					
	Our employee base has been significantly improving over time	2.42					
Liquidity	Our company meets its short term debts and financial obligations	1.85	1.71	0.32	5.3	Very Low	2
	Our company can efficiently allow high amounts of withdrawals without risking liquidity	1.35					
	Our liquidity is always kept in check on a regular basis	2.16					
	The procedures for establishing liquidity are benchmarked against best practices	1.47					
Profitability	Our business is profitability enough	1.53	1.62	0.51	3.18	Very Low	3
	Our profitability has been on an ascending trend for the past five years	1.22					
	Our profits are projected to be increasing into the foreseeable future	1.37					
	Shareholders appreciate the level of profitability offered by the operations of our company	2.36					
<b>Total</b>		<b>1.75</b>					

Source: Daldhis Company Report, 2014

For the independent variable of organizational performance it was found to be very low as evidenced by the mean of 1.75 which according to the mean scale of interpretation reads as very low. This is huge concern especially considering the fact that the construct selected to represent this variable are very fundamental.

Growth as an indicator of performance was the first to be examined where it scored a mean of 1.91 which was interpreted as low. This means that there was insignificant growth at Daldhis Construction Company. They also seem to be having a problem with expanding their customer base as evidenced by the mean of 1.55 when this statement was responded to. The highest statement within this construct was where the respondents rated that "Our company has significantly grown over time" which scored a mean of 1.94; interpreted as low. From the interviews the following statement was recorded

"We are really concerned that our customer base is actually shrinking and so are the investors or owners...something needs to be done because this does not look good to us as workers, managers and even the owners..."

The second construct evaluated was liquidity of the company. This ended up scoring a mean of 1.71 and was thus interpreted as very low. This generally means that the company had a problem with settling its short term debts and financial obligations. This is dangerous of a construction since it could pose a problem when it comes to having enough funds available for expenses such as salaries of workers or purchases of materials. The highest evaluated statement here was that "Our liquidity is always kept in check on a regular basis" as it obtained a mean score of 2.16 which was interpreted as low. The lowest statement within this construct was that "The procedures for establishing liquidity are benchmarked against best practices" as it scored a mean of 1.47 which was interpreted as very low. This is actually supported by the interview responses:-

"As a business entity we are an economical entity which means we have limited resources and paying for everything is quite impossible...we have debts, a few here, a few there...so yes we have financial obligations which have not been fulfilled and some are actually overdue...but whenever we



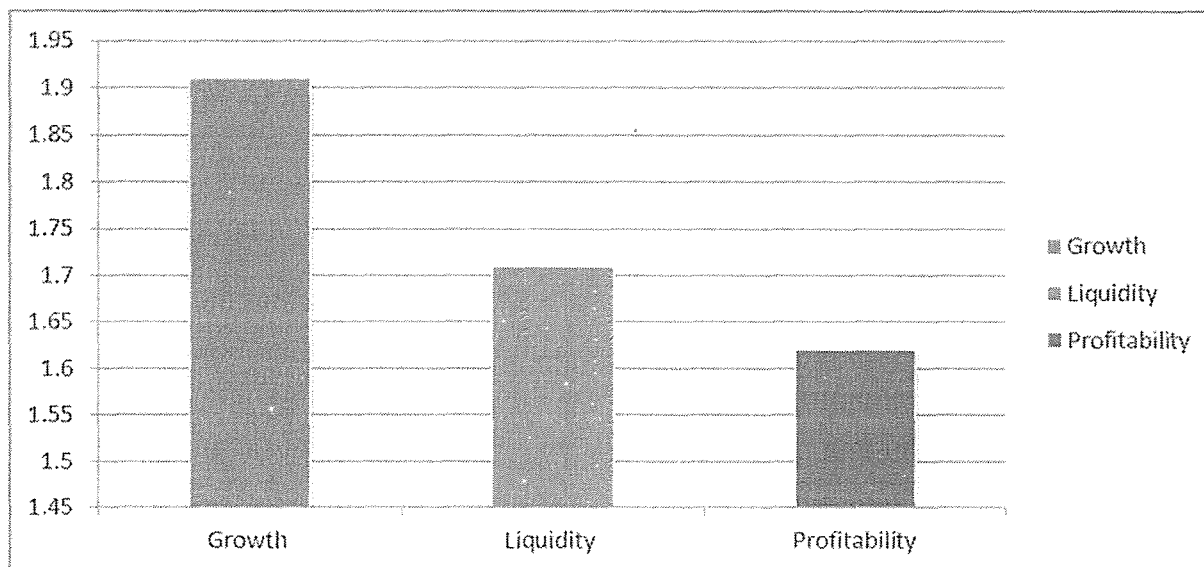
have overdue debts, we usually come to an understanding with our creditor...”

The other construct variable of profitability was found to be at a mean of 1.62 which is interpreted as very low. This basically means that Daldhis Construction Company had a hard time making profits. In terms of the specific statements, the one that received the best rating was where the respondents responded to the statement that “Shareholders appreciate the level of profitability offered by the operations of our company”. This indicator was rated at the mean of 2.36 and was interpreted as high. The worst rated indicator was where the respondents reacted to the statement “Our profitability has been on an ascending trend for the past five years”. This indicator was rated at the mean of 1.22 and was thus interpreted as very low.

#### 4.3.3 Ranking of Construct Variables

The graph below shows the ranking of the rankings of the variables within the dependent variable of organizational performance. It can be noted that growth came first followed by liquidity and then profitability.

**Figure 4. 2: Ranking of Construct Variables for Organizational Performance**



Source: Daldhis Company Report, 2014

## 4.4 Objective Three: Relationships between internal control and Organizational Performance

### 4.4.1 Correlations

The following table shows the results obtained after a correlation test was performed on the data collected. The test was carried out to test the relationship between the variables by use of Pearson Linear correlation Coefficient.

**Table 4. 4: Correlations of Constructs and Main Study Variables**

		Growth	Liquidity	Profitability	Organizational Performance	Decision on Hypothesis
Organizational Control	Plcc	.627*	.502*	.688*	.636*	Rejected
	Sig.	.001	.006	.012	.020	
Segregation of Duties	Plcc	.917**	.817**	.801**	.844**	Rejected
	Sig.	.000	.003	.001	.001	
Internal Audit	Plcc	.822**	.753**	.840**	.754**	Rejected
	Sig.	.001	.000	.000	.001	
Authorization and Approval	Plcc	0.737**	0.811**	0.774**	0.705**	Rejected
	Sig.	0.000	0.000	0.000	0.000	
Internal control	Plcc	.791**	.755**	.834**	.837**	Rejected
	Sig.	.001	.003	.000	.000	

Source: Daldhis Company Report, 2014

The table above shows the correlations between main study variables and construct variables. The independent variable and its constructs were correlated against the independent variable and its constructs. All relationships were found to be positive and significant. Between the constructs the strongest relationship was established between segregation of duties and growth of Daldhis Construction Company which was computed at 0.917. The weakest relationship among the constructs variables was

established between organizational controls and liquidity which was computed at 0.507 on the person linear correlation coefficient scale. In this case it was deduced that organizational controls were averagely related to the liquidity of the company.

Form the general perspective; it was found that the relationship between internal control and organizational performance was computed to be at 0.837 which was interpreted as positive and strong relationship. Correlation does not necessarily mean causality, so it is prudent to only be confident of the relationship rather than the influence one has on the other. In other words, the above correlation may mean that organizational performance may influence the internal control or vice versa. In order to really capture how organizational performance can be influenced by internal control, a more elaborate procedure needs to be employed. In the next section, this is tackled under regression modeling.

#### **4.4.2 Regression Analysis**

The following table summarizes the regression details for the independent variable constructs against the dependent variable of organizational performance. Each of the independent variable constructs contributed positively towards the organizational performance. In order to derive a mathematical model relating the numerous variables  $x_1 - x_4$  with the dependent variable of organizational performance, the regression equation needed to be formulated. For a linear relationship, the general formula is given as  $y = a + bx$ , but since there are many  $x$  variables with differing coefficients the approach shall be a bit different as analyzed after the regression table.

**Table 4.5: Regression of Independent Construct Variables against Organizational Performance**

Model		Coefficients		t	Sig.	R Squared
		B	Std. Error			
Construct Variables (Independent)	(Constant)	1.442	0.223	6.47	0.287	0.701
	Organizational Controls	0.272	0.028	9.71	0.000	
	Segregation of Duties	0.355	0.037	9.59	0.000	
	Internal Audit	0.416	0.039	10.67	0.000	
	Authorization and Approval	0.113	0.043	2.63	0.000	

Source: Daldhis Company, 2014

The model below was established by extracting information pertaining to the variables and their coefficients from the table above.

$$Y = 1.442 + 0.272x_1 + 0.355x_2 + 0.416x_3 + 0.113x_4$$

Where

Y = Organizational Performance    X1 = Organizational Controls

X2 = Segregation of Duties    X3 = Internal Audit

X4 = Authorization and Approval

It can be noted that there is a significant causal relationships between the independent variables constructs and the dependent variable of organizational performance of Daldhis Construction Company. This can be deduced from the R Squared statistic which stands at 0.701. This literally means that 0.701 of the variation in organizational performance observed at the company was influenced by the internal control. The rest of the variation could be explained by other factors which have not been encompassed by this specific study. Such factors are like staff cooperation and management competence.

## **CHAPTER FIVE**

### **DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter is a detailed presentation of the major findings of the study, conclusion from the findings and recommendations on internal control and organizational performance Daldhis Construction Company of Mogadishu, Somalia.

#### **5.1 Discussion of Findings**

The discussion of findings is done based on the objectives of the study and is therefore organized as such.

##### **5.1.1 Internal control**

The findings revealed that internal control at Daldhis Construction were not effective. In particular the following weaknesses were identified. First and foremost, the management of company could not avail the researcher a copy of their internal control manuals. This came as a result of the request by the researcher to be availed with the manual to enable him know the times of controls that are in place. However, the response that was got from the chief finance controller was that, they do not have documented internal control manuals. Robertson (2005) claims that if internal control are not well documented, there is a high risk of them not being adhered to even by the most loyal of employees in an organization. This seems to have been the case at Daldhis Construction Company of Mogadishu, Somalia.

There is poor control of transactions because a transaction can be handled by one person from the beginning to end. It was also established that some transactions are not always authorized before processing. In this case, the researcher found out that at times the accountant just picks money from the drawer and make purchases for the department without the consent of the financial controller who is responsible for monitoring and allocation of the budget money. Hence it has facilitated the purchase of unwanted items at the time of purchase because they want to make differences and at the same time promoted insufficiency of funds to fund items that are on the budget.

The findings also revealed that there are no job rotations of staff from one department to another. In which case most of the employees are fixed in one department for example catering and human resource, hence the opportunity of learning what happens in other departments is not there. This was identified by the researcher that only one lady who heads the catering department was the only person trusted by the finance, who is at times allowed attending to the clients and working at the counter. However, the rest of the staff is entitled to doing one task and others were identified to have stayed in some departments for more than 3 years now. This is specifically cautioned against in Shepherd (2001) who states that without proper job rotation, there is likely to be major dishonest behaviors which are also likely to remain under cover since the perpetrators always know how to cover their tracks.

Daldhis Company did not have effective means of detection of fraud and error and that the activities of accounting officers are not always supervised by a senior person. These two problems are somehow intertwined. It is stated in Pendlebury (2000) that accountants are not perfect human beings in that they do make errors whether unintended or inadvertent. To counter this, he relates that supervision is a sure way of reducing the chances of the accountant making such errors.

### **5.1.2 Organizational Performance**

Organizational performance was found to be very low and raised concerns on how the company was functioning considering this revelation. In all areas of growth, profitability, and liquidity, the company proved not to be compliant with these standards of performance.

Growth was found to be low. Of particular emphasis is that the customer base was found to be shrinking. This is a concern to all stakeholders of the business as this is a significant performance measurement criterion. Ngache (2009) who defines business growth as a market expansion growth strategy, often called market development, entails selling current products in a new market states that a company may also use a market expansion strategy if it finds new uses for its product or new users for its product. According to this standard, the company is seen not to be growing as such due to their shrinking customer base. This is also related to profitability where Chrisantos

(2005) states that business growth can be achieved either by boosting the top line or revenue of the business with greater product sales or service income, or by increasing the bottom line or profitability of the operation by minimizing costs. By losing out on growth, Daldhis Company has evidently lost out of profitability in some way.

### **5.1.3 Findings on relationship between internal control and organizational performance**

The findings revealed there is a relationship between internal control procedures and organizational performance as the respondents confirmed to state that effective internal control ensure good organizational performance. It was also observed that Daldhis Construction Company's staffs did not clearly understand the internal control procedures relating to organizational performance and that; poor internal control have led to performance in the company.

This revelation is in line with the findings obtained by liem (2011) who found that internal control are a huge boost to the performance of any enterprise whether commercial or not. The study indicated a significant relationship even though its strengths is a bit weaker compared to the one found in the current study. The two studies validate each other and since both of them were conducted in the construction industry context, it suggests that indeed internal control procedures have a role to play in the performance of companies in the industry.

## **5.2 Conclusion**

On the first objective, it can be concluded that at Daldhis Company, proper controls do not exist and that there are still many weaknesses; this explains why internal control procedures are still poorly managed in the company. The internal control which were found to be weak and not properly adhered to are a bad image especially for organisations as sensitive as construction companies.

On the second objective, the performance of Daldhis Company was found to be is unacceptable for companies of their caliber. Construction companies should be at the frontline in claiming good performance and the case found Daldhis Construction Company is certainly one which is not common.

However, on the third objective, it is good news that it was established that internal control have a positive effect on organizational performance. This raises the hope for the company that they too can elevate their levels of performance through integrating internal control.

### **5.3 Recommendation.**

Basing on the above findings, the following recommendations were made by objectives;

#### **Objective.1**

Confirmation of transactions: Transactions should be properly controlled without leaving one person to handle a given transaction from beginning to end for example a requisition should be made by one person/department to the logistics department, authorization be done by another, say the financial department, who should first check the availability of resources from the budget pool for such a specific need, and lastly the purchase of the item should also be done by another department, say from the procurement department.

#### **Objective.2**

Job rotation. Staff should regularly be rotated such that they have an understanding of what is done in the various departments of the company. This should be done by rotation of staff say from the procurement department next to the marketing department and to finance, in that sequence such that issues of ignorance being given as excuses after defaulting are avoided once mistakes are made; it enables getting acquainted to the organizational policies and familiarization of controls by staff.

#### **Objective.3**

Training of employees: All employees should be taught the various controls that do exist over cash. The employees of the organization should be taught about all the controls that exist through organizing workshops and training services so that they will know what is going on in the organization, the controls that exists around them and hence will work as a team to execute their duties. However when controls are not made known to others, it becomes something for a few in the organization, or the lower subordinates will look at it as a weapon to fight them than something put in place to attain the organizational objectives.



#### **5.4 Suggested areas for further study.**

Further research can be carried out on the following areas;

- i. Internal control and inventory management.
- ii. Cash and working capital management.
- iii. Effect of internal control on expenditure of an organization.

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## **APPENDICES**

### **APPENDIX I: Informed Consent**

Dear Respondent, My name is ABDIRAHMAN MOHAMED AHMED. I am currently carrying out a study for the purpose of writing a dissertation as a requirement for the award of Masters of Business Administration at Kampala International University. The topic of study is INTERNAL CONTROL AND ORGANIZATIONAL PERFORMANCE OF DALDHIS CONSTRUCTION COMPANY IN MOGADISHU, SOMALIA. You have been selected to participate in this study due to the importance of your information in the study. The information you provide will only be used for the purpose of this study and will be treated with utmost confidentiality.

Please sign here to acknowledge participation

.....  
Signature

.....  
Date

## APPENDIX II: QUESTIONNAIRE

### Section A

#### FACE SHEET OF RESPONDENTS

Demographic Characteristics of the Respondents; Please Tick (✓) the provided space below:-

Gender:

☐ Male ☐ Female

Age:

☐ 20- 29 ☐ 30- 39 ☐ 40- 49 ☐ 50- 59 ☐ 60 and above

Education level:

☐ Certificate ☐ Diploma ☐ Bachelor ☐ Master ☐ PhD

Number of year working at Daldhis Construction Company:

☐ 1 year ☐ 2 years ☐ 3 years ☐ 4 years ☐ 5 year and above

## SECTION B: INTERNAL CONTROL

### ANSWER USING THE FOLLOWING KEY

1 STONGLY DISAGREE 2 DISAGREE 3 NEUTRAL 4 AGREE 5 STRONGLY AGREE

### Questionnaire on internal control Procedures

CONSTRUCT	QUESTION	RESPONSE				
		1	2	3	4	5
Organizational Controls	There are effective controls on what time people should be working					
	There are effective controls on who is above who in authority					
	There are effective controls on the where one should be working					
Segregation of Duties	There is proper division of labor and specialization in our company					
	Ideal people perform the duties they are best fit for in our company					
	There is good job rotation in our company					
Internal Audit	We have a strong internal audit department in our company					
	Our staff are supportive to the internal audit department					
	The staff within the internal audit department are competent enough					
Authorization and Approval	There is due process for payment processing in our company					
	There is little bureaucracy in our company					
	Transactions are not delayed due to absentee consent officers					



## SECTION C: PERFORMANCE OF THE ORGANISATION

### Questionnaire on Organizational Performance

CONSTRUCT	QUESTION	RESPONSE				
		1	2	3	4	5
Growth	Our company has significantly grown over time					
	Our customer base is always on the increase					
	The products offered to our clients are in constant improvement					
	Our employee base has been significantly improving over time					
Liquidity	Our company meets its short term debts and financial obligations					
	Our company can efficiently allow high amounts of withdrawals without risking liquidity					
	Our liquidity is always kept in check on a regular basis					
	The procedures for establishing liquidity are benchmarked against best practices					
Profitability	Our business is profitability enough					
	Our profitability has been on an ascending trend for the past five years					
	Our profits are projected to be increasing into the foreseeable future					
	Shareholders appreciate the level of profitability offered by the operations of our company					

### **APPENDIX III: INTERVIEW GUIDE**

#### **INTERNAL CONTROL AND ORGANISATIONAL PERFORMANCE AT DALDHIS COMPANY OF MOGADISHU, SOMALIA**

1. What is your position in the Organization?
2. What management level do you occupy by virtue of your position in the Organization?
3. In your opinion, does your company operate systems of internal control? If so, explain how
4. Are the systems of internal control referred to in 3 above functioning as they are intended to? Explain
5. In your opinion, what would you consider to be the main measures of Organizational performance in your company?
6. In your opinion, is having enough money the best measure of performance of an organization like your company?
7. What would be the other measures you would consider appropriate?
8. In your opinion, do you think your organization has adequate liquidity to meet its obligations as and when they fall due? Do you have any reasons to that effect?
9. In your opinion, is the growth process good in your company? Give reasons.

## APPENDIX IV: TIME FRAME FOR RESEARCH

### Time Frame for Research

Activity	Start	End
Drafting proposal	1 <sup>st</sup> September 2014	22 September 2014
Permission	23 <sup>rd</sup> September 2014	30 <sup>th</sup> September 2014
Preparation and travelling	1 <sup>st</sup> October 2014	8 <sup>th</sup> October 2014
Data collection	9 <sup>th</sup> December 2014	3rd October 2015
Data analysis	10 <sup>th</sup> October 2014	24 <sup>th</sup> October 2014
Presentation of report	25 <sup>th</sup> October 2015	28 <sup>th</sup> October 2015
Application of Recommendations	1 <sup>st</sup> January 2016 onwards	

## APPENDIX V: RESEARCH BUDGET

### Research Budget

ITEMS	COSTS (UGX)
DATA COLLECTION AND CODING	
Transport charges	100,000
Meals	120,000
Internet	30,000
Photocopying	30,000
Communication	100,00
REPORT WRITING	
Typing	50,000
Printing	30,000
Binding	70,000
Other expenses	100,000
<b>Total</b>	<b>630,000</b>