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Internal Control Failures and Operational Efficiency in U.S. Small Enterprises

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Abstract: This study examined the influence of internal control failures on the operational efficiency of small enterprises in the United States. The survey research design was adopted, targeting owners of small enterprises, and a sample of 150 respondents was selected using the snowball sampling technique. Data were collected through an electronic questionnaire using a five-point Likert scale, capturing respondents' perceptions of internal control practices and operational efficiency. The hypothesis was tested using simple regression analysis to determine whether internal control failures significantly affect operational performance. Findings revealed that weaknesses in internal controls have a significant negative influence on operational efficiency, indicating that small enterprises with inadequate control systems experience reduced productivity and increased operational risks. The study concluded that strengthening internal control mechanisms is essential for improving efficiency, safeguarding resources, and promoting the long-term sustainability of small enterprises. Therefore, small enterprise owners should implement comprehensive authorization procedures for all financial and operational transactions. By establishing clear approval processes and limits for spending, owners can reduce errors, prevent misuse of resources, and ensure that decision-making aligns with organizational objectives, thereby maintaining smoother operations and safeguarding productivity.

Keywords: Internal Control Failures, Operational Efficiency, Small Enterprises

1. Introduction

Small enterprises form the backbone of the United States economy, accounting for a large share of employment, innovation, and community development. These businesses operate in a highly competitive environment shaped by globalization, rapid technological change, evolving consumer expectations, and increasing regulatory demands. Unlike large corporations, small enterprises often function with limited financial resources, lean staffing structures, and less formalized management systems. While their flexibility allows them to respond quickly to market opportunities, it also exposes them to operational vulnerabilities that can threaten survival. Recent economic disruptions, including supply chain instability, inflationary pressures, and digital transformation challenges, have further intensified the need for sound organizational practices (Hortovanyi & Szepesi, 2026). In this context, business sustainability depends not only on revenue growth but also on the ability to manage resources efficiently and control risks effectively. Internal governance structures, particularly internal control systems, play a crucial role in maintaining order, preventing losses, and supporting informed decision making. Evidence from prior studies indicates that enterprises with well-structured controls tend to demonstrate stronger financial outcomes, improved accountability, and greater resilience in turbulent environments (Ogunseye & Iwarere, 2025; Kayode & Oluwatoyin, 2025). However, many small enterprises either underinvest in these systems or implement them informally, increasing their exposure to inefficiencies and failures that accumulate over time (Keaunui, 2023).

Operational efficiency and internal control have become increasingly important in today's business environment because organizations must deliver quality products and services while minimizing waste, errors, and unnecessary costs. Operational efficiency refers to the ability of a business to use its resources, including labor, capital, and time, in the most productive manner possible (Atwine, 2024). For small enterprises, efficient operations can mean the difference between survival and closure, since profit margins are often narrow and access to external financing may be limited. Internal control systems support this efficiency by establishing procedures that guide financial management, asset protection, compliance with regulations, and reliable reporting. These systems typically include policies such as authorization procedures, segregation of duties, monitoring activities, and information controls. Empirical findings show that strong control environments and effective communication systems significantly enhance operating efficiency by promoting accountability and coordinated action among employees (Shehu et al., 2025). In a digital economy where transactions occur rapidly and data flows across multiple platforms, effective controls also help safeguard against cyber risks, fraud, and operational disruptions. Furthermore, stakeholders such as lenders, investors, and regulatory bodies increasingly expect transparency and accountability, making strong internal controls a prerequisite for credibility. Studies of audited firms further suggest that rigorous oversight of internal controls can yield efficiency gains in areas such as inventory management and market competitiveness (Imdieke, Li, & Zhou, 2023). Without these mechanisms, even profitable firms can experience financial leakages, misallocation of resources, or reputational damage. Therefore, the relationship between internal control and operational efficiency is particularly significant for small enterprises seeking stability and long-term growth in a volatile market environment.

Internal control weaknesses can undermine operational efficiency in several interconnected ways. One major pathway is through financial mismanagement. When controls over cash handling, budgeting, and expenditure approval are weak, businesses may experience unauthorized spending, billing errors, or unrecorded transactions. Such problems distort financial information, making it difficult for owners to assess performance accurately or plan effectively. Poor information quality often leads to misguided decisions, such as overstocking inventory, underpricing products, or failing to identify loss-making activities. Another consequence of weak controls is increased exposure to fraud and asset misappropriation. Small enterprises frequently rely on a small number of employees who perform multiple roles, and without proper segregation of duties, opportunities for abuse arise. Research has shown that formal control procedures, including asset safeguards and internal auditing, significantly reduce these risks and improve operational outcomes (Atwine, 2024). Even minor losses can accumulate and strain already limited resources. Operational disruptions also occur when procedures are not standardized. For example, inconsistent purchasing practices may cause delays, higher costs, or unreliable supply chains, while inadequate quality controls can result in defective products and customer dissatisfaction. Weak monitoring systems further compound these issues because problems remain undetected until they escalate into major setbacks.

Information management represents another critical area affected by poor internal controls. Inaccurate or incomplete records hinder coordination across departments and slow down routine processes such as billing, payroll, and inventory tracking. As businesses adopt digital tools, the absence of proper access controls or backup procedures increases vulnerability to data loss and system failures, which can halt operations entirely. Compliance risks also contribute to inefficiency. Failure to adhere to tax regulations, labor laws, or industry standards can lead to penalties, legal disputes, or forced operational changes, all of which divert resources away from productive activities. Studies of cooperative organizations and financial institutions show that environmental controls, risk assessment mechanisms, and communication systems are essential for maintaining regulatory compliance and operational continuity (Okafor et al., 2025; Hossain & Sarkar, 2025). Moreover, weak controls often reflect broader governance problems, including unclear responsibilities and ineffective supervision. Employees may lack guidance on procedures, leading to inconsistent performance and reduced accountability. Over time, these weaknesses erode organizational discipline and create a reactive management style in which leaders spend more time addressing crises than pursuing growth opportunities. Earlier research likewise emphasizes that strengthening internal controls through training, restricted access to assets, and

regular reconciliation processes is vital for sustaining efficiency and organizational growth (Alawiye-Adams & Afolabi, 2014; Adegboyegun et al., 2020).

Strong internal controls also promote accountability among employees, enhance transparency for stakeholders, and create a stable environment for growth and sustainability.

In reality, many small enterprises operate without structured internal control systems or rely on informal practices that are inconsistently applied (Atwine, 2024). Limited financial capacity, small workforce size, and lack of managerial expertise often result in employees performing multiple roles without adequate supervision. Record keeping may be incomplete, authorization procedures may be weak, and monitoring activities may be minimal or absent. As a result, financial transactions are not always properly documented, assets are not fully protected, and compliance requirements may be overlooked. These weaknesses are more pronounced in small businesses that prioritize day to day survival over formal governance practices.

The persistence of weak internal controls has serious implications for operational efficiency and long term survival. Businesses may experience financial losses due to errors, waste, or fraud, while inaccurate information can lead to poor planning and misguided decisions. Inefficient processes increase operating costs, reduce productivity, and limit the ability to compete effectively. In addition, exposure to regulatory penalties, supply disruptions, and reputational damage can further strain limited resources. Over time, these challenges may lead to declining performance, reduced profitability, and, in severe cases, business failure, thereby undermining the contribution of small enterprises to economic development and employment.

Despite the growing body of empirical literature on internal control systems and organizational performance, several gaps remain evident. Most existing studies have focused primarily on the positive role of internal control mechanisms rather than the consequences of their failure. For instance, Ogunseye and Iwarere (2025), Shehu et al. (2025), Okafor et al. (2025), Kayode and Oluwatoyin (2025), and Atwine (2024) largely examined how effective internal control systems improve financial performance, sustainability, and operational efficiency in SMEs and related organizations. Similarly, studies by Hossain and Sarkar (2025), Keaunui (2023), and Imdieke, Li, and Zhou (2023) emphasized the benefits of strong internal control frameworks in risk management, asset protection, and operational improvement. Earlier works such as Adegboyegun et al. (2020) and Alawiye-Adams and Afolabi (2014) also concentrated on the relationship between internal control components and business performance, mainly within developing economies. However, these studies present three key limitations. First, most of them focus on the presence or effectiveness of internal controls rather than specifically examining internal control failures and their implications for operational outcomes. Second, the majority of the studies were conducted in developing countries, particularly Nigeria, leaving limited empirical evidence on how internal control failures influence the operational efficiency of small enterprises in developed economies such as the United States. Third, many of the previous studies relied on employees or internal control staff as respondents rather than directly capturing the perspectives of small enterprise owners who are primarily responsible for implementing control systems. Consequently, there is a need for further empirical investigation that specifically examines how internal control failures affect the operational efficiency of small enterprises, particularly within the context of the United States. This study therefore fills this gap by focusing on internal control failures rather than merely control effectiveness, using small enterprise owners as respondents and providing empirical evidence from a developed economy context. Therefore, the main objective of this study is to examine the effect of internal control systems on the operational efficiency of small enterprises.

2. Literature Review

2.1 Synthesis of Existing Empirical Studies

Empirical evidence consistently shows that internal control systems play a central role in shaping operational efficiency, though the strength and nature of this influence vary across contexts. Ogunseye and Iwarere (2025) demonstrate that internal controls, when aligned with organizational structure, significantly improve financial performance, accountability, and long term sustainability among SMEs. Their findings suggest that controls do not operate in isolation but depend on clear roles, governance arrangements, and communication channels to produce efficiency gains. Similarly, Kayode and Oluwatoyin (2025) report that the control environment and

procedures enhance the alignment of operations with organizational goals, thereby improving efficiency and sustainability outcomes. Shehu et al. (2025) reinforce this position within manufacturing firms, showing that a strong control environment and effective information systems have statistically significant positive effects on operational performance. Together, these studies imply that internal controls function as both preventive and coordinating mechanisms that reduce waste, support disciplined processes, and improve productivity. However, they also highlight that the effectiveness of controls is contingent on broader organizational conditions, suggesting that weak structures can undermine even well designed systems.

Other studies extend the discussion by examining specific control components and sectoral contexts. Okafor et al. (2025) find that environmental, risk assessment, financial, and communication controls collectively enhance the performance of agricultural cooperatives by ensuring compliance, prioritizing threats, and facilitating coordination. This multidimensional view underscores that operational efficiency depends on a balanced system rather than isolated measures. Atwine (2024), in a case study of a retail supermarket, reports an exceptionally strong positive relationship between internal controls and efficiency, emphasizing the importance of physical safeguards, internal auditing, segregation of duties, and regular risk assessment. These findings support earlier conclusions by Alawiye-Adams and Afolabi (2014), who argue that practices such as restricted asset access, staff training, and timely reconciliations are critical for improving business operations. Taken together, these studies portray internal controls as practical tools that directly influence day to day activities, from supply management to financial reporting. Nevertheless, the reliance on cross sectional designs and self-reported data in many of these works raises questions about causality and the durability of observed efficiency gains over time.

A more nuanced perspective emerges from research that examines institutional oversight and implementation challenges. Imdieke, Li, and Zhou (2023) show that firms subjected to external audits of internal controls achieve higher overall efficiency than those relying solely on management reporting, particularly in areas such as inventory turnover and innovation. The authors attribute these gains partly to auditors identifying weaknesses and to knowledge spillovers from exposure to best practices. However, the finding that audited firms exhibit lower efficiency in administrative expenses suggests that compliance efforts can introduce additional costs, complicating the assumption that stronger controls always yield net benefits. Hossain and Sarkar (2025) similarly identify gaps within an established banking control framework, noting deficiencies in regulatory compliance and digital integration despite generally sound practices. Keaunui (2023), focusing on U.S. small businesses, highlights practical barriers to implementing robust controls, including resource constraints, communication challenges, and the complexity of formal frameworks such as COSO. These studies collectively indicate that implementation quality, organizational capacity, and external oversight determine whether controls enhance or hinder operational outcomes.

Not all empirical findings support a uniformly positive relationship between internal controls and performance. Adegboyegun et al. (2020) report that improvements in certain control components had only marginal or statistically insignificant effects on profitability, while others were associated with slight declines in performance. This divergence suggests that controls may impose administrative burdens or fail to address the specific risks faced by some enterprises. The contrast between this study and more optimistic findings points to contextual factors such as firm size, industry characteristics, managerial competence, and stage of development. Overall, the literature indicates that internal control failures can indeed act as a barrier to operational efficiency, but the relationship is neither automatic nor uniform. Effective controls require alignment with organizational structure, adequate resources, competent personnel, and continuous monitoring. Where these conditions are absent, controls may exist only on paper or operate inefficiently, thereby limiting their capacity to improve performance. This synthesis highlights the need for context sensitive approaches to designing and implementing internal control systems, particularly for small enterprises operating in competitive and resource constrained environments.

2.2 Theoretical Framework and Development of Research Hypothesis

The theoretical foundation for this study is the COSO Internal Control Framework, developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992. The framework was created in response to widespread concerns about fraudulent financial reporting and corporate governance failures in the

United States during the 1980s. The Treadway Commission, formally known as the National Commission on Fraudulent Financial Reporting, recommended the development of a comprehensive model that organizations could use to design, implement, and evaluate internal control systems. In 1992, COSO issued its landmark report, *Internal Control Integrated Framework*, which quickly became the most widely accepted standard for internal control in both the private and public sectors. The framework was later updated in 2013 to reflect changes in business practices, technological developments, and regulatory expectations, while maintaining its original conceptual foundation.

Figure 1 COSO Internal Control Framework

The COSO framework shown in Figure 1 above postulates that effective internal control is achieved through the integration of five interrelated components. These components are the control environment, risk assessment, control activities, information and communication, and monitoring activities. The control environment establishes the tone of the organization by shaping ethical values, management philosophy, and governance structures. Risk assessment involves identifying and analyzing potential events that may hinder the achievement of organizational objectives. Control activities consist of policies and procedures designed to ensure that management directives are carried out, including approvals, authorizations, verifications, and segregation of duties. Information and communication ensure that relevant data are captured and shared in a timely manner to support decision making. Monitoring activities involve ongoing evaluations to determine whether controls are functioning as intended and to address any deficiencies promptly. According to the framework, these components operate together across all levels of the organization and support the achievement of operational, reporting, and compliance objectives.

This framework is directly relevant to the study of internal control failures as a barrier to operational efficiency in U.S. small enterprises. Operational efficiency depends on the ability of a business to manage risks, use resources effectively, and maintain reliable processes, all of which are addressed by the COSO components. Weaknesses in the control environment may lead to poor supervision and lack of accountability, while inadequate risk assessment can leave businesses unprepared for operational disruptions. Insufficient control activities may result in errors, fraud, or misuse of assets, and poor information systems can hinder coordination and timely decision making. In addition, ineffective monitoring allows problems to persist without correction, gradually reducing productivity and performance. By providing a structured framework for identifying, evaluating, and strengthening internal controls, COSO offers a useful lens for examining how control failures can

undermine efficiency and sustainability in small enterprises. In line with the above theoretical postulations, the study hypothesised that:

H_1: Internal control failures have a significant negative influence on the operational efficiency of U.S. small enterprises.

3. Methodology

This study adopted a survey research design in order to obtain relevant information directly from small business owners in the United States. The survey design was considered appropriate because it allows the researcher to collect data from a large number of respondents within a relatively short period of time while also capturing their opinions and experiences regarding internal control practices and operational efficiency (Oyewole, 2026; Nworie & Obi, 2024). The design also makes it possible to examine relationships between variables by gathering standardized responses from participants who operate within similar business environments. Since the study seeks to determine whether internal control failures influence operational efficiency, the survey method provided a practical means of obtaining firsthand information from individuals who are directly involved in managing small enterprises.

The population of the study consisted of owners of small business units operating in the United States. These individuals were selected because they are responsible for managing daily business operations and implementing internal control procedures within their organizations. Due to the difficulty of identifying a comprehensive list of small business owners across different sectors, the study employed a snowball sampling technique to select participants. Snowball sampling involves identifying an initial group of respondents who meet the study criteria and then asking them to refer other eligible participants within their professional networks. This approach was suitable for the study because it enabled the researcher to reach a broader group of small business owners who may otherwise be difficult to access through conventional sampling methods. Using this technique, a total of 150 respondents were selected to participate in the study.

Data for the study were collected through a structured electronic questionnaire distributed to the selected respondents. The questionnaire was designed to gather information on issues related to internal control practices and the operational efficiency of small enterprises. The electronic format made it easier for participants to complete and return the questionnaire regardless of their location, while also improving the speed of data collection and reducing administrative costs. The instrument consisted of structured statements that allowed respondents to express the extent to which they agreed with each statement based on their experiences in managing their businesses.

A five point Likert scale was used to measure responses. The scale ranged from very low degree, low degree, moderate degree, high degree, to very high degree. This scaling format was chosen because it provides respondents with a clear range of options that reflect different levels of agreement or perception regarding the issues being examined. The use of the Likert scale also allows the researcher to convert qualitative opinions into quantitative data that can be analyzed statistically.

The data collected from the questionnaire were analyzed using both descriptive and inferential statistical techniques. Frequency analysis was first employed to summarize the responses obtained from participants. This method helped present the distribution of responses in a simple and understandable form, making it possible to observe patterns in how respondents perceived internal control failures and operational efficiency within their businesses. Frequency tables were used to show the number of responses and their corresponding percentages for each item in the questionnaire.

To test the research hypothesis, simple regression analysis was applied. This statistical technique was used to determine whether internal control failures have a significant negative influence on the operational efficiency of small enterprises in the United States. Regression analysis made it possible to examine the relationship between the independent variable, which is internal control failures, and the dependent variable, which is operational efficiency. Through this analysis, the study assessed the extent to which changes in internal control practices affect the efficiency of small business operations. The results of the regression analysis provided the basis for accepting or rejecting the hypothesis formulated for the study.

4. Data Analysis

4.1 Descriptive Analysis and Model Diagnostics

Table 4.1 Descriptive Statistics

S/N	Internal Control Failures	VHD (5)	HD (4)	N (3)	LD (2)	VLD (1)	Mean
1	Small enterprises lack proper authorization procedures for financial transactions.	59	49	12	8	22	3.77
2	Segregation of duties is not properly maintained among employees.	57	55	16	12	10	3.91
3	Financial records are often incomplete or inaccurate due to weak internal controls.	58	52	13	12	15	3.84
4	Risk assessment measures to identify potential operational threats are inadequate.	47	59	15	13	16	3.72
5	Monitoring and review of control activities are rarely performed or ineffective.	62	53	14	7	14	3.95
S/N	**Operational Efficiency**	**VHD (5)**	**HD (4)**	**N (3)**	**LD (2)**	**VLD (1)**	**Mean**
6	Daily operations in the business are carried out without unnecessary delays.	59	53	17	10	11	3.93
7	Resources, including time and labor, are used efficiently to complete tasks.	50	50	23	10	17	3.71
8	Errors and losses in operational processes are minimal.	40	59	21	19	11	3.65
9	Business activities are completed according to set procedures and standards.	53	59	21	8	9	3.93
10	Internal control failures slows down the pace and quality of operations.	46	57	20	13	14	3.72

Source: SPSS V. 26 Output (2026)

Table 4.1 presents the descriptive statistics for internal control failures and operational efficiency among small enterprises in the United States. Examining the responses related to internal control failures, the first item shows that 59 respondents reported a very high degree of lack of proper authorization procedures, while 49 indicated a high degree, with only 12 and 8 reporting neutral and low levels, respectively, and 22 perceiving very low levels. This yields a mean of 3.77, suggesting that many small enterprises experience notable weaknesses in authorization practices. The second item, which addresses the segregation of duties, reflects a similar pattern, with 57 respondents indicating very high levels of inadequacy and 55 indicating high levels, while 16 were neutral, 12 low, and 10 very low, producing a mean of 3.91. This implies that overlapping roles among employees are a common issue that could compromise internal controls.

The third item on the completeness and accuracy of financial records shows that 58 respondents reported very high levels of incompleteness or inaccuracy, 52 reported high levels, and 13 neutral, with 12 low and 15 very low, resulting in a mean of 3.84. This indicates that weak internal controls frequently contribute to errors in financial documentation. For risk assessment measures, 47 respondents reported very high inadequacy, 59 high, 15 neutral, 13 low, and 16 very low, with a mean of 3.72, showing that identifying and prioritizing operational threats remains a significant challenge for many small enterprises. Finally, monitoring and review of control activities had the highest combined frequency at very high and high levels, with 62 and 53 respondents respectively, while 14 were neutral, 7 low, and 14 very low, producing a mean of 3.95, emphasizing that oversight and review mechanisms are particularly underdeveloped.

Regarding operational efficiency, the first item shows that daily operations without unnecessary delays are reported at very high by 59 respondents and high by 53, with 17 neutral, 10 low, and 11 very low, giving a mean of 3.93. This indicates that despite some challenges, many small enterprises maintain reasonable timeliness in operations. Efficient use of resources, including time and labor, shows slightly more variation, with 50 very high, 50 high, 23 neutral, 10 low, and 17 very low, resulting in a mean of 3.71, suggesting moderate efficiency. For minimal errors and losses, 40 respondents reported very high, 59 high, 21 neutral, 19 low, and 11 very low, with a mean of 3.65, pointing to some operational inefficiencies that could be linked to control weaknesses. Completing business activities according to set procedures and standards received 53 very high, 59 high, 21 neutral, 8 low, and 9 very low, with a mean of 3.93, reflecting adherence to formal procedures in many enterprises. Lastly, the perception that internal control failures slow down operations shows 46 very high, 57 high, 20 neutral, 13 low, and 14 very low, yielding a mean of 3.72, confirming that lapses in internal control significantly impact operational performance. In all, Table 4.1 demonstrates a clear relationship between internal control weaknesses and operational inefficiencies, with high frequencies in the very high and high categories for most items.

4.2 Test of Hypothesis

H_1: Internal control failures have a significant negative influence on the operational efficiency of U.S. small enterprises.

Table 4.2 Test of Hypothesis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.785[a]	.616	.614	2.698

a. Predictors: (Constant), Internal Control Failures

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1730.315	1	1730.315	237.774	.000[b]
	Residual	1077.019	148	7.277		
	Total	2807.333	149			

a. Dependent Variable: Operational Efficiency

b. Predictors: (Constant), Internal Control Failures

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	4.948	.933		5.302	.000
	Internal Control Failures	-.729	.047	-.785	-15.420	.000

a. Dependent Variable: Operational Efficiency

Source: SPSS V. 26 Output (2026)

Table 4.2 presents the results of the hypothesis testing for the influence of internal control failures on operational efficiency in U.S. small enterprises. The model summary shows an R-squared value of 0.616, indicating that approximately 61.6% of the variation in operational efficiency can be explained by internal control failures. This suggests that internal control weaknesses are a major factor influencing operational performance, while other unmeasured factors account for the remaining 38.4% of variance. The ANOVA results show a significance level of 0.000, well below the 5% threshold, confirming that the model is statistically valid and that internal control failures collectively influence operational efficiency in a meaningful way.

The constant term in the regression is 4.948 with a p-value of 0.000, indicating that even in the absence of internal control failures, operational efficiency maintains a baseline level of approximately 4.95. This

demonstrates that small enterprises maintain some degree of operational efficiency, but the level can be adjusted downward depending on the presence and magnitude of internal control weaknesses.

The coefficient for internal control failures is -0.729 with a p-value of 0.000, indicating a significant negative influence at the 5% level. This coefficient can be interpreted as a marginal influence: for every one-unit increase in internal control failures, operational efficiency decreases by 0.729 units. The negative sign shows that higher levels of failures in internal control mechanisms directly lower the efficiency of business operations. Since the p-value is below 0.05, this negative influence is statistically significant, confirming that internal control failures meaningfully reduce operational efficiency in small enterprises.

The hypothesis that internal control failures have a significant negative influence on operational efficiency is therefore supported. The results demonstrate that weaknesses in authorization, segregation of duties, record accuracy, risk assessment, and monitoring collectively contribute to lower operational efficiency. The magnitude of the beta coefficient shows that the influence is strong, indicating that addressing these failures could substantially improve the pace, quality, and reliability of operations in small enterprises. In all, internal control failures exert a significant negative influence on operational efficiency ($\beta = -0.729$, $p = 0.000$), meaning that as control failures increase, efficiency declines.

4.3 Discussion of Finding

The finding that weaknesses in internal controls have a significant negative influence on operational efficiency can be explained by the critical role that internal controls play in coordinating, monitoring, and safeguarding business operations. When small enterprises fail to implement proper authorization procedures, maintain segregation of duties, or monitor operational activities effectively, resources such as time, labor, and financial assets are more likely to be mismanaged, leading to delays, errors, and operational bottlenecks. This aligns with the observations of Ogunseye and Iwarere (2025), who reported that SMEs with weak controls and unclear organizational structures struggle with efficiency and responsiveness, while Shehu et al. (2025) noted that deficiencies in the control environment and communication systems reduce operational performance in manufacturing firms. Similarly, Hossain and Sarkar (2025) highlighted that lapses in internal control frameworks increase operational and compliance risks in banking operations, negatively affecting performance outcomes. Atwine (2024) also found that inadequate risk assessment, auditing, and control separation in small enterprises result in lower operational efficiency. Conversely, some studies, such as Adegboyegun et al. (2020), suggested that certain control components may not always significantly influence performance, indicating that the context and implementation quality of internal controls are crucial factors. In all, the result reflects that operational efficiency is highly sensitive to internal control weaknesses, reinforcing the importance of robust systems for sustaining productivity and reducing business risks.

5. Conclusion and Recommendation

The finding that internal control failures exert a significant negative influence on operational efficiency highlights the critical role that governance and procedural systems play in sustaining the productivity of small enterprises. When control mechanisms are weak or inconsistently applied, resources such as time, labor, and finances are more likely to be mismanaged, leading to delays, errors, and operational bottlenecks. This can affect the overall reliability of business processes, reduce the ability to meet customer expectations, and hinder the smooth execution of routine tasks. The negative influence also signals that operational performance is highly sensitive to lapses in authorization, monitoring, risk assessment, and recordkeeping, suggesting that even small deficiencies in control can create cascading effects across various functions. For small enterprises that often operate with lean staffing and limited resources, these weaknesses can amplify inefficiencies, reduce competitive advantage, and limit the capacity to respond effectively to market demands. Moreover, the strong statistical significance of the relationship underscores that control failures are not merely incidental but are closely intertwined with the day-to-day functioning and sustainability of these businesses. This reinforces the understanding that operational efficiency in small enterprises depends heavily on the consistency and reliability of internal control practices.

Based on the finding that internal control failures exert a significant negative influence on operational efficiency, it is recommended that small enterprise owners implement comprehensive authorization procedures for all financial and operational transactions. By establishing clear approval processes and limits for spending, owners can reduce errors, prevent misuse of resources, and ensure that decision-making aligns with organizational objectives, thereby maintaining smoother operations and safeguarding productivity.

It is also recommended that managers in small enterprises enforce strict segregation of duties among employees. Assigning responsibilities so that no single individual handles multiple critical tasks, such as authorization, recording, and monitoring of transactions, can minimize the risk of errors and fraud, enhancing operational efficiency and improving accountability within the organization.

5.1 Contribution to Knowledge

This study contributes to the literature by specifically examining the influence of internal control failures on the operational efficiency of small enterprises in the United States, addressing several limitations of previous research. Unlike most earlier studies, which focused on the effectiveness or presence of internal control systems (Ogunseye & Iwarere, 2025; Shehu et al., 2025; Okafor et al., 2025; Kayode & Oluwatoyin, 2025; Atwine, 2024; Hossain & Sarkar, 2025; Keaunui, 2023; Imdieke, Li, & Zhou, 2023; Adegboyegun et al., 2020; Alawiye-Adams & Afolabi, 2014), this research shifts attention to the consequences of control failures and their impact on operational performance. It also extends the evidence beyond developing countries by focusing on small enterprises in a developed economy, providing insights relevant to the U.S. business environment where regulatory demands, technological adoption, and competitive pressures differ from previously studied contexts. Furthermore, by gathering data directly from small enterprise owners rather than employees or internal control staff, the study captures the perspectives of those primarily responsible for implementing control mechanisms. In doing so, it fills a critical gap by offering empirical evidence on how weaknesses in internal control systems hinder productivity, increase operational risks, and influence the overall efficiency of small businesses, thereby informing both practice and future research on governance and operational management in similar contexts.

5.2 Limitations of the Study and Suggestion for Further Studies

A limitation of this study is that it focused only on a small group of 150 small enterprise owners in the United States, which may not fully represent all small businesses across different industries or regions. The use of self-reported questionnaires means responses could be affected by personal bias or misunderstanding of questions. In addition, the study used a cross-sectional design, capturing information at a single point in time, which does not allow for observing changes in internal control practices or operational efficiency over time. These factors may limit the generalizability of the findings.

Future studies could expand the research by including a larger and more diverse sample of small enterprises across multiple states or sectors to improve representativeness. Researchers could also use a longitudinal approach to track changes in internal control practices and their impact on operational efficiency over time. Combining surveys with interviews or observation could provide deeper insights into how control failures occur and affect daily operations. Exploring additional variables such as technology adoption or managerial experience may also help explain differences in efficiency outcomes.

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